DIFFERENCES IN PENSION OUTCOMES ACROSS SOCIOECONOMIC GROUPS

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BETTER POLICIES FOR BETTER LIVES

Introduction

- Decumulation strategy
  - The ‘best’ strategy is difficult to define
- Post-retirement factors influencing pension outcomes
  - Life expectancy
  - Withdrawal rules
  - Anti-selection in annuity markets
  - Public pensions
  - Tax rules
- How can pension policy promote equitable outcomes for pensioners given differences in life expectancy in particular?

Approach

- Develop indicators to capture the value of time, savings, wealth and income
- Assess six jurisdictions given the specific pension rules in place
  - Canada, Chile, Great Britain, Korea, Mexico, United States
- Assess low, average and high income
  - 50%, 100% and 150% average income to indicate low, average and high socioeconomic groups

Retirement ratios

- Value of time
  - The number of years spent contributing to pensions divided by the life expectancy at the age of retirement
- Life expectancy at age 65
  - Largest differences observed for Korea (males, 4.4 years) and Mexico (females, 3.4 years)
- If all groups work from 20 to 65, low income groups work up to 0.7 years more than high income groups per year spent in retirement
  - If entry age varies, this increases to 1 additional year
- Difference in retirement age of up to six years to equalise ratios
  - Retirement age necessarily higher for women, even if differences across groups are smaller

Asset payout ratios

- Value of savings
  - the present value of pension income over the expected time spent in retirement divided by the assets accumulated at retirement
- Higher for high socioeconomic groups because they take their pension longer
- Annuities can result in the highest ratio even for low income groups
- But the largest differences for options involving annuities (either alone or in combination with programmed withdrawals)
  - This can be reduced by allowing for enhanced annuities
- Programmed withdrawals tend to benefit females given the rules in place
  - Unisex limits, earlier retirement, mortality assumptions

Pension wealth ratios

- Value of expected total pension received relative to salary
  - Private pension, total pension, net pension
- Higher for higher socioeconomic groups where relative contributions are equal
  - This is reversed in Mexico where low income groups have higher contributions
- Public pensions reverse this relationship for all jurisdictions assessed
  - Progressivity is effective in reducing relative inequalities
- Progressive taxation also reduces the relative disadvantage of low income groups
  - Lower impact than public pensions

Total net income ratios

Jurisdiction	Low Earner	High Earner
Canada	0.63	1.23
Chile	0.65	1.37
Great Britain	0.78	1.20
Korea	0.60	1.32
Mexico	0.95	1.27
United States	0.60	1.30

- Change in relative income inequality in retirement
  - Average pension income in real terms over the expected time spent in retirement for each group relative to the average pension income for the average individual
- Pre-retirement gross income ratios
  - Low earners 50% of average, high earners 150%
- Post-retirement net income ratios
  - Low earners > 60% of average
  - Progressivity in public pensions and tax reduces relative income inequalities

Policy implications

- Allowing for enhanced annuities would reduce the implicit tax paid by low income groups
  - Reducing differences in financial outcomes across groups
- Flexibility in payout can be valuable, as a given option is not always the best in all cases
  - Programmed withdrawal for low income groups/women
- Progressive public pensions and tax can address relative financial inequalities in pension outcomes
  - Are such policies sufficient to address these differences?
- Flexibility in retirement age will be needed to address non-financial inequalities
  - Time in retirement
  - Healthy life expectancy

Looking forward: technology and enhanced annuities

- Why are enhanced annuities not common?
  - Uncertainty around assumptions
  - Unpopularity of annuities
- Big data could address both of these…
  - More data and new variables on which to base mortality assumptions
  - Targeted products/advertising to those who would benefit most
- …but not without risks
  - Loss of risk pooling and social solidarity
  - Inadvertent discrimination and learned bias

➢ Upcoming policy discussions will ask how far is too far to take segmentation in pricing insurance and annuities

THANK YOU!

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