DESIGNING THE PAYOUT PHASE FOR RETIREMENT SAVINGS

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OECD
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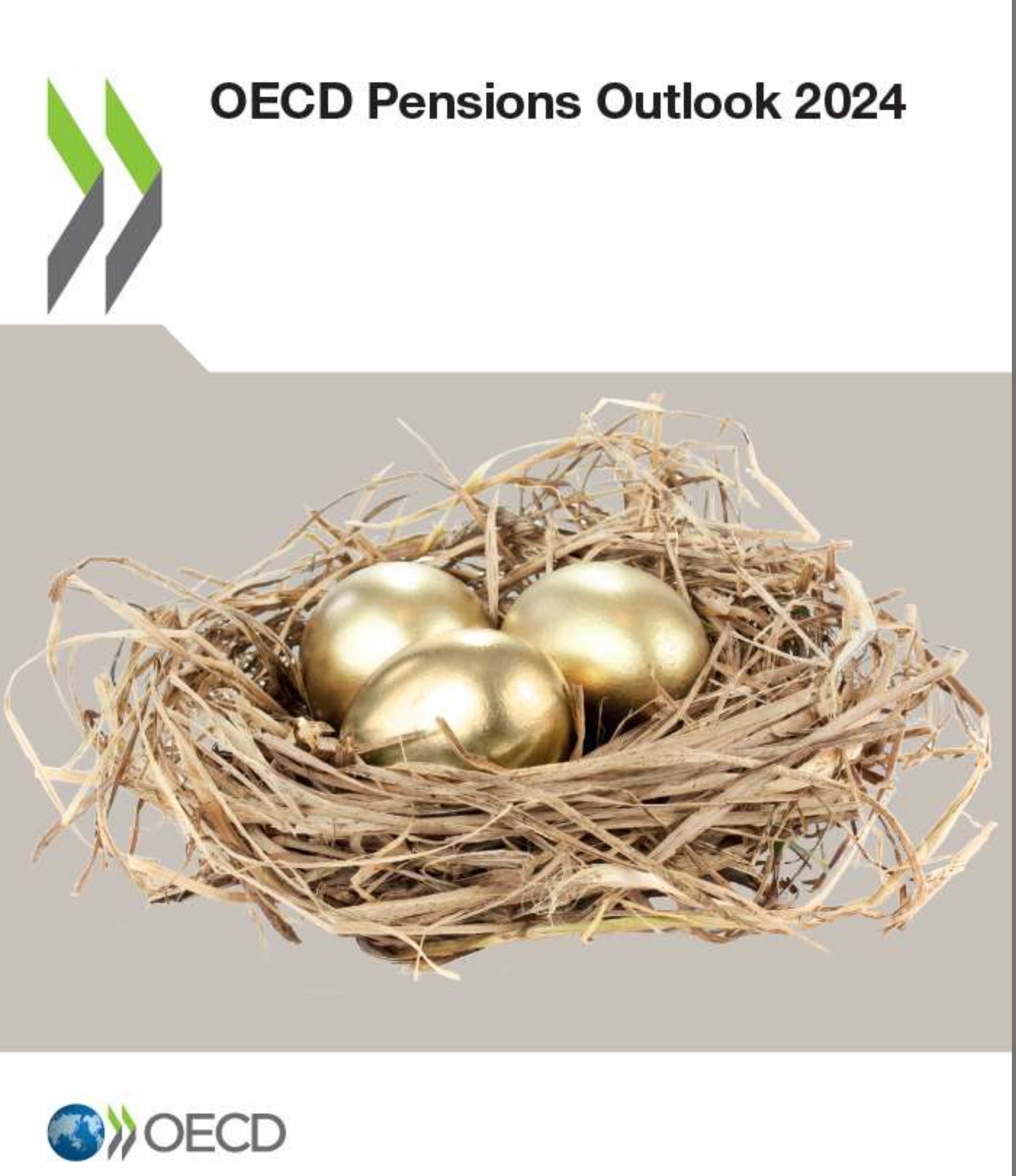
OECD Recommendation relating to payout

