August 27, 2014

**SUMMARY:**

**Annuity Products — Definition, Criteria and the Evolution of Product Design**


**Current Status of the Study**

The first phase of the study was to develop an inventory of the types of annuity products in use and to consider options about the breadth of what is to be defined as an annuity product. This has been completed in draft form and was presented at the June meeting of the Working Party on Pensions. Following completion of this design stage the evaluation described below will be undertaken over the next year with initial findings likely presented at the June 2015 meeting.

**Background and Objectives**

The project on annuity products was initiated in 2012. Its primary goal is to assess the impact of the regulatory and tax frameworks in different countries on the types of products in use, and the effect on the security and guarantees provided. Another objective is to develop descriptive information on the various kinds of annuity and other benefit payout products in use and to provide a means to disseminate information on innovations in this area. Important areas of focus that have been suggested are understanding the differences in risks associated with product designs (i.e. participating vs. fixed annuities), variations in design and effects of guarantees, and the effect of market structure on characteristics of annuity products.

The OECD staff draft proposes six criteria to be used to define the scope of products to be included in the study. These are:
1. If the product is fully funded in advance. This definition intends to exclude pension systems financed on a pay-as-you-go basis that pay benefits in an annuity.

2. Whether the product pays a pre-determined stream of income at a price established in advance, and whether the presence of a lump sum payout option should exclude a product from consideration and whether the conversion rate is set in advance.

3. Whether the benefit payments are guaranteed or re-insured.

4. Whether there is an insurance component either in regard to longevity or investment performance over a specified time period. This is effectively a decision regarding whether to include programmed withdrawals in the definition of an annuity.

5. Whether there is an actuarial basis for the benefit calculation that considers longevity and a discount (expected return) rate. Imposing these criteria would remove most defined benefit plans from the definition.

6. Whether there are restrictions on providers from participating in the market. This would exclude national products that are required to be used by all annuitants typically within mandatory DC systems.

**SUGGESTED COMMENTS FROM THE AMERICAN BENEFITS COUNCIL**

1. The study will be most useful if focused more narrowly on annuity products that are sold in the market rather than broadly defining annuities to include any instrument that pays a lifetime benefit. For this reason it makes sense to exclude from the scope of the study not just public DB systems but all collective DB arrangements.

2. It does not seem useful to exclude from analysis products that are provided in restricted markets. It would be useful to see if restrictions are associated with any of the characteristics of the products that are to be examined.

3. The objective of evaluating differences in risks that are associated with product market and design characteristics is useful. How this will be done will need to be specified in order to assess whether this effort will provide useful information.