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“Automatic Lifetime Income as a Path to Retirement
Income Security”

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SCHEDULE FOR SP2010 NYU TAX POLICY COLLOQUIUM

(All sessions meet on Thursdays from 4-5:50 pm in Vanderbilt 208, NYU Law School)

1. January 14 – Lily Batchelder, NYU Law School, “\$750 Billion Misspent? Getting More from Tax Incentives” (with Austin Nichols and Eric Toder).
2. January 21 – Kimberley Brooks, McGill University Faculty of Law, “Tax Sparing: A Needed Incentive for Foreign Investment in Low Income Countries, or an Unnecessary Revenue Sacrifice?”
3. January 28 – Michael Knoll, University of Pennsylvania Law School, and Ruth Mason, University of Connecticut Law School, “What Is Tax Discrimination?”
4. February 4 – Michael Devereux, Said Business School, Oxford University, “Taxation of Outbound Direct Investment: Economic Principles and Tax Policy Considerations.”
5. February 11 – David Walker, Boston University Law School/NYU School of Law, “Suitable for Framing: Business Deductions in a Net Income Tax System.”
6. **February 18 – Jeffrey Brown, University of Illinois Business School, “Automatic Lifetime Income as a Path to Retirement Income Security.”**
7. February 25 – Andrew Walker, Milbank, Tweed, Hadley, and McCloy, “The Submerged Logic of ‘Doing Business’ and Attribution: Diving Below the Surface of the Offshore Lending ‘GLAM’”
8. March 4 – Rebecca Kysar, Brooklyn Law School, “Lasting Legislation.”
9. March 11 – David Weisbach, University of Chicago Law School, “Trade and Carbon Taxes.”
10. March 25 – Robert Peroni, University of Texas School of Law, “Can Tax Expenditure Analysis Be Divorced From a Normative Tax Base?: A Critique of the ‘New Paradigm.’”
11. April 1 – Douglas Shackelford, Kenan-Flagler Business School, University of North Carolina, “Capital Gains Taxes and the Return-Risk Tradeoff.”
12. April 8 – Joel Slemrod, University of Michigan Economics Department and Business School, “Car Notches.”
13. April 15 – Michael Schler, Cravath, Swayne, and Moore. [Title to be supplied.]
14. April 22 – James R. Hines, University of Michigan Business School and Law School, and Edward McCaffery, USC Law School, “The Last Best Hope for Progressivity in Tax.”

“Automatic Lifetime Income as a Path to Retirement Income Security”

by

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Abstract: This paper proposes that policymakers encourage “automatic annuitization” so that it becomes an integral part of defined contribution retirement plan design in the U.S. A large body of research in economics indicates that life annuities are the most cost-effective way to provide guaranteed income that will last for as long as an individual lives and that, as a result, annuities ought to play a central role in the portfolio of most retirees. Unfortunately, for a variety of historical, regulatory and behavioral reasons, most participants in defined contribution plans (such as 401(k) and 403(b) plans) do not currently have access to guaranteed income options through their employer’s plan. An emerging body of evidence suggests that making life annuities the “default” payout option from defined contribution retirement plans may be an effective way to increase annuitization rates and therefore an effective way to boost retirement income security of future retirees. The paper discusses a general outline for how such an automatic annuitization program could be implemented so as to increase participant choice, encourage annuitization for the majority of households for whom annuities would enhance retirement security, and limit the administrative burden on plan sponsors.

1. Introduction: Retirement Security Requires More than Wealth Accumulation

The recent turmoil in financial markets has reminded workers and retirees that there is more to ensuring a financially secure retirement than simply accumulating a large balance in a 401(k) plan. True retirement security also requires that an individual have a sustainable strategy for converting one's account balance into a guaranteed income stream that will last for life, regardless of how long one lives or how financial markets perform late in life. Life annuities are financial products that provide this service by allowing an individual to convert wealth into guaranteed lifelong income, thus insuring that the retiree (and his or her spouse) will not outlive his or her retirement resources.

In recent decades, the employer-provided retirement system in the U.S. has systematically emphasized wealth accumulation and largely ignored the equally important step of converting this wealth into retirement income. The typical defined contribution (DC) plan that is in place today provides ample opportunities for saving and accumulating wealth, but fails to provide opportunities for participants to purchase annuities. Indeed, by some estimates, only one in five 401(k) plans even offer participants the option to annuitize through the plan. In short, the typical DC plan is an effective savings vehicle but is not a complete or effective vehicle for providing overall retirement income security. It need not be this way: by intelligently designing the post-retirement phase of DC plans to allow participants the ability to convert their wealth into annuitized income, the DC plan of the future can easily become an effective vehicle through which individuals can achieve true retirement income security.

Employer-provided pensions have long played an important role in the U.S. retirement planning landscape. For many decades, defined benefit (DB) plans provided retirement income in the form of an annuity. While participants in DB plans sometimes have alternative

distribution options available to them, it has always been the case – and remains so today – that annuitization rates from DB plans vastly exceed annuitization rates in DC plans. Participants who prefer to forego the annuity in a DB plan must proactively opt out of the annuity, and in some cases this requires the retiree to provide a notarized spousal signature in order to forego annuitized survivor benefits. It is no accident that DB plan sponsors provided benefits in the form of an annuity: providing joint-and-survivor annuity benefits as the default has long been a requirement for DB plans to qualify for tax benefits.

When Congress passed the Revenue Act of 1978, which included the provision that employees are not taxed on elective deferrals of compensation – a provision that went on to become Section 401(k) of the Internal Revenue Code – few policymakers foresaw the tectonic shift in the pension landscape that would result (EBRI, 2005). Over the subsequent three decades, 401(k) plans have become the dominant form of retirement plan in the U.S. Whether measured by number of plans, number of participants, or assets under management, DC plans are now more important than DB plans as a retirement resources for the average household.

The shift from DB to DC has provided numerous benefits to employers (e.g., reduced funding risk, lower administrative costs) and employees (e.g., increased portability, greater investment choice). As 401(k) plans have become the dominant feature of the U.S. retirement landscape, Congress has acted several times to ensure that these plans are designed in a manner that meets various public policy objectives. This includes, for example, requiring “nondiscrimination” tests in order to ensure that plans do not excessively favor highly compensated employees, limiting annual deferrals, setting rollover requirements, providing minimum vesting requirements, and recently, encouraging automatic enrollment and the use of qualified default investments. Most of the aforementioned policy initiatives designed to improve

and/or regulate DC plans, however, are focused on the accumulation phase. Congress, like many plan sponsors and participants, has focused primarily on saving and wealth accumulation without paying adequate attention to issues in the withdrawal phase.

Given the unique and important role of annuities in providing lifelong retirement security, the failure of policymakers and plan sponsors to ensure that participants in DC plans have access to annuities has important implications for retiree well-being. Without easy access to annuities, retirees must balance two competing risks that arise from uncertainty about length-of-life. On the one hand, if a retiree consumes her wealth too quickly, she risks outliving her resources and suffering a decline in living standards at advanced ages. If a retiree responds to this risk by consuming too slowly, she must subject herself to a lower level of consumption throughout retirement than is truly necessary. Life annuity products are designed specifically to eliminate the need to trade-off these risks. Annuities convert wealth into guaranteed income that cannot be outlived and that provide a higher level of sustainable consumption than can be achieved by other, alternative distribution options.¹ Because of this, a large body of academic research has illustrated the value of annuities and illustrated that having access to life annuities during retirement can boost overall retiree well-being by as much as a substantial increase in wealth (e.g., Mitchell, et al 1999; Davidoff, et al 2005).

This paper proposes that Congress encourage access to annuities in DC plans, including 401(k) and 403(b) plans, and encourage the use of annuities as the default distribution option. By providing access to annuities, millions of DC plan participants would be given the opportunity to utilize products that are an effective, efficient and appropriate tool for converting retirement wealth into a lifelong income stream. Using annuities as the default distribution option would leverage the insights from behavioral economics about the power of defaults to

¹ For more discussion of how annuities provide a higher level of sustainable lifetime income, see Brown (2004)

influence a wide range of behaviors, insights that have, so far, been applied primarily to the accumulation phase of retirement plans. The time has come to apply these insights to the post-retirement withdrawal phase and use plan design to encourage annuitization instead of encouraging individuals to take a lump-sum or other uninsured withdrawal option. An attractive feature of the use of voluntary defaults is that it effectively promotes retirement income security while still preserving the right of the individual participant to make their own choices.

Under an annuity default plan, sponsors would provide an automatic annuitization option as the default distribution policy instead of using a lump-sum withdrawal or an uninsured withdrawal option as the default. Congress could encourage the use of automatic annuitization by reducing the fiduciary burden on employers who seek to provide retirement income security to their participants. If automatic annuitization proves effective at boosting annuitization rates without being unduly burdensome on employers, employers may start voluntarily adopting it as part of their plan design. If automatic annuitization proves effective and employer participation remains low, Congress could subsequently choose to make automatic annuitization part of plan qualification requirements. Either way, automatic annuitization can be achieved through a wide range of specific product offerings, provided that they meet certain minimum requirements related to the amount and timing of annuitization.

Specifically, this proposal suggests that employers be encouraged to adopt an automatic annuitization plan under which, when an employee makes an initial request for a (non-hardship) withdrawal from a DC plan, the employee would be notified that he or she is being automatically enrolled into a (partial) annuitization program.² This program would convert half of the participant's total 401(k) account balance into a joint-and-100%-survivor annuity for married

² In practice, a non-hardship withdrawal would include any distribution request after the age of 55 for workers that have separated from service or age 59 ½ for current employees.

couples, or a single life annuity for unmarried individuals. These annuities could be immediate annuities subject to a trial period as suggested by Gale, et al (2008), a series of laddered annuities with payouts that commence over a several-year period after the initial distribution decisions, or various integrated, in-plan annuity options that allow participants to invest in deferred annuity contracts during the accumulation phase. Rather than mandating annuitization as is done in some countries (such as the U.K.), participants in this program would have the opportunity to “opt out” of this program by notifying their employer of their desire to do so, thus preserving individual freedom to choose a payout option that is optimal for the individual.

This paper begins in section 2 with a discussion of the current state of distribution options from DC plans, focusing primarily on the fact that most DC plan participants are not able to access annuities through the plan. It also explores some of the reasons that plan sponsors do not currently offer these income options. In section 3, the paper discusses the available evidence that suggests that an “automatic annuitization” program would likely increase annuitization rates in the U.S. Section 4 proposes some general principles that should guide the development of an auto-annuitization default option. The specific proposal is outlined in section 5. In section 6, a “Q & A” format is used to further explain the details of the proposal. Section 7 provides a discussion of several possible approaches to structuring an automatic annuitization plan. Concluding remarks are provided in section 8.

2. The Current State of 401(k) Plan Distribution Options

2.1 Evidence that “Employers Matter”

Decades of research in economics supports the intuitive idea that life annuities are valuable to retirees because they offer the least expensive way to guarantee a stream of income

that will last for life.³ Life annuities are able to achieve this value advantage because the annuitant forgoes the ability to bequeath the assets used to purchase the annuity. As a result, the annuity provider is able to pay a higher rate of return to annuitants, and pay this return for as long as the annuitant lives, than an otherwise similar but non-annuitized asset.⁴

Despite the theoretical and actual benefits of annuitization, most participants in 401(k) and other DC plans simply do not have the option to annuitize through their plan. Instead, the typical plan provides benefits in the form of a lump-sum or a series of non-annuitized withdrawals. In essence, we already have a “default distribution policy” in the U.S., but unfortunately it is one that does not provide guaranteed lifetime income. Given the power of defaults in influencing behavior, it should not be surprising that most DC plan participants take their retirement plan benefits in one of these non-annuitized forms.

In addition to not offering annuities, most plan sponsors do not provide their participants with much information about the importance of guaranteed lifetime income. As noted by the Government Accountability Office (2003, p. 14), employers tend not to be very involved in any aspect of the distribution phase, noting that plan sponsors:

“generally did not provide information on considerations relevant to managing pension and retirement savings plan assets at and during retirement ... plan sponsors generally do not discuss the potential pros and cons of available payout options as related to managing pension assets during retirement ... they typically

³ This literature begins with the seminal paper of Yaari (1964) and now includes many dozens of papers. For a review of much of this literature, see Brown (2009).

⁴ This higher return is sometimes referred to as a “mortality premium” or as a “mortality credit” in the academic literature (e.g., Milevsky 2006). Readers interested in an analysis of the numerous hypotheses on the under-annuitization puzzle and the academic research that supports or refutes the various hypotheses can find a summary in Brown (2009).

do not discuss risks retirees may face in managing their assets during retirement or provide information on how to assess needs at or during retirement.”