- OECD Recommendation for the Good Design of Defined Contribution Pension Plans
- Principle 7 of this Recommendation addresses longevity risk:
  - **Ensure protection against longevity risk in retirement**. DC pension plans should provide some level of lifetime income as a default for the pay-out phase, unless other pension arrangements already provide for sufficient lifetime pension payments. Lifetime income can be provided by annuities with guaranteed payments or by non-guaranteed arrangements where longevity risk is pooled among participants. The choice of the type of arrangement will depend on the desired balance between the cost of guarantees and the stability of retirement income. Flexibility could be provided by allowing for partial, deferred or delayed lifetime income combined with programmed withdrawals. Full lump-sums should be discouraged in general, except for low account balances or extreme circumstances.
- The OECD's Working Party on Insurance and Pensions is developing an implementation toolkit for the Recommendation



2024: Designing the payout phase for defined contribution pensions to better meet financial needs in retirement

2022: Policy lessons for the design, introduction and implementation of non-guaranteed lifetime retirement income arrangements

2020: Sustainable risk sharing in retirement income arrangements

2018: Mortality differences across socioeconomic groups and their implications for pension outcomes

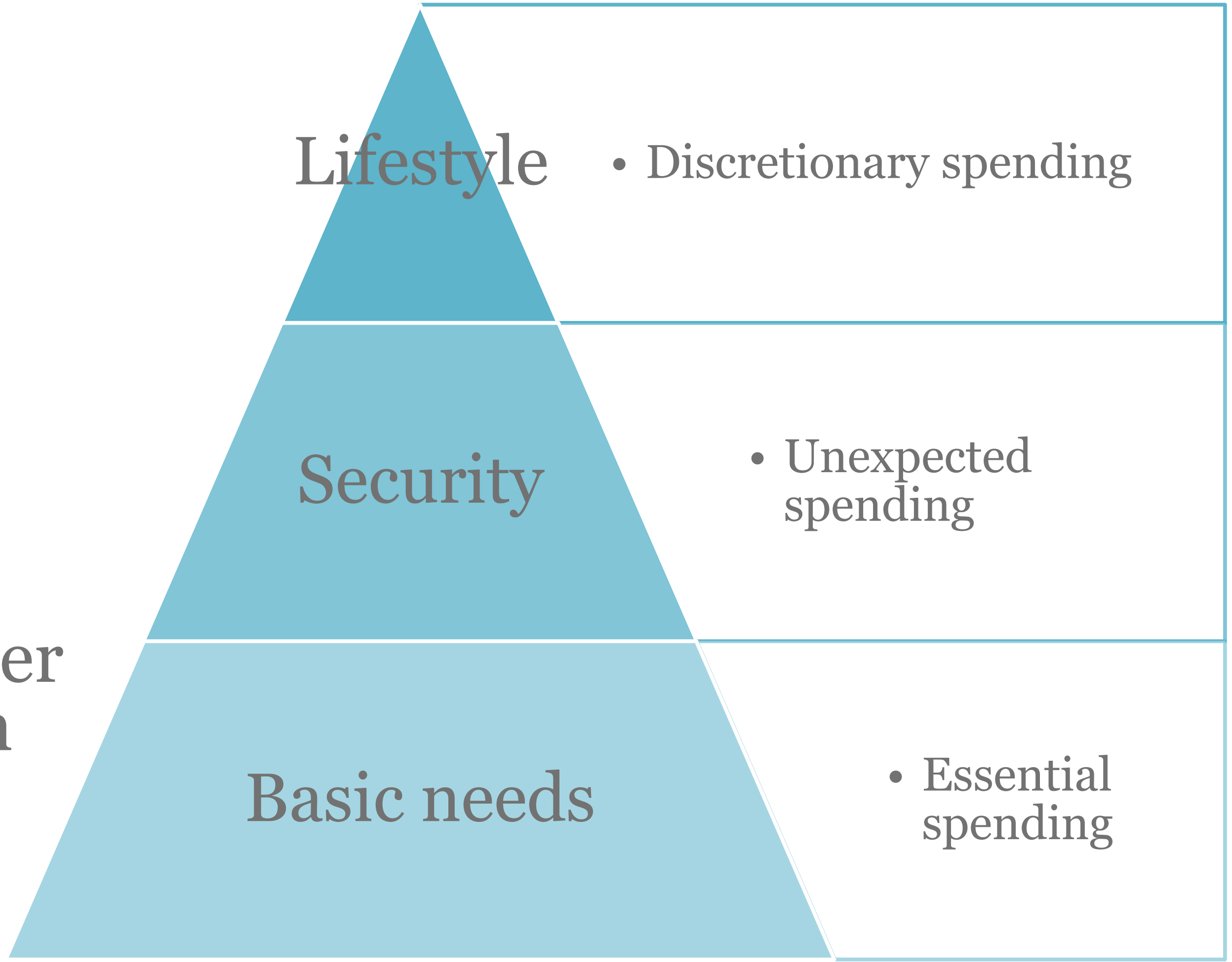
2016: Policy considerations for life annuity products

