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Longevity-Insured Retirement Distributions from Pension Plans: Market and Regulatory Issues

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This paper explores the extent to which retirees can and do insure themselves against longevity risk in private pension plans. We first review the theoretical and empirical results on the value of annuities, and discuss reasons why households may choose not to further insure themselves against longevity risk. We then analyze current trends in the private pension market, and find that the shift from defined benefit plans to defined contribution plans is likely to reduce annuitization rates among future retirees. This is driven primarily by the fact that the majority of DC plans, such as 401(k) plans, do not even offer participants a life annuity option at retirement. Thus, individuals who wish to annuitize generally must do so in the individual market where payouts are lower due to a

healthier mortality pool. Hence, we can forecast that in the coming decades, absent institutional and regulatory changes, overall annuitization rates may fall and households may be increasingly exposed to the risk of outliving their financial resources, while the currently small private individual annuity market may witness significant growth. Finally, we discuss several policy options designed to increase annuitization of retirement resources.

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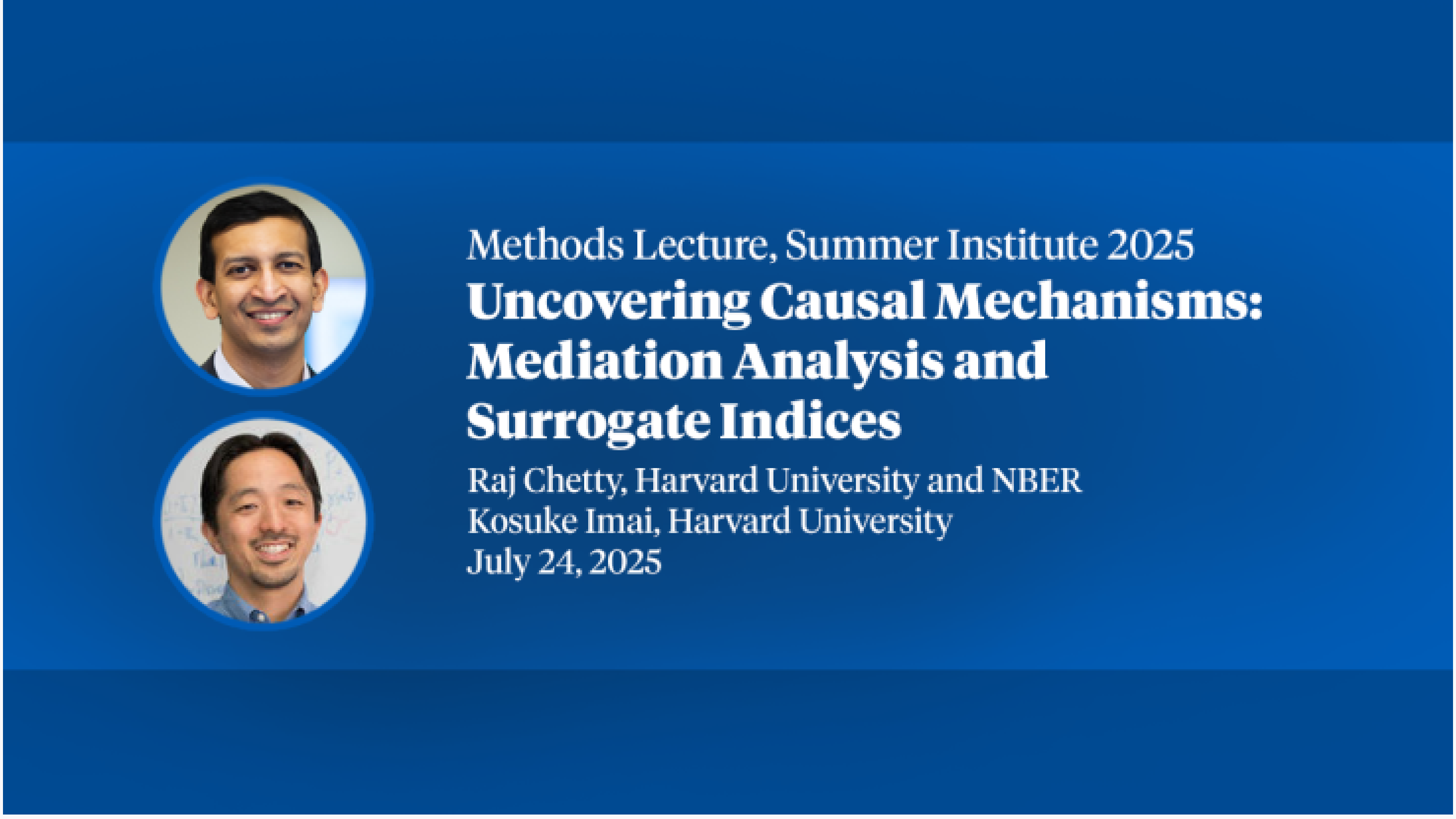

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