A Study on policies to encourage long-term annuitization in private pension plans

Private pension plans including DB/DC/IRP and tax-qualified annuity should supplement public pension system because retirees don't secure enough retirement income only through public pension. However, Private pension plans in Korea have several problems to function effectively as additional retirement income source.

First, most retirees take lump-sum in DB/DC pension plans. The percentage of retirees who take annuity is just 1.6% in 2016. Second, it is very easy to withdraw fund reserve in IRP pension plans, and lapse rate is very high in tax-qualified annuity despite tax penalty. Third, retirees prefer short-term annuity to long-term or life annuity.

We analyze other countries' case and conduct survey about how people change their decision to annuitize with behavioral elements such as partial lump-sum, default annuitization option and framing.

We suggest three policies to encourage long-term annuitization in private pension plans. First, annuity option should be the default in DB/DC/IRP pension plans, and DB/DC/IRP pension plans should allow partial lump-sum option and use framing technique. Second, private pension plans should allow higher tax benefit for retirees who choose long-term annuity. Third, IRP pension plans should block fund reserve withdrawal and, all private pension plans should endeavor to increase rate of return.

These policies can effectively help private pension plans function as additional retirement income source, and can be a comprehensive action plan for the polity authority.