Some will no doubt argue that individuals are free to purchase annuities using their DC account balances by withdrawing the money from the DC plan and rolling it over into a tax-qualified annuity contract. This is true, but it is worth considering what is involved. The individual must understand the value of annuities, despite receiving limited or no information about annuities from their employer. The participant must not be dissuaded by the implicit endorsement of the lump-sum or other non-annuitized withdrawal option that their plan sponsor chose as an implicit default and must overcome the status quo bias and other powerful behavioral impulses that often prevent individuals from following through on their plan. The individual must then select an annuity provider from a large universe of insurance companies, navigate the often complex and confusing array of products that include the term “annuity” in their name despite not offering lifetime income, and then select from a broad range of product features and options. Having done this, the individual can then purchase the annuity in an individual market, which, because it currently consists of a self-selected group of individuals who empirically have lower mortality rates than the general population, likely provides lower annuity payments per dollar of premium than annuities purchased through an employer.⁵

Successful navigation of these steps, and even the initial motivation to try, requires at least some semblance of financial literacy. While neoclassical economics models often assume perfectly informed and rational consumers, a growing body of empirical work in economics has documented that very substantial portions of the population are financially illiterate, and that this financial illiteracy has important implications for individuals’ abilities to make effective

⁵ For a discussion of the fact that individuals who self-select into the individual annuity market have lower mortality rates and greater life expectancies than the general population, and for evidence on the impact that this selection has on annuity prices in the U.S., see Mitchell, Poterba, Warshawsky and Brown (1999).

financial planning decisions with regard to retirement (see, e.g., Lusardi and Mitchell 2007a and 2007b). This remains true even when one restricts the analysis to participants in 401(k) plans (John Hancock Financial Services, 2002).

In addition to low levels of financial literacy, a growing body of research suggests that the psychological biases that individuals bring to financial decision-making may keep consumer demand for annuities lower than optimal levels. For example, recent research has shown that when alternative financial products are presented in a context, or “frame,” that emphasizes consumption, individuals are substantially more likely to express a preference for annuities than when the same product information is provided in a frame that emphasizes investment features (Brown, et al, 2008). Sheshinski (2008) suggests that individuals may have more pessimistic beliefs about survival probabilities than is warranted by the evidence, thus reducing the attraction of annuities, although the evidence on this point is mixed. Other papers provide evidence that people often act as if they are placing too little weight on future versus current consumption (e.g., Warner and Pleeter 2001; Laibson 1997), a phenomenon that may reduce demand for annuities in some contexts. Hu and Scott (2007) suggest that individuals may use inappropriate decision rules due to a phenomenon known as “loss aversion.”⁶ Taken together, this growing body of research suggests that individuals are not making fully rational decisions when it comes to distributions from retirement plans.

Given low levels of financial literacy and the evidence that individuals are subject to behavioral biases, it is perhaps not surprising that a growing body of research has also shown that “employers matter.” In other words, the decisions that plan sponsors make in designing retirement plans and communicating about them have important effects on the behavior of plan

⁶ Readers interested in a more detailed review of the literature on both rational and behavioral explanations for why consumers do not annuitize more often will find such a review in Brown (2008a).

participants. In many cases, plan sponsor decisions can improve participant retirement security, such as when employers automatically enroll employees into a 401(k) plan and participation rates rise rather dramatically as a result (e.g., Madrian and Shea, 2001). In other cases, plan sponsor decisions can lead participants to engage in behavior that would not be advised by most economists or financial planners, such as when participants direct more of their own contributions to own-company stock when the employer restricts the company match to be held in own-company stock (Brown, Liang and Weisbenner, 2007). By not offering annuities, employers are implicitly signaling to participants that guaranteed lifelong income is not important.

2.2 Why Don't Employers Offer Annuities?

Research has established that (i) annuities are an important component of retirement security, (ii) employers and retirement plan design can have an important influence on the choices that participants make, and (iii) employers do not offer annuities. An important question is, therefore, “why don't employers offer annuities?”

The simple answer to this question is that employers have not had a sufficient incentive to do so. In a dynamic, competitive, market-based system, most firms will rationally provide employee benefits only when there is a clear business case for doing so. Often, benefit plans are used strategically to help recruit and retain employees, as well as to manage the workforce through means such as influencing a workers' health and productivity or a worker's retirement date. Of course, one major reason that these benefits are used instead of cash compensation is due to the favorable tax treatment that Congress has provided. The benefits to plan sponsors of offering any given benefit, however, must be weighed against the costs of administering a plan,

as well as the costs and risks associated with meeting the many regulatory and fiduciary requirements imposed on plan sponsors.