Considerations for designing the payout of retirement savings

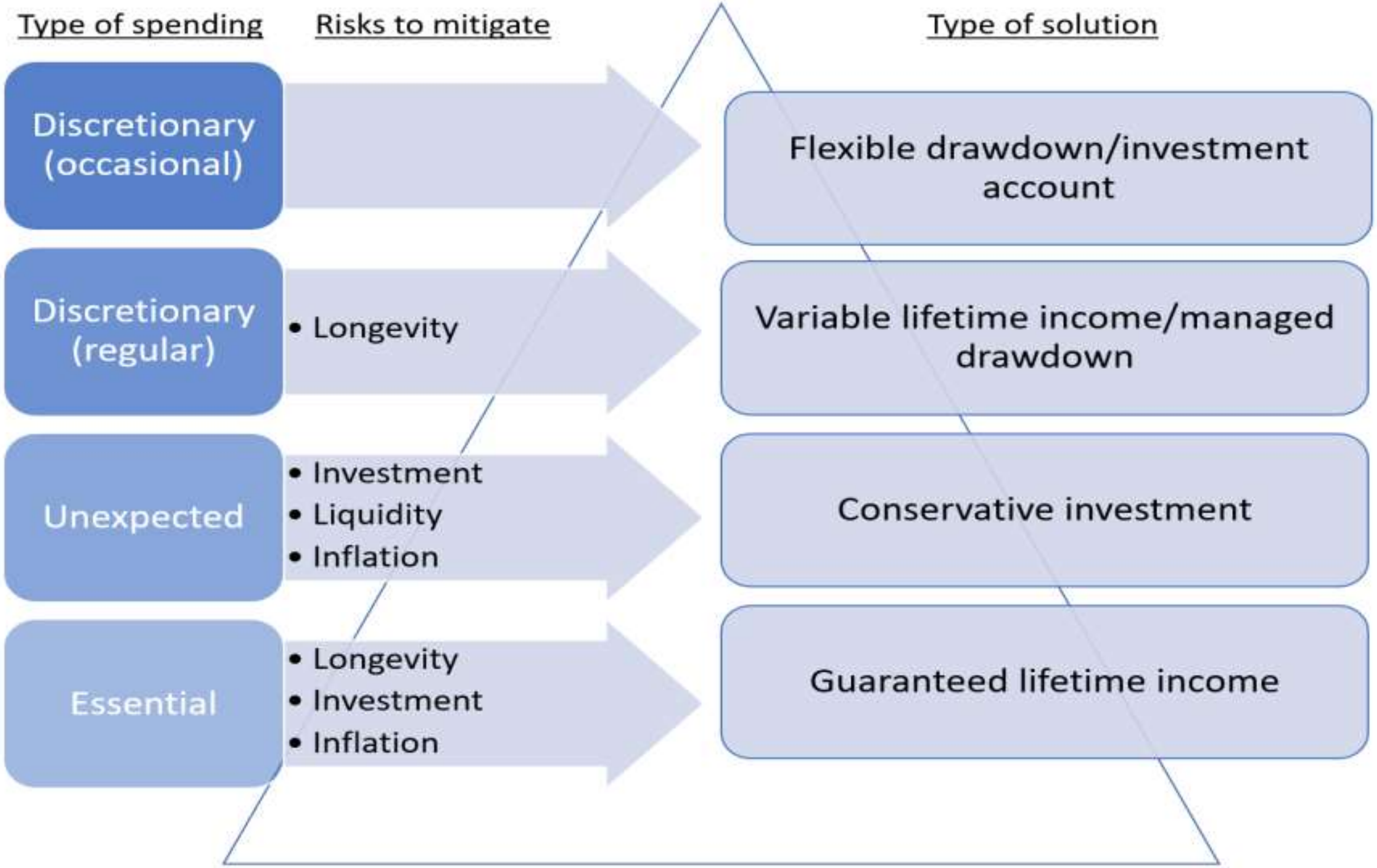
- Assess the need for longevity protection
- Consider the design of different options
- Encourage demand for lifetime income
- Encourage supply of lifetime income
- Ensure sustainability of lifetime income products
- Ensure effective delivery to members

