



3º SEMINÁRIO INTERNACIONAL DE PREVIDÊNCIA COMPLEMENTAR

Using behavioral insights to increase annuitization rates - The role of mandatory annuitization

Realização:



Patrocínio:



Apoio:



Mandatory Annuitization in Different Countries

- The need to ensure people have adequate savings for retirement has prompted debate among regulators and academics.
- An annuity is a monthly pension payment. It will generally be paid, as long as the retiree lives.
- Certain countries have implemented or are considering implementing mandatory minimum annuity laws (e.g., Singapore and Israel)
- Others have repealed or are considering repealing such legislation (e.g., the U.K.).



Mandatory Annuitization

- **Potential advantages**

- Mandatory annuitization has many potential advantages:
 - Protection against longevity risk
 - Reduction of adverse selection in the annuity market
 - Shifting of investment risk
 - Stability of consumption patterns

- **Potential disadvantages**

- Mandatory annuitization has disadvantages:
 - The risk that a retiree will lack the resources needed for an unexpected event (i.e medical shock)
 - Re-distribution of wealth (due to pooling of longevity risk)
 - Risk of insurer insolvency and other risks.



Related Literature

- **Annuities vs Lump Sum**

- Theoretical value of annuitization: Yaari (1965), Davidoff, Brown, and Diamond (2005), Yogo (2016).
- Empirical Evidence: Beshears, Choi, Laibson, Madrian and Zeldes (2014), Webb (2011), Ganegoda and Bateman (2008).
- Reasons: Adverse Selection (Mitchell et al., 1999), complexity of the decision - Brown (2007), Brown et al. (2017); acquiescence and default biases - Bütler and Teppa (2005), Agnew et al. (2008); difficulty in making irreversible decisions - Brown and Warshawsky (2001); framing (Benartzi et al. (2011), Beshears et al. (2014), Brown et al. (2008), Goldstein et al. (2016), difficulty parting with accumulated money - Benartzi et al. (2011), mental accounting - Benartzi et al. (2011), Brown (2007), ambiguity life expectancy - d'Albis and Thibault (2012) Smith et al. (2001), Payne et al. (2013); and heuristics such as "insurance is only for bad events" (Brown, 2007).
- Mandatory annuitization - Brown (2003), Fuster et al (2008), Gong and Webb (2008).



Regulations' Unintended Consequences

- The potential role of anchoring - cap-based regulations.
- Regulators are either unaware or underestimate the effect of behavioral biases on the effectiveness of regulation:
 - Malpractice damage caps - Sharkey (2005)
 - Punitive damage caps - Robbennolt (2002)
 - Regulating banking bonuses - Murphy (2013)
 - Climate policies - Jensen et al. (2013)
 - Regulatory limits in the mortgage market – Mugerma and Ofir (2018)
- In the context of pension regulation such consequences can have detrimental consequences of retirees' welfare.
- We study the effect of implementation but also the consequences of repeal.



Unintended consequences of minimum annuity laws: An experimental study; Hurwitz, Sade, Winter (JEBO, 2020)

- Regulatory requirements might serve as a signal that leads to anchoring on the regulatory minimal values.
- The constraint change the entire distribution of annuities, and is not merely a shift toward the minimum value.
- The requirement will not necessarily increase the annuities people choose.
- Repeal – a regulation in place might not be fully reversible.



Methodology

Aim: Consequences of initiation and repeal of a minimum annuity law under various conditions

- DATA

- FIELD EXPERIMENT

- SURVEY

- LAB EXPERIMENT



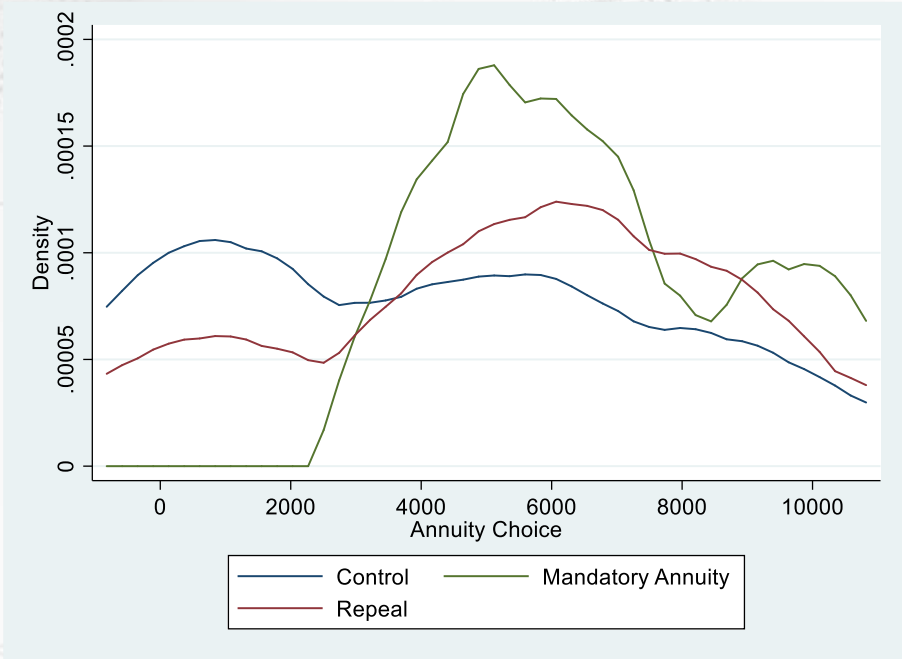
Survey

- Asked to divide a total sum of money that was saved between annuity and lump sum
- 3 conditions:
 - 1. Control
 - 2. Mandatory law
 - 3. Repealed Mandatory law

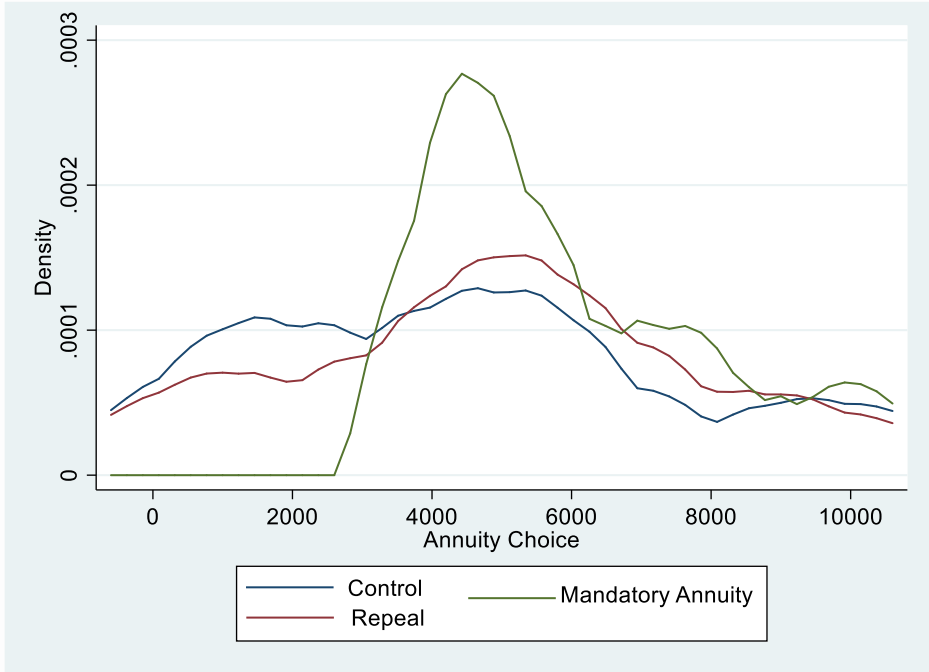


Distribution of Annuities

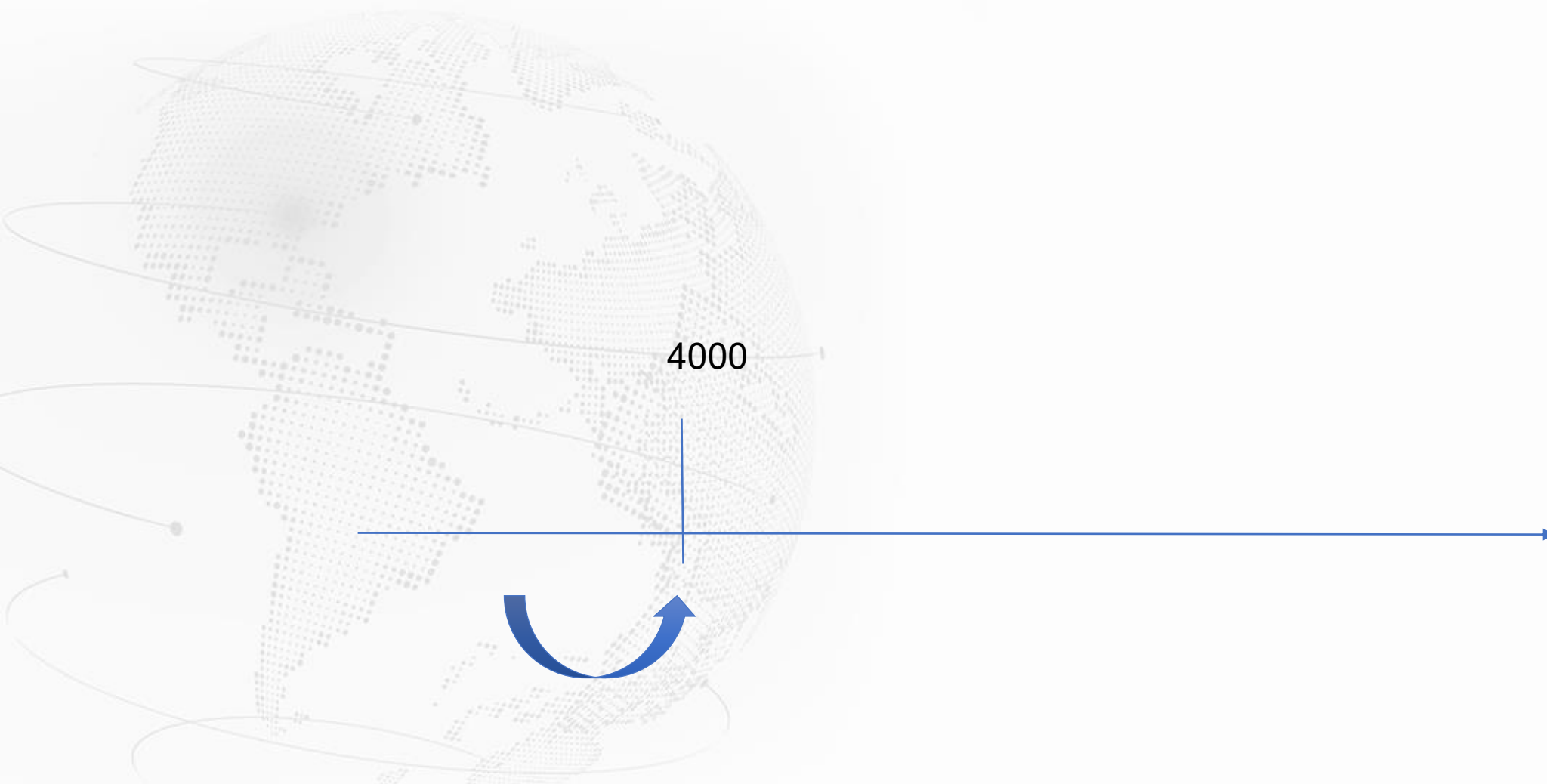
Students Survey



Representative Sample Survey

