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# What Features of a Retirement Income Product do Seniors Value?

## Evidence from a Discrete Choice Experiment


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# The Big Picture

- The big picture
  - Demographic changes
  - Increased life expectancies
  - Growing reliance on superannuation for retirement income
- Ongoing policy discussions
  - Development of the framework for CIPR
  - Retirement Income Review
- Gaps in behaviours
  - Annuity Puzzle
  - Low drawdown
  - Bequest

# Research Questions

- What are retiree preferences for six important retirement income product (RIPR) features?
- What retiree characteristics and preferences most effectively partition retirees into homogeneous RIPR markets?
- What retiree characteristics explain retiree preferences for individual RIPR features?

# What did we do?

- Retirement Income Preferences

Discrete Choice Experiment
(10 choice sets each)

| Annual Income |
| --- |
| Income Stability |
| Longevity Protection |
| Flexible Withdrawal |
| Planned Bequest |
| Long-term care insurance |

# Experimental design

| Feature | Levels |
|---|---|
| Annual Income* | -20%, -10%, 0%, +10% |
| Income Stability | No volatility, Moderate volatility (downside protected; no downside protection), Significant volatility |
| Longevity Protection | Yes / No |
| Flexible Withdrawal | 100%, 60%, 30%, 0% |
| Planned Bequest | Yes / No |
| Long-term care insurance | Full Cover, Partial Cover (extreme cost, regular cost), No cover |

*Based on individual superannuation, age at retirement, and gender; calibrated against Challenger's annuity pricing

# Example of one choice set used in the Discrete Choice Experiment

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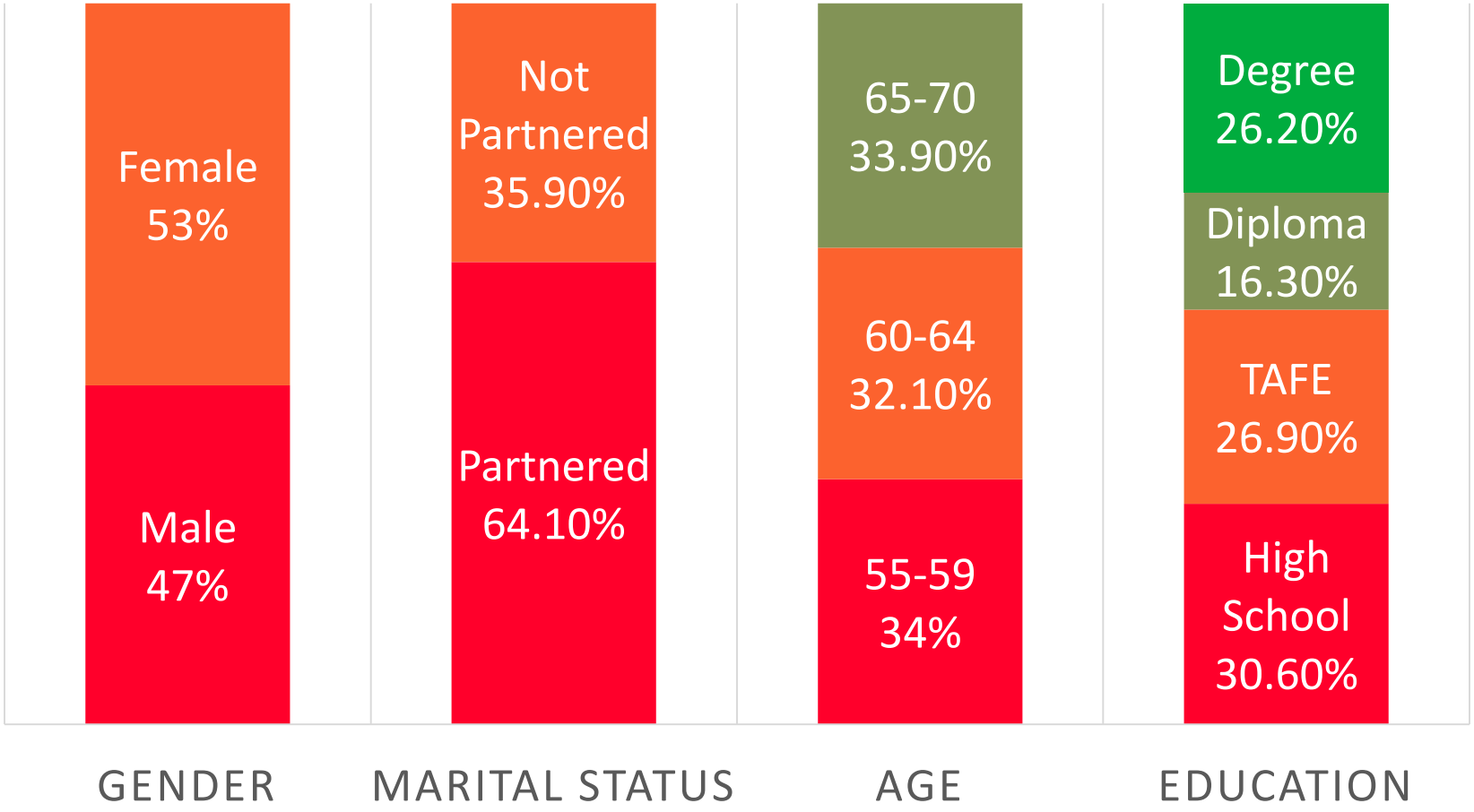
| Click feature names below for more details | Product A | Product B | Product C |
|---|---|---|---|
| Lump Sum Withdrawal for unexpected expenses | Up to 100% of the product's fund balance | Up to 60% of the product's fund balance | Up to 30% of the product's fund balance |
| Average Annual Income from the product | $38,600 | $34,740 | $30,880 |
| Cover for Long-term Care Costs | No cover | Full cover | Regular cost cover |
| Planned Gifting and Leaving Money to heirs/beneficiaries | A fixed percentage of retirement savings is set aside | A fixed percentage of retirement savings is set aside | A fixed percentage of retirement savings is set aside |
| Lifetime Income Guarantee | No lifetime income guarantee | No lifetime income guarantee | Lifetime income guarantee |
| Income Stability | Significant income changes with NO minimum income guarantee | Moderate income changes with a minimum income guarantee | Stable income |
| Most preferred (best) product among all Three products | ○ | ○ | ○ |
| Least preferred (worst) product among all Three products | ○ | ○ | ○ |

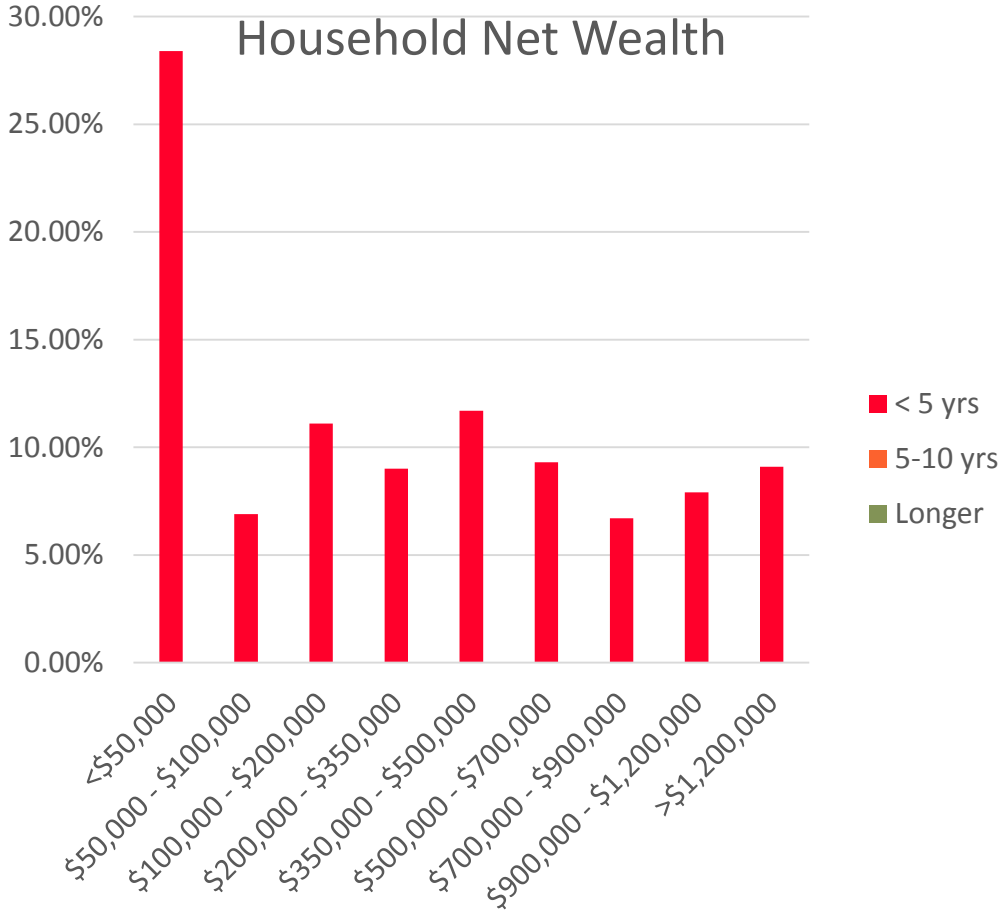
**Constant – mimics current ABP**

# Selected sample characteristics

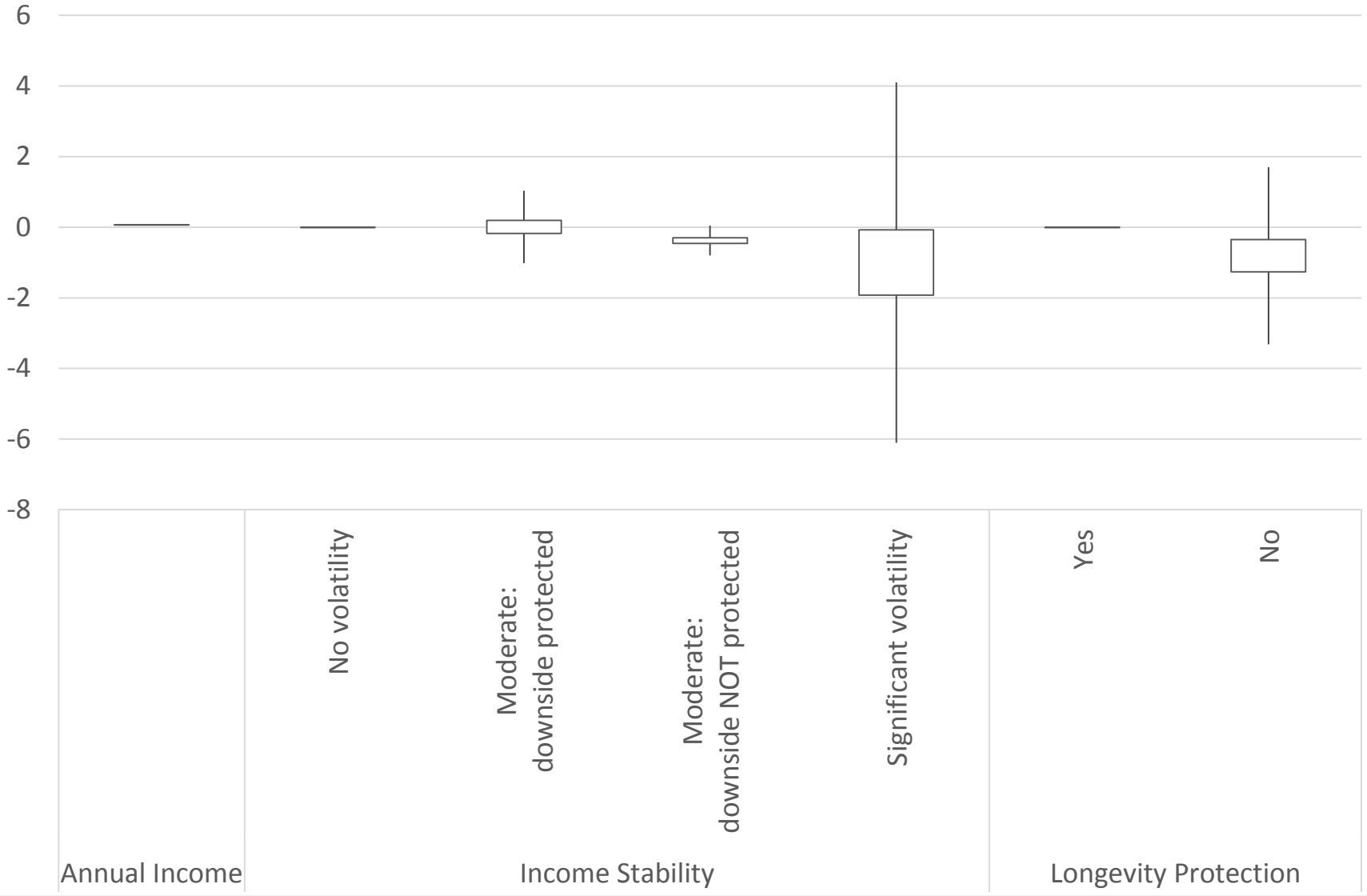
Sample: 803 valid respondents from 1,176 surveyed



# Selected sample characteristics



# What do we see?



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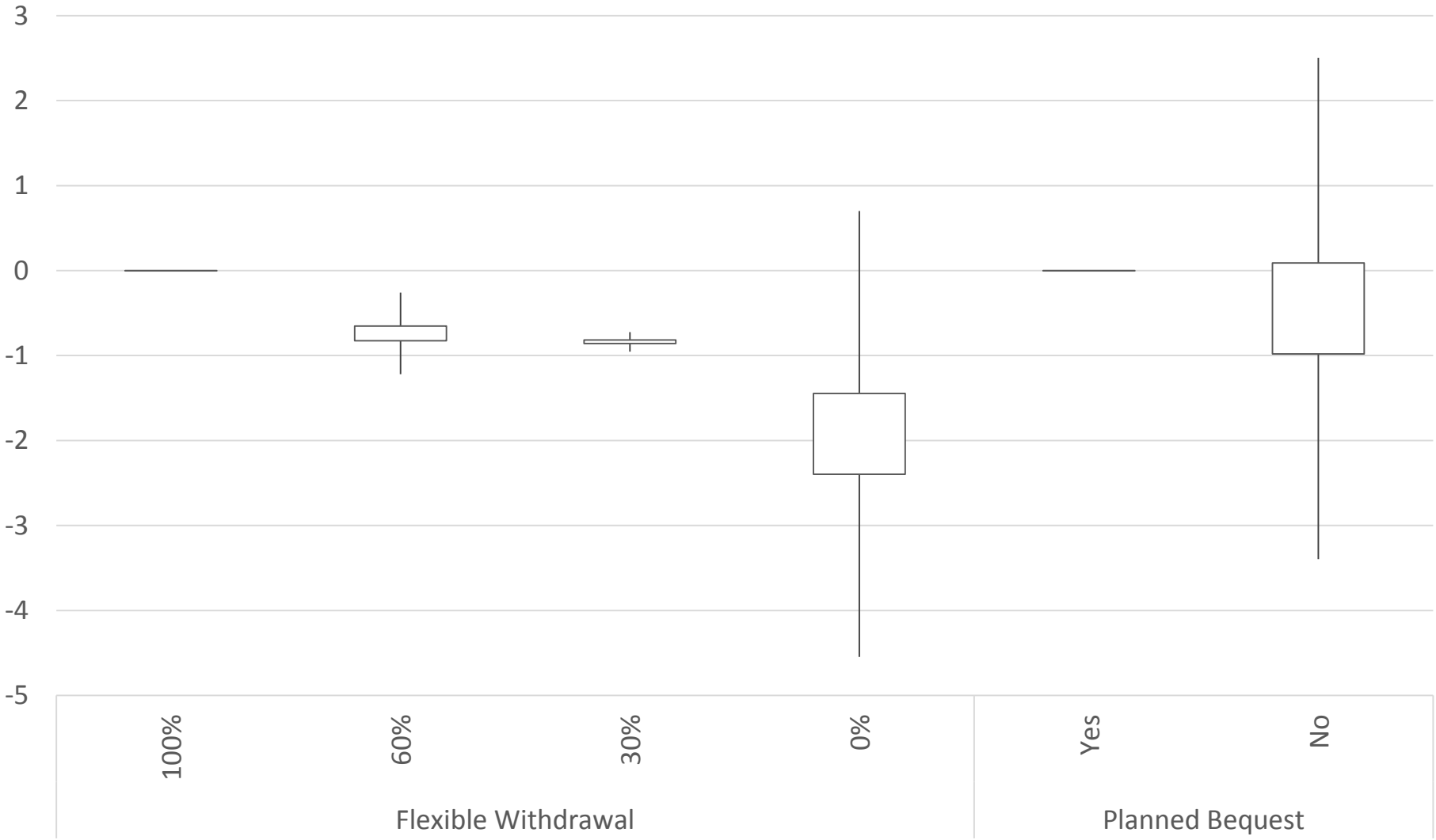

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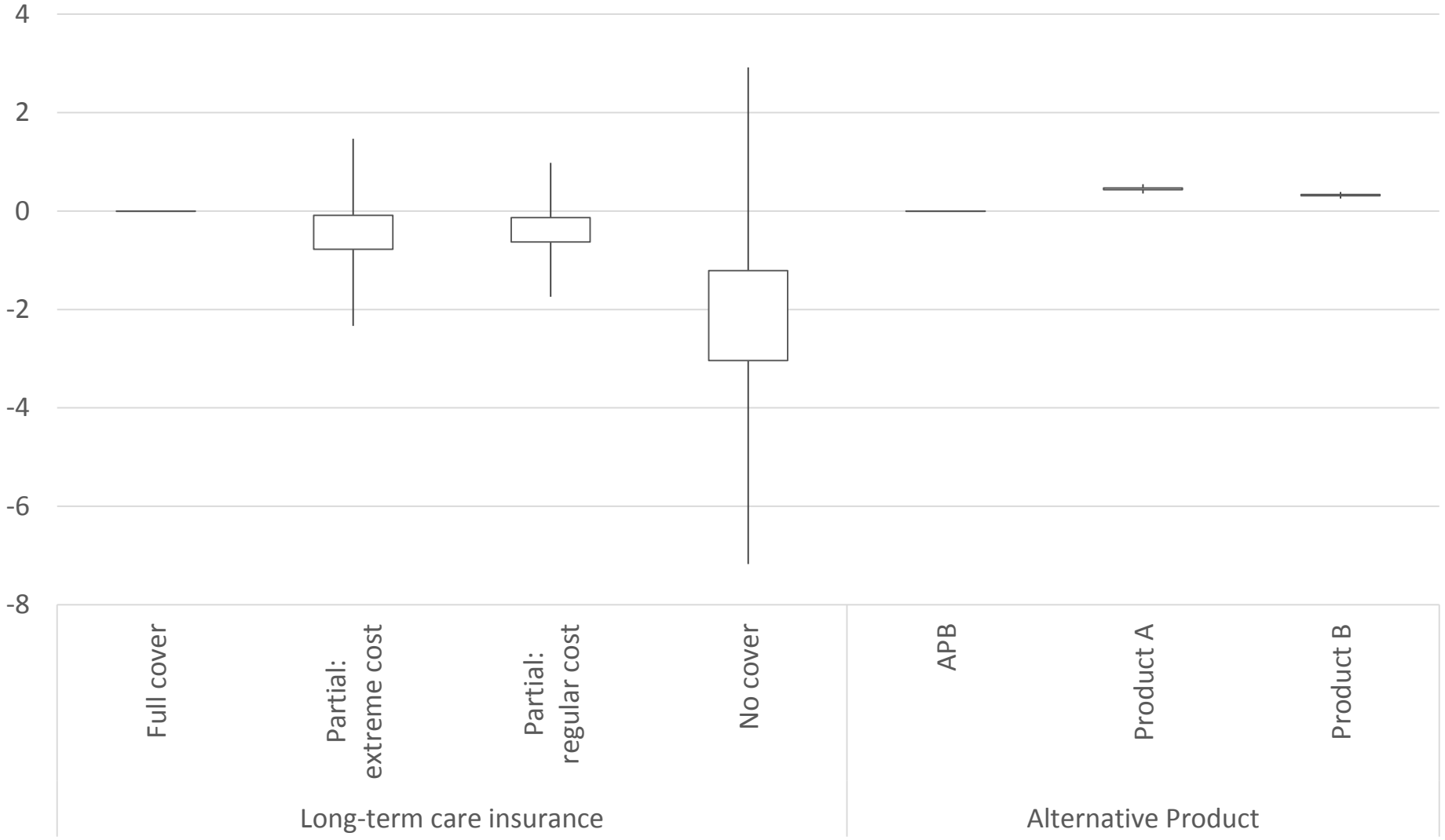
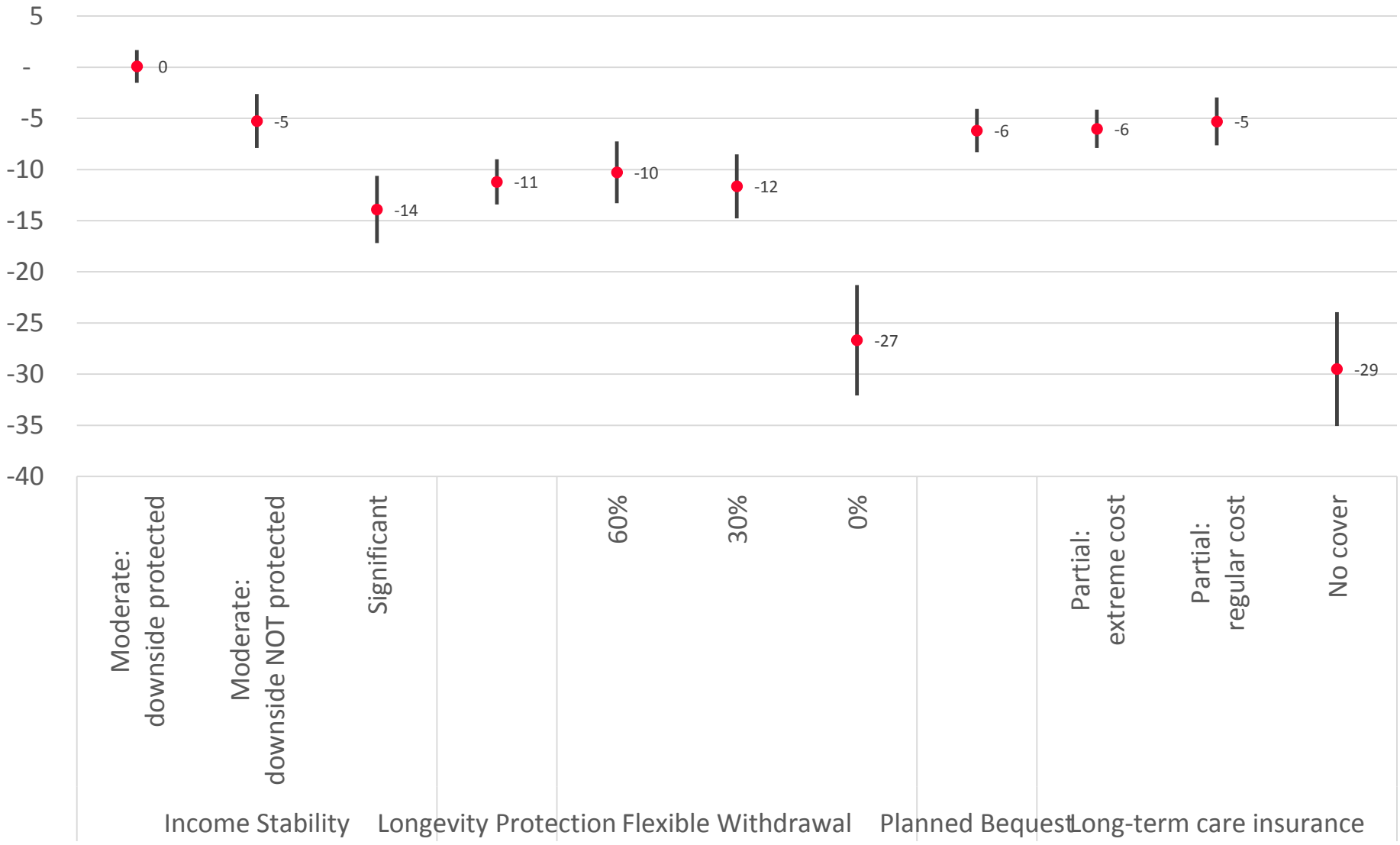


# Average Willingness to Pay ($1,000s)



# Group Heterogeneities?

- Gender
  - Males: less sensitive to income level, longevity protection, bequest
  - Females: no difference between stable income and moderate income volatility
  - Marital Status: no difference
- Household wealth
  - Rich households: less sensitive to income levels, bequest

# Determinants of choices?

| | Income Stability | Longevity Protection | Planned Bequest | Long-term care insurance |
|---|---|---|---|---|
| Risk Taker (General) | + | | | - |
| Risk Taker (Financial) | + | | | |
| Winner (investment) | + | | | |
| Live longer (perceived) | + | | | |
| Bequest factors[1] | | | | |
| Health factors[2] | | | | |

[1]Bequest factors: have living children, children's financial status, bequest expectation from parents
[2]Health factor: self-rated health status, long-term care needs expectations

# Take away

- Income level plays an important role
- Substantial preference changes between full, partial, and no risk protection; level of partial risk protection is less influential
- Significant differences between male and female; moderate differences between “rich” and “poor”
- Some factors may explain individual preferences for some attributes.

Q&A