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PRESS RELEASE

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Avoiding Pitfalls in Retirement

Improving longevity, volatile investment markets and inflation uncertainty can present significant risks for individuals retiring from a defined contribution pension scheme.

These risks can be mitigated by careful scheme design and product choice.

Policymakers can raise awareness of the risks and help members achieve maximum benefits by removing infrastructure barriers to efficient design and product pricing.

A report on defined contributions pensions has been published by the Groupe Consultatif (see https://actuary.eu/wp-content/uploads/2018/05/DC_Working_Group_Report_final_261009.pdf). The report focuses on the risks associated with the decumulation phase of retirement (when contributions have ceased and benefits are being drawn).

Most people are not wealthy enough to self-insure the risk that they might outlive their assets, given the improvement in life expectancy that has already been seen and the likely continuation of such advances. Therefore it is important that defined contribution pension arrangements allow members the option of having longevity protection, as is already the case for most defined benefit schemes.

The longevity risk can be avoided by using the accumulated pension savings to buy some form of annuity product. The report analyses how existing annuity products may be used to mitigate defined contribution member risks.

In addition, the report suggests the "ideal" annuity product. For most people it is desirable that such a product has the following features:

- Protection against outliving pension capital
- Ability to capture higher investment returns during (part of) the decumulation phase
- Potential for increasing payments
- Stabilization of income payments
- Downside protection, for example a guaranteed minimum retirement income
- A "money back" feature such as, for example, a guaranteed 20 year payment period
- Co-ordination between the different phases such as the transition from accumulation to decumulation and at the end of a guaranteed payment period

There is a continuing search for new products that will deal better with the opportunities and risks in retirement.

Policymakers have a role to play in eliminating infrastructure barriers, where they exist, to provide cost-effective and efficient design of retirement products.

Moreover policymakers also have a role to play in ensuring that awareness about the risks and products available to members is raised to a satisfactory level.

Notes to Editors:

The *Groupe Consultatif Actuariel Européen* was established in 1978 to represent actuarial associations in the countries of the European Union. Its purpose is to provide advice and opinions to the various organisations of the European Union (EU) - the Commission, the Council of Ministers, the European Parliament, CEIOPS and their various committees – on actuarial issues in European legislation.

The *Groupe* currently has 36 member associations in 33 countries, representing over 17,000 actuaries. The actuarial associations in 26 of the 27 Member States of the European Union (Malta does not yet have an actuarial association) are currently members of the *Groupe*, along with associations in EEA countries, Switzerland, and a number of EU candidate states.

Advice and comments provided by the Groupe on behalf of the European actuarial profession are totally independent of industry interests.

The Groupe regularly publishes, via its web site (http://www.gcactuaries.org), surveys amongst its member associations on issues of topical relevance in pensions, insurance and investment and financial risk.

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