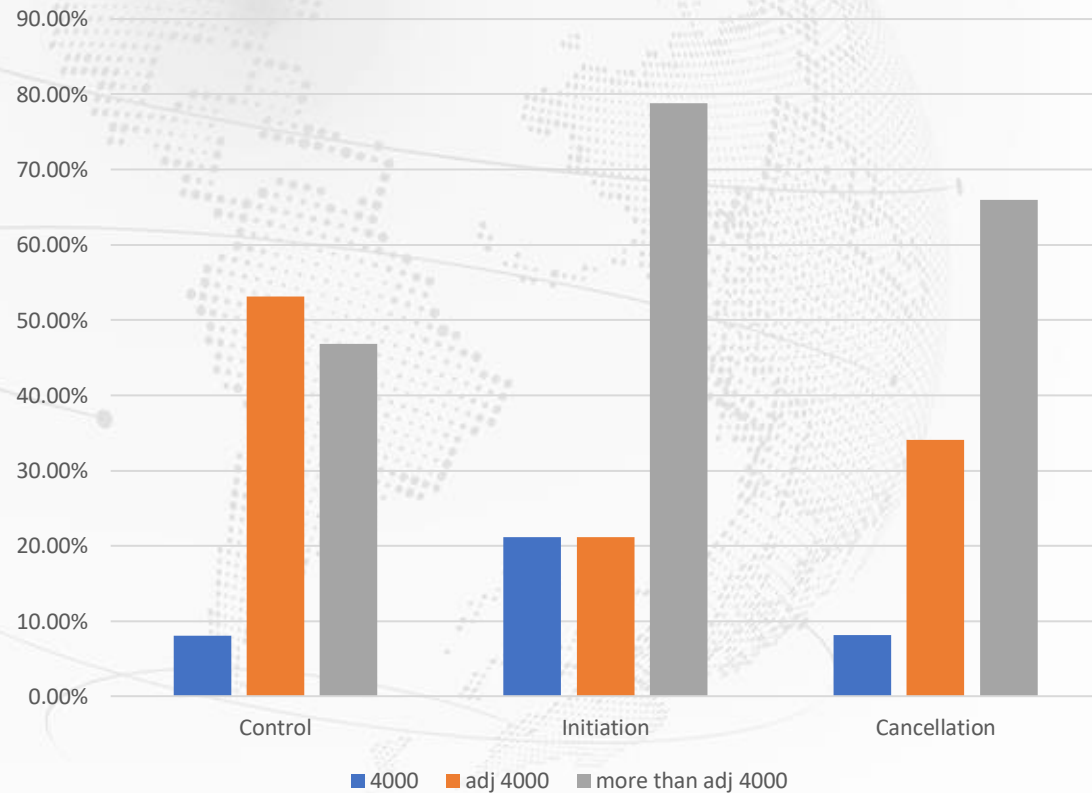


Adjusted – 4000 – Control

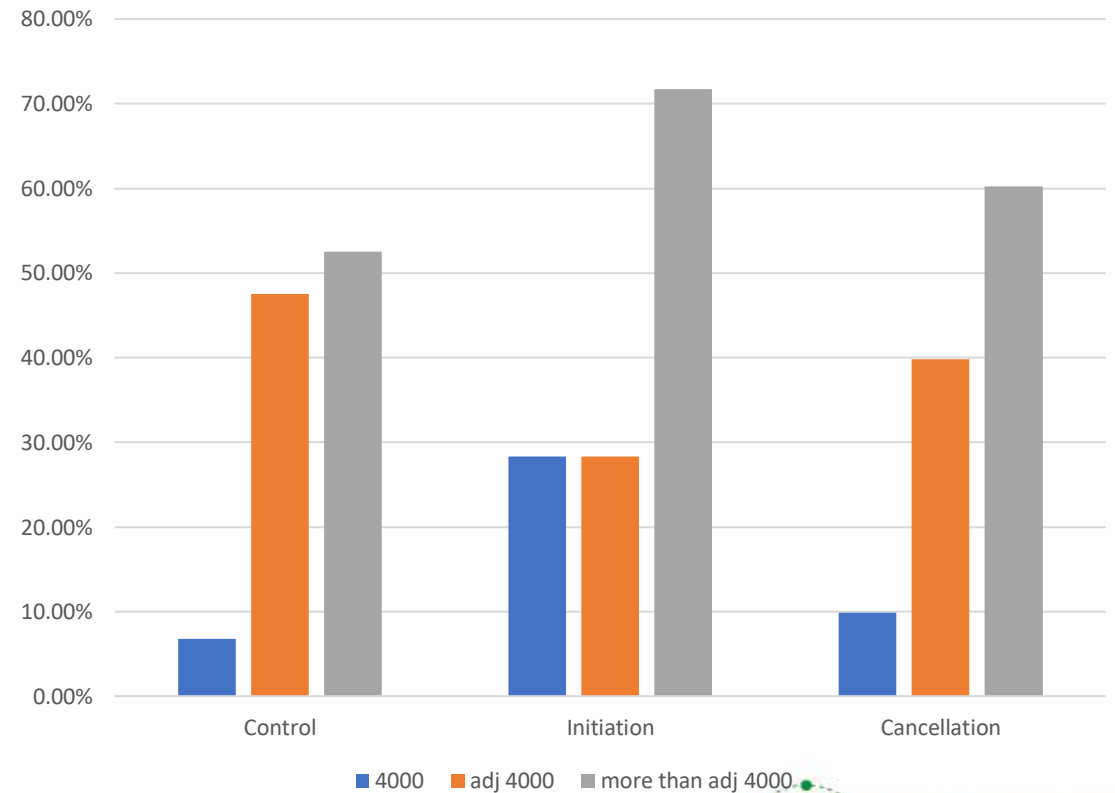


Distribution of Annuities

Students



Representative Sample



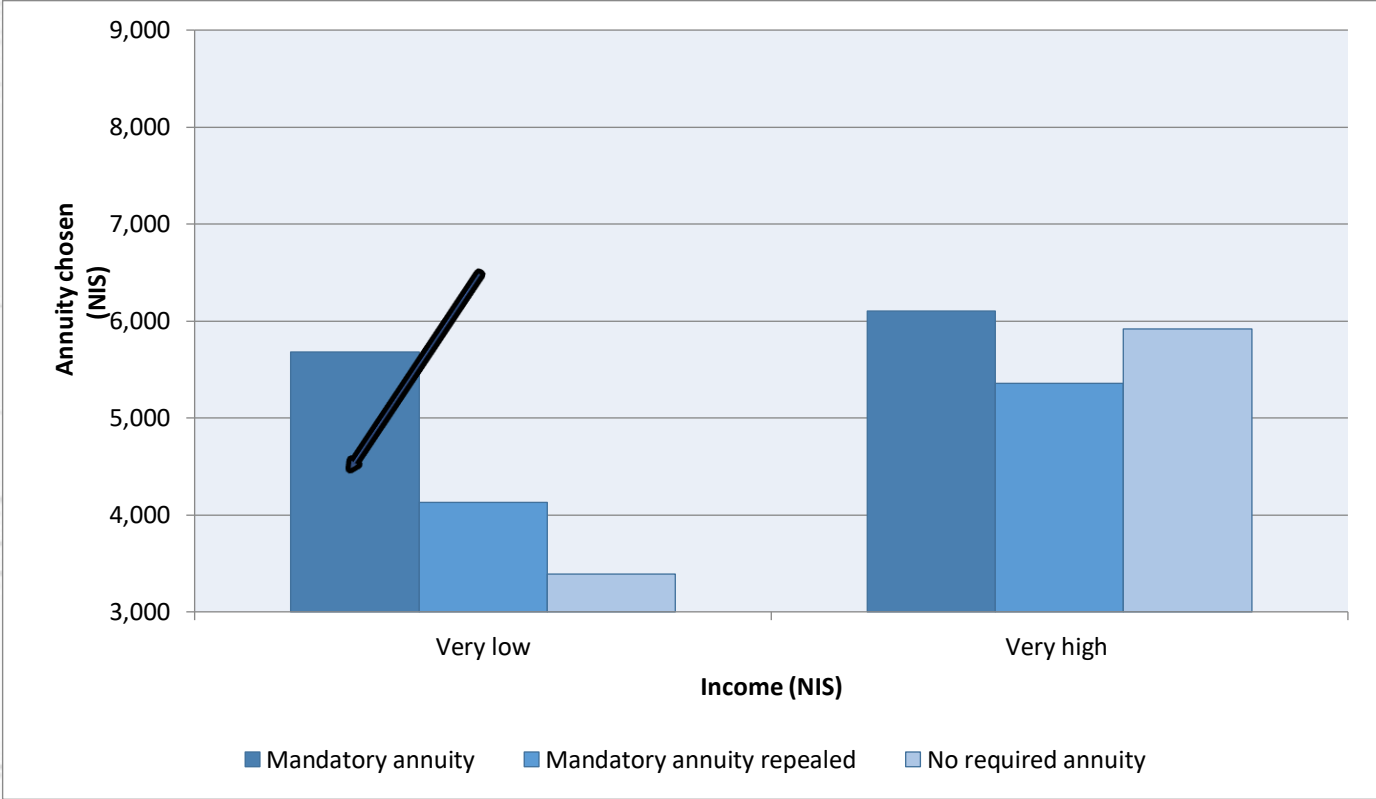
Survey Results

- Whether participants were told that the mandatory minimum annuity law was in effect (Condition 2) or repealed (Condition 3), their demand for annuities is higher compared to the control group (Condition 1).

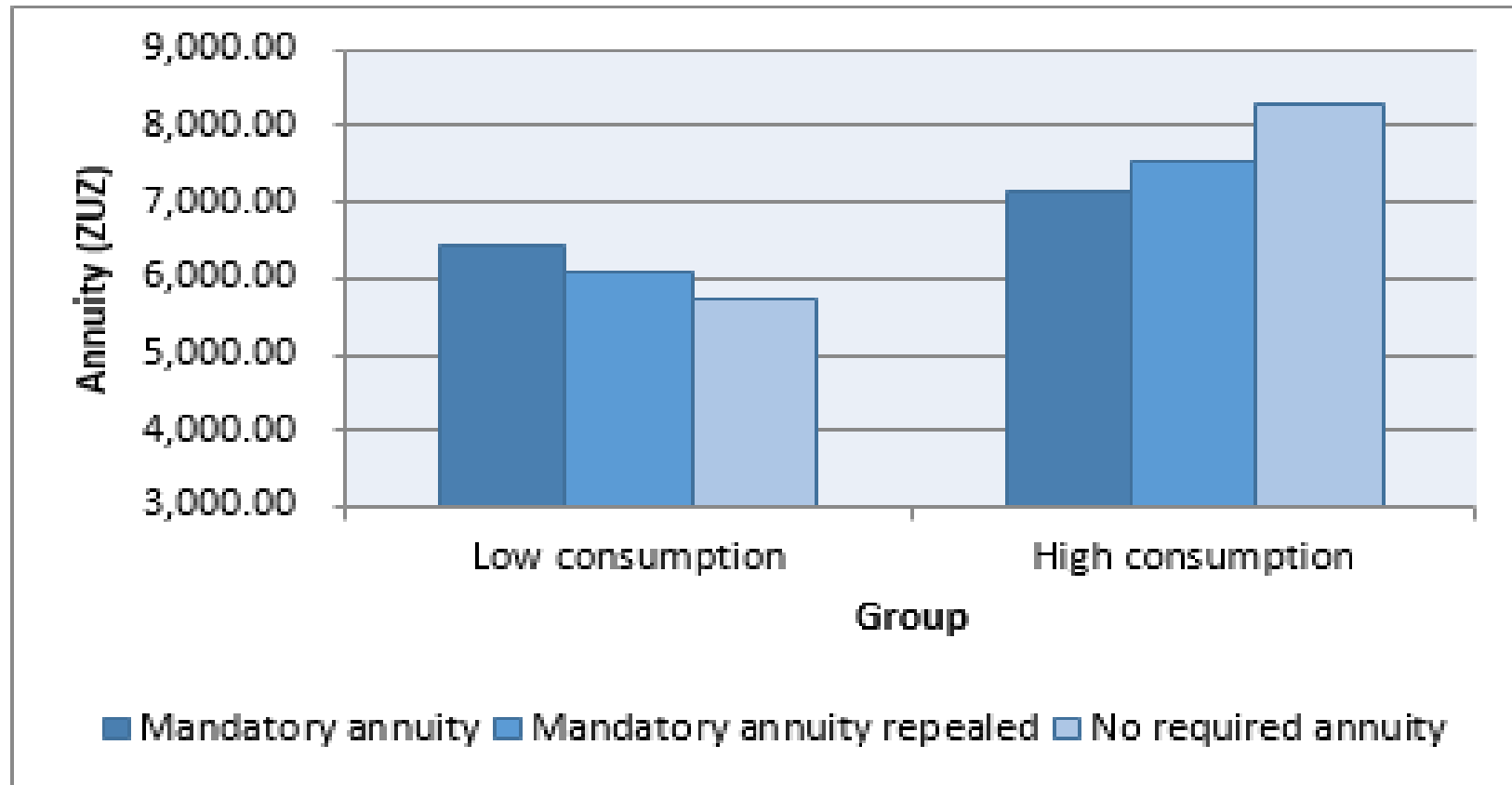
Variable	Less than or equal to NIS 4,000				Chosen annuity Total sample (<i>N</i> = 886)
	Total sample (<i>N</i> = 886)		Uneducated sample ^a (<i>N</i> = 216)		
	Estimate	Odds ratio	Estimate	Odds ratio	
Condition 2	-0.833*** (0.181)	0.435*** (0.0786)	-1.373*** (0.379)	0.253*** (0.0960)	912.3*** (256.1)
Condition 3	-0.321* (0.165)	0.725* (0.120)	-0.848** (0.352)	0.428** (0.151)	388.3 (248.3)



Annuities, Consumption and Income



Additional Lab experiment



Conclusions

- Regulatory requirements might serve as a signal that leads to anchoring on the regulatory minimal values.
- Unintended consequences - mandatory minimum annuity will not necessarily increase the annuity amount people choose.
- A repeal of the constraint can be expected to weaken the effect but not necessarily to cancel it.



Policy Recommendations

- Setting an online calculator, with a recommended minimal level of annuitization according to a set of individual parameters.
- The level of suggested annuity should be carefully considered for each economy and for different groups of the population.
- several possible mechanisms:
 - Setting a target “recommended” annuity only for individuals with low accumulated funds.
 - Setting a target “recommended” annuity personally calculated as a percentage of total accumulations.
 - Setting a target “recommended” annuity personally calculated as a percentage of wages prior to retirement (this could be based on a target substitution rate).
- Further experimental work is recommended in this direction.
- Consideration regarding the calculation and dissemination of the recommended annuity should be discussed.





3º SEMINÁRIO INTERNACIONAL DE PREVIDÊNCIA COMPLEMENTAR

Thanks!

Dr. Abigail Hurwitz
The Hebrew University of Jerusalem

(abigail.hurwitz@mail.huji.ac.il)

Realização:



Patrocínio:



Apoio:

