

MERCER

Consulting. Outsourcing. Investments.



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN



May 2009

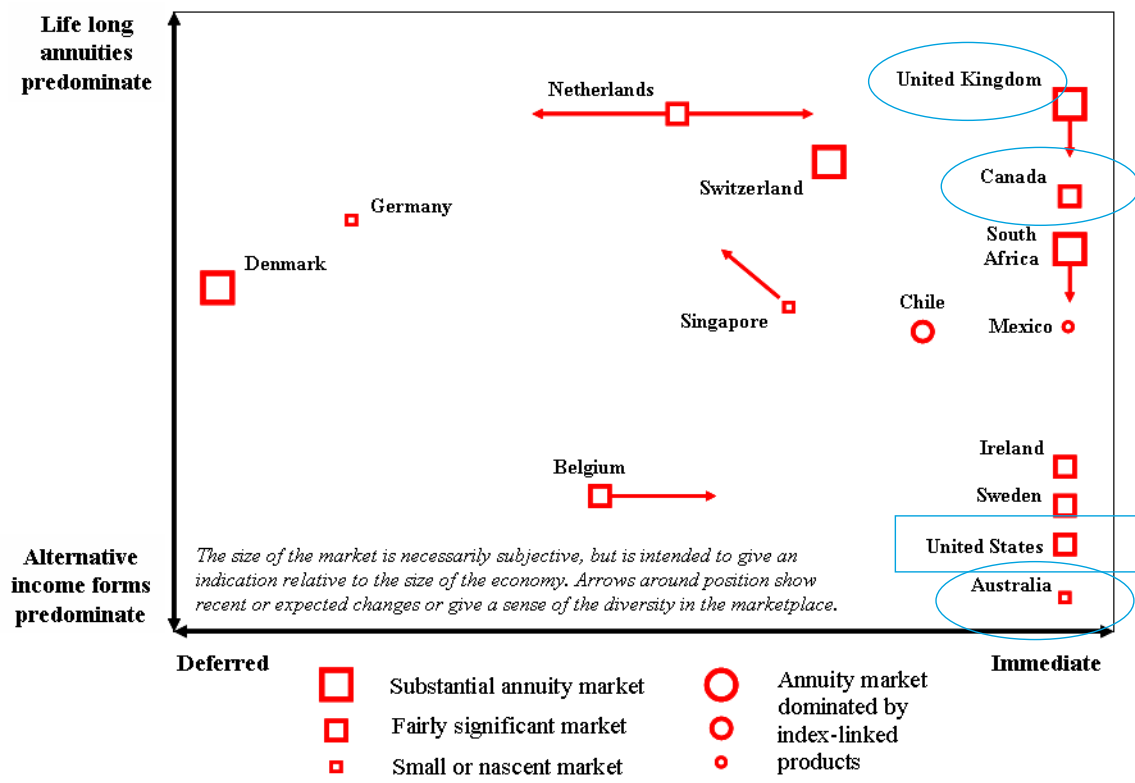
Retirement Income/Annuities Around the World What US Policy Makers Might Learn

Barbara Marder, Baltimore

Global Defined Contribution
Consulting Leader

www.mercer.com

Comparison of annuity markets (OECD National Annuity Markets: Features and Implications, Rusconi 2008)



Retirement Income Across Europe – Diverse Approach

DC types in EU Member States

Euro, Guarantees, Annuities, Investment Choices, Prevalence

Type	Belgium (BE)	Bulgaria (BG)	Czech Republic (CZ)	Denmark (DK)	Germany (DE)	Estonia (EE)	Ireland (IE)	Greece (EL)	Spain (ES)	France (FR)	Italy (IT)	Cyprus (CY)	Latvia (LV)	Lithuania (LT)	Luxembourg (LU)	Hungary (HU)	Malta (MT)	Netherlands (NL)	Austria (AT)	Poland (PL)	Portugal (PT)	Romania (RO)	Slovenia (SI)	Slovakia (SK)	Finland (FI)	Sweden (SE)	United Kingdom (UK)
Euro zone ● = Y ● = N	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Guaranteed returns ● = N ● = Y ● = Mixture	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Annuity required ● = N ● = Y ● = Choice	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Member investment choice ● = Y ● = N ● = Lifecycle ● = Rare ● = Some ● = Mixture	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
DC prevalence ● = High ● = Low ● = Medium	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