Understanding the role of defined contribution plans in retirement

- Develop consumption benchmarks for different standards of living
  - Household size
  - Homeownership
  - Transportation
  - Health
  - Location
- Assess expected level of other benefits, e.g. public pension
  - Income
  - Employment history



Solutions for payout need to take into account the financial needs they are expected to serve



Guaranteed or variable lifetime income?

Guaranteed lifetime income	Variable lifetime income
Risk borne by provider	Risk borne by participants
Conservative investment to hedge guarantee	Can invest in higher growth assets
Lower but stable retirement income	Higher expected retirement income, but benefits can be adjusted

Payout design should allow for some flexibility

- Consider situations where lifetime income may not be optimal
  - Low savings, health, market environment

- Consider patterns of consumption over time and optimal use of resources
  - May allow flexible access to at least a portion of retirement savings for unexpected spending or discretionary needs
  - Inflation protection may not always be necessary
  - Flexibility around the timing of payments

Encouraging demand for lifetime retirement income

- Rules in place should encourage individuals to choose a lifetime income
  - Fiscal rules should not discourage lifetime income
  - Lump-sum payouts should be limited
- Product design can make lifetime income more attractive
  - Granular pricing can benefit disadvantaged groups
  - Certain product features can help to overcome loss-aversion
- Communication can also nudge people towards lifetime income
  - Simple process with limited options to avoid cognitive overload
  - Framing to focus on lifetime income and protection
  - Information on the risk of living longer than average

Encouraging supply of lifetime retirement income

- Allow for product innovation and effective risk management
  - Regulatory requirements should accommodate innovation and recognise risk-reducing measures
  - Rules regarding product design should not be overly restrictive
  - Systemic risk exposures should be limited
- Consider a public provider if private incentives are lacking
  - Means to promote competition
  - Need to ensure independence
- Clarify fiduciary obligations
  - Offering lifetime income should be aligned with obligations
  - Safe harbour provisions can mitigate liability risk

Ensuring sustainable lifetime retirement income

- Ensure financial sustainability
  - Principle and risk-based requirements can more easily adapt to product innovations
  - Limit arbitrage opportunities
  - Increased attention to complex products
- Ensure social sustainability
  - Avoid significant inter-generational cross-subsidies
  - Ensure fair treatment of members
  - Ensure transparency and promote trust

Getting the right products to people

- Are defaults a good idea?
  - The potential for harm from a default payout option is greater than that for accumulation
    - Lifetime income is irreversible
    - More complex variables and risks to consider
  - Should consider features that are not likely to cause harm
    - Allow window to adapt
    - Account for relevant, available information

➢ Engaging people in their decisions for retirement is important

THANK YOU!

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