LONGEVITY RISK PROTECTION FOR PENSIONERS

Seminario Internacional AIOS-BID
Innovación para la etapa de desacumulación y el rol de tecnologías emergentes
9 de abril 2019, Montevideo

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Risks along the pension savings lifecycle

- Interest rate risk
- Liquidity risk
- Investment risk
- Inflation risk
- Longevity risk

Low contributions

Investment risk
Longevity protection in retirement

Supply

Demand

Cost

Security

Flexibility

Loss aversion
The shift of risk to the individual

- Risks fully borne by provider
- Risks shared between members and provider
- Risks shared collectively among members
- Risks borne individually by members
Balancing cost and security: risk sharing in decumulation

- **Risks fully transferred to provider**
  - Traditional annuities
  - Longevity insurance

- **Risks shared between members and provider**
  - Annuities with minimum guarantee
  - Conditional benefits

- **Risks shared collectively among members**
  - Collective pay-out
One step further: Holistic pensions

- Each contribution ‘buys’ a benefit
- Seamless transition to payout
- Potentially higher and more stable income
Approaches to risk sharing with provider

Accumulation

- Investment risk sharing
- Minimum guaranteed return on contributions

Decumulation

- Minimum guaranteed nominal benefit
- Higher payment depend on investment or longevity experience
- ‘Bonus’ payment or conditional payments
Design of collective arrangements

- DB-type
- DC-type

- Indexation
- Nominal benefits
- Accrual rates

- Accountability
- Objective rules

- Smoothing
- Buffer fund
- Forbearance periods

Benefit accrual
Benefit adjustment
Risk-sharing mechanism
Governance
…but challenges remain

Flexibility

Transparency

Equity
Key points

Increased risk sharing

Holistic design

Longevity protection
GRACIAS!