Mercer

0

Mercer

2

Australia

	Lump sums	Programmed withdrawals	Life annuities	Tax
<i>Social security (basic, means-tested)</i>	NO	NO	Mandatory	
<i>Occupational plans (mandatory)</i>	YES	YES	YES	TTE
<i>Personal plans</i>	YES	YES	YES	TTE

Antolin, P., C. Pugh and F. Stewart (2008), "Forms of Benefit Payment at Retirement", *OECD Working Papers on Insurance and Private Pensions*, No. 26, OECD

- Programmed withdrawal/allocated income stream is most popular retirement income option
 - Retiree account increases with investment earnings, can vary annual income received
- 2007 simplification to remove taxation for persons age 60 +, lump sum and pensions now paid from a taxed source are tax-free
- Despite attempts to encourage annuities, Australians are averse to annuity products
 - Can rely on age pension
 - Desire for flexibility
- Resulting in almost no annuity market...currently only 1 current life annuity provider, 1 annuity sold in last 6 months
 - Lack of legislative incentives, lack of availability of appropriate assets, significant reserving requirements
- Home equity is a significant asset
- Looking forward
 - Consideration of compulsory annuitization policy
 - Retirement income product development
 - Retiring members may seek more secure income stream in light of market crisis

Canada

	Lump sums	Programmed withdrawals	Life annuities	Tax
<i>Social security</i>	NO	NO	Mandatory	E--T
<i>Occupational plans:</i>				
Registered pension plans (RPPs)	NO	NO	Mandatory	EET
Group RRSPs	Yes	Yes	Yes	EET
Deferred profit sharing plans	Yes	Yes	Yes	EET
<i>Personal plans:</i>				
Registered retirement savings plans (RRSP)	YES	YES	YES	EET
Rollovers from RPPs ("locked-in" RRSPs)	No ¹	Yes ²	Yes	EET

Antolin, P., C. Pugh and F. Stewart (2008), "Forms of Benefit Payment at Retirement", *OECD Working Papers on Insurance and Private Pensions*, No. 26, OECD

- Life income fund most popular retirement income option (programmed withdrawal that attempts to replicate a life annuity)
 - Regulated minimum and maximum withdrawals
 - Provided by banks, insurance companies, trust companies
- All benefit payments taxed as income
- Looking forward...conflicting policy trends
 - Unlocking savings, more available as a lump sum
 - Considering suto-annuitization (Alberta/BC review)

UK

	Lump sums	Programmed with draws	Life annuities	Tax
<i>Social security</i>	No	No	Mandatory	T ¹ - T
<i>Occupational plans:</i>	Partial	Yes to age 75 (Uncommon)	Yes	EE ² T ³
<i>Personal and stakeholder plans:</i>	Partial	Yes to age 75	Yes	EET ³

Antolin, P., C. Pugh and F. Stewart (2008), "Forms of Benefit Payment at Retirement", *OECD Working Papers on Insurance and Private Pensions*, No. 26, OECD

- Thought of as largest and most diversified annuity market
 - 12 billion pounds/yr in single premiums purchasing immediate annuities, 20 bn expected by 2012
- Mandatory annuitization of most accumulated savings before age 75
 - Despite flexibility, most buy annuity between age 60 – 69 (only 5% annuitize over age 70)
- Recent tax changes have added flexibility
- Falling number of annuity providers
- Open Market Option (select new annuity provider) not as successful as expected...most take default annuity option
 - FSA "Money Made Clear" provides advice, centrally available pricing information (but no purchase assistance)
- Looking forward
 - Consideration of removing or postponing age for mandatory annuitization (unlikely to gain momentum)
 - Product development e.g. impaired health annuities, variable annuities
 - Market likely to grow as DC matures and baby boomers retire
 - Underwriting of all annuities

True or False...

- Countries where a significant share of retirement income already is paid as a life annuity from PAYG-financed pension allow more flexibility and choice in the forms of retirement payout options
- Countries where individuals have access to other sources of wealth in retirement (e.g. high incidence of home ownership) allow greater flexibility in deciding how to draw down DC assets
- Countries where the government has deliberately introduced individual account type systems to promote a greater sense of personal responsibility and ownership allow flexibility and choice in retirement payout
- Countries that require pension assets to be invested in a limited range of investments or in guaranteed products during accumulation phase require retirees to purchase similarly restrictive forms of retirement income
- Governments heavily focused on financial education allow more flexible forms of payouts (income level is used as a proxy for financial education)

All are false

Antolin, P. (2008), "Policy Options for the Payout Phase",
OECD Working Papers on Insurance and Private Pensions, No. 25, OECD

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

www.mercer.com