Money-Back Guarantees in Individual Retirement Accounts: Still a Good Deal?

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Capital market volatility spurs interest in protecting retirement accounts; one such approach is to require money-back guarantees. Using a lifecycle model where investors have access to stocks, bonds, and tax-qualified retirement accounts, we show that such guarantees alter participant consumption, saving, and investment behavior during times of high interest rates, but impacts are even larger in a low-return environment. We conclude that abandoning guarantees could enhance old-age consumption for over 80% of retirees, particularly lower earners, without harming pre-retirement consumption. Our results are of interest for default investment options in individual retirement accounts such as the Pan-European Personal Pension Products.

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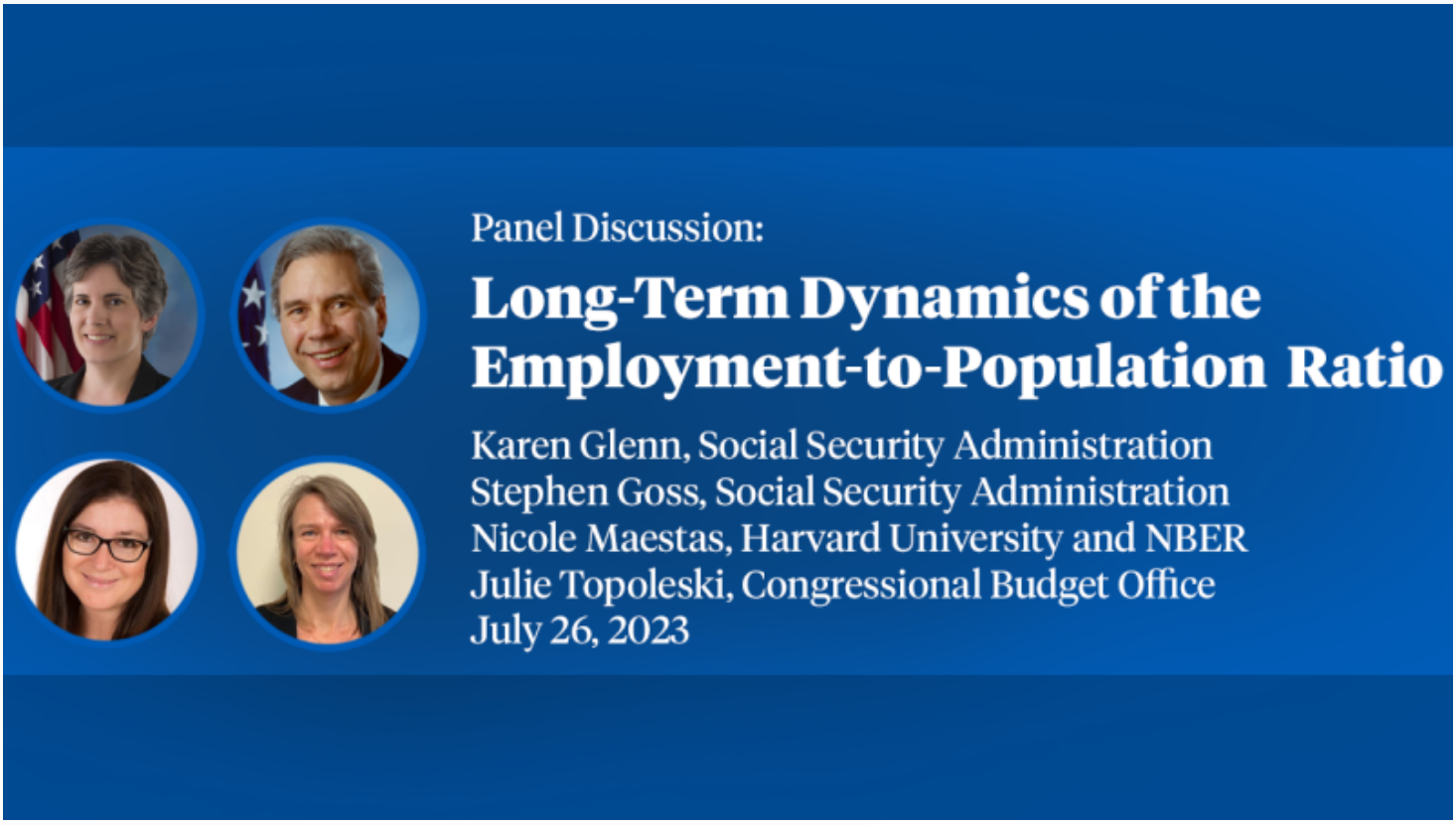
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