To the extent that Congress has dealt with annuities in the past, the net result has often been to provide incentives for plan sponsors to *not* provide annuities. The most glaring example of this is the fact that for most of the history of 401(k) plans, plan sponsors were subject to a potentially significant fiduciary risk when choosing an annuity provider, and often responded by simply excluding annuities from the plan. As Perun (2004, p.11) states:

“Legal advisers know the real reason why plan sponsors don’t offer annuities. It is because they strongly advise their clients against them. In their view, annuities expose plan sponsors to a significant and long-term risk of fiduciary liability. And plan sponsors, more often than not, heed their advice.”

This created a perverse situation in which plan sponsors who provided employees with a valuable option to reduce retirement income risk were effectively penalized by having to take on more fiduciary risk, while plan sponsors who left employees to fend for themselves faced no such risk. Fortunately, the Department of Labor clarified in October 2008 that the “safest annuity available” provision that prompted these concerns applied only to defined benefit plans.⁷ However, three full decades of a strong legal bias against the inclusion of annuities has taken its toll. Essentially, the entire 401(k) industry grew and matured in a regulatory environment that discouraged the provision of annuities.

⁷ As summarized by J.P. Morgan (2008):“With respect to the safest available annuity requirement, the applicable rule (Interpretive Bulletin 95-1) was amended October 6, 2008, to provide that it only applies to defined benefit plans. With respect to DC annuity purchases that do not comply with the safe harbor, the Pension Protection Act (PPA) provides that they are "subject to all otherwise applicable fiduciary standards." The final safe harbor rule adds clarifying language that the new rule "does not establish minimum requirements or the exclusive means for satisfying these responsibilities." According to the preamble, this language has been added to address concerns that the "safe harbor" might be viewed as the exclusive rule for satisfying the ERISA prudence requirement applicable to DC annuity purchases.”

Interestingly, Congress has been willing to impose *minimum* distribution requirements on individuals, while showing virtually no interest in the opposite problem, namely, that individuals might exhaust their resources too quickly. While one way of meeting the minimum distribution requirements is to purchase an annuity, the other options give no meaningful consideration to the significant longevity risk that retirees face.

It is often argued that, in addition to operating in a regulatory environment that has not been particularly supportive of annuities, many employers see little tangible benefit to offering annuities to their retirees. It is sometimes suggested that, to the extent that benefit plans are used primarily to recruit, motivate and retain current workers, employers have the incentive to allocate their scarce H.R. resources toward benefits for which the “value proposition” can be easily explained to current employees. Annuities may be quite valuable to retirees, but the benefits of annuitization are much harder to make salient to younger workers. Of course, if all workers were so foresighted and rational that they fully valued any future annuities, then this could provide plan sponsors with the incentive to add these options as a recruiting or retention tool. But given low levels of financial literacy (e.g., Lusardi and Mitchell 2007b), the tendency toward myopia (e.g., Laibson 1997), and the fact that the employers tend to focus on wealth accumulation rather than annuitization (Brown et al 2008), it may not be realistic to expect that employee demand is sufficient to drive most employers to add annuity options.

Recent industry surveys, however, suggests that many employees *are* interested in having guaranteed retirement income, particularly in the aftermath of the recent turmoil in financial markets. For example, a recent report by MetLife (2009) indicates that “50 percent of all employees surveyed expressed an interest in having their company provide ways to convert retirement plan lump sums into income for life.” Another survey of approximately 1,000 401(k)

plan participants in March, 2009 – after six months of economic and financial market upheaval - indicates that “90 percent of all participants said they would be interested in seeing a retirement income option added to their plan” (Barclays Global Investors, 2009).

One would hope that the combination of the reduction in fiduciary risk brought about by the October 2008 Department of Labor rule and the increased interest of participants in having income options in their plan would lead employers to start offering annuities as part of their DC plans. It is too early to know whether this will occur on its own, but thus far, the number of plans that have moved to adopt annuity options remains limited. Indeed, the same MetLife report that found high participant interest in income options showed that a minority of plan sponsors viewed the addition of income options as an important part of their benefits strategy. Further action by the Department of Labor to address concerns about fiduciary risk, including those discussed in section 5 below, would be helpful.

2.3 A Role for Public Policy

As noted above, there are compelling reasons to believe it is in the public interest for individuals to have the opportunity to partially annuitize their 401(k) plan balances in order to provide a guaranteed source of retirement income. Providing this option through the employer-provided plan seems particularly important given the evidence that employers matter for influencing employee decisions.

By their actions, it appears that most employers do not yet have adequate incentives to provide annuity options. As a result, 401(k) plan participants are not presented with an annuity option at retirement, and instead are often presented with an implicit default option to take their retirement distributions in a lump-sum or a series of phased withdrawals. Because employees

are not even faced with a choice set that includes annuities, many participants will not be stimulated to learn about the relative costs and benefits of annuitization versus alternative distribution options. This, in turn, depresses the demand for annuities and thus further reduces the employer's incentive to provide an annuity option in the first place. In essence, we have created a "self-fulfilling prophecy": employers don't offer annuities because employees don't demand them, and employees don't demand them because employers don't offer them.

Policymakers may be able to interrupt this negative cycle by encouraging plans to provide access to annuities. By encouraging the use of automatic annuitization program as the default distribution option, policy may also help to shift the dominant paradigm among plan sponsors and plan participants from one that is focused solely on wealth accumulation to one that is focused more broadly on retirement income security. But, is there any evidence that such a policy change would be effective?

3. Would an "Automatic Annuitization" Default Option Work?

As noted above, default options have been shown to influence a wide range of behaviors related to financial preparedness for retirement. In the context of 401(k) plans, there is evidence that defaults can influence whether to participate in a savings plan at all, how much to contribute, how to allocate one's portfolio, and more.

Beshears et al (2008) discuss a number of possible reasons that default options may have such a strong effect on behavior. These reasons include that it may be too complex to analyze and evaluate the alternative options, that individuals may be myopic and never get around to switching the election, and/or that individuals may view the default as providing an implicit endorsement from the plan sponsor in favor of the option selected as the default.

Given the preponderance of evidence that default options exert a strong influence on behavior in nearly every other aspect of retirement planning, it is quite likely that the use of automatic annuitization as a default option would alter distribution behavior as well. After all, it would be quite unexpected if individuals who were strongly influenced by plan design choices throughout their career suddenly became immune to plan design considerations upon retirement.

While this argument has intuitive appeal, there is very little empirical evidence available with which to estimate the magnitude of the likely effect. Nonetheless, the evidence that is available is largely suggestive of a default effect in the distribution phase.

One piece of evidence comes from the U.S. experience with survivor benefits. The Employee Retirement Income Security Act (ERISA) of 1974 required that the default annuity option from DB plans be a joint-and-one-half survivor annuity, unless the individual opted out of this by choosing a single life annuity with higher monthly benefits. In 1984, the regulations were amended to require an annuitant to obtain a notarized signature of his or her spouse in order to opt-out of the joint-and-survivor annuity requirement. Holden and Nicholson (1998) show that before 1974, less than half of married men chose a joint-and-survivor annuity. Following the passage of ERISA in 1974, use of the joint-and-survivor annuity rose by roughly 25 percentage points. Aura (2001) reports that the adoption of the spousal consent regulations in 1984 further increased the use of joint and survivor options by up to ten percentage points. This clearly supports the notion that the choice of the default matters.

Some recent evidence from Switzerland also suggests that defaults matter in the distribution phase. Bütler and Teppa (2007) examine the annuitization decisions of over 4,500 individuals in ten company pension plans. One of the ten companies uses a lump-sum default, and in this company the annuitization rate is only 10 percent. In contrast, an annuity is the

default option in the other nine companies, and annuitization rates in these companies are much higher. Indeed, in 8 of the 9 annuity default plans, annuitization rates exceed 50 percent.

4. Objectives of an Auto-Annuitization Default

There are many possible ways to design an automatic annuitization default option for DC plans in the U.S. This paper suggests that a well-designed annuitization program would:

1. Make Annuities Available to All DC Plan Participants: For reasons outlined earlier, efforts to promote annuitization will likely be ineffective if individuals who desire to purchase an annuity find it difficult or costly to do so. The most effective way to do this is to provide them with the option in their DC plans.

2. “Change the Conversation”: Beyond simply making annuities available, an effective annuitization policy will help to re-frame the discussion of financial preparedness for retirement away from a narrow focus on wealth accumulation and toward a conversation about retirement income security. In addition to providing annuity options, the conversation between employers and employees can also be influenced by encouraging plan sponsors to provide an illustration of the retirement *income* (and not just wealth) consequences of saving, portfolio and distribution decisions as part of annual account statements during the accumulation phase.

3. Preserve Individual Choice: While there is a very rich academic literature examining the benefits of annuities to retirees, this literature also recognizes that annuities are not the optimal choice for every individual. An attractive feature of “opt out” default options is that they preserve the individual’s right to choose an alternative option when it is in his or her interest to do so.