Methodology and Results

Findings 00000 Summary 00

Slow and Steady: Drawdown Behaviours in Phased Withdrawal Retirement Income Products

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Drawdowns Working Paper

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Spoilers			



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3 Findings



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Mativation			

Population Ageing

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- Sustainability (DB to DC, Government Pensions)
- ► Retiree Risk Management and Wellbeing
- ► Phased withdrawal / account-based pension / allocated pension

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Research Aim			

Identify and explain drawdown behaviours in phased withdrawal products, to inform appropriate retirement income product design, policymaking and financial advice.

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Data Descriptio	n		

- ▶ 44,000 pensioners
- Multiple super funds
- ▶ Up to 12 years of drawdowns observed

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Methodology			

Three Components

Panel Data Models

Categorical Regression

Grouping and Cluster Analysis



Panel Visualisation – Regular Drawdown Rate





Panel Visualisation – Excess Drawdown Rate



Panel Visualisation – Account Balance (FY Start)

Manual Grouping – Follow Minima

Manual Grouping – Draw 10%

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Manual Grouping - Prefer Level Amount

2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015

Financial Year

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Cluster Analysis - 'Revise Down'

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Cluster Analysis – Minimum Pre-GFC

Account Type — Legacy

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Cluster Analysis – Quickdraw

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General Findings	1		

Table: General Findings

	Regular Drawdown at Minimum Rate	Make Adhoc Drawdowns	Faster Regular Drawdowns	Faster Adhoc Drawdowns
Older	More likely	More likely	Less likely	More likely
Face Higher Minimum Drawdown Rates	More likely	—	More likely	Less likely
Female	—	—	Less likely	—
Larger Account Balance	_	_	Less likely	More likely
Retired Later	—	—	More likely	—

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Behavioural Fin	dings		

Two drawdown 'rules' explain > 75% of sample:

- ▶ 48% used MDR as anchor
- ▶ 28% liked level dollar amounts
 - 35% 'revise down'

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Behavioural Fi	ndings		

Table: Behavioural Findings

	Follow Minimum Drawdown Rates	Draw Level \$ Amounts
Female	More likely	—
Larger Account Balance	More likely	Less likely
Retired Later	More likely	—
Legacy Account	More likely	—

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Implications

Policy

- Gravity of minimum drawdown rates
- Product design
 - Stepped annuities OR better value
- Financial advice
 - Modest annuities + liquid account
- Regulation (Prudential Standards)
 - Financial advice: whose best interests?
 - CIPRs: design and defaults

▶ 35% draw adhoc in sample

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Introduction

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3 Findings

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Summary			

- ► Analysed drawdown behaviour in account-based pensions
- ► Largely heuristic- and/or default-driven behaviour
- Opportunity to extend analysis

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See More			

http://www.apra.gov.au/AboutAPRA/WorkingAtAPRA/ Documents/I%20Balnozan Brian%20Gray 2017.pdf

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Working paper on APRA Website

More on panel data models

Literature review
Technical details

More pretty pictures