

# research snapshot

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## Insurance Providers May Be Making Promises That They Can't Afford to Keep, with the Latest Generation of Retirement Income Products

### What is this research about?

Pension plans provide retirees with a steady income. Defined Benefit (DB) corporate plans usually promise to pay workers a specific monthly amount after they retire. Life annuities, on the other hand, offer a series of payments but require workers to pay a lump sum upfront. As a result of the increase in life expectancy and the recent decline in capital markets and investment returns, some corporations have changed or even frozen their pension plans. The annuities offered by life insurance companies also pose risks. The long-term sustainability of pension plans and other longevity-insured guarantees is a matter of concern to many researchers.

### What did the researchers do?

Researchers at York University looked at DB plans as well as government and insurance company plans, in the form of life annuities. They investigated the risks of different kinds of annuities in the U.S. as well as segregated mutual funds in Canada. They used statistical simulations as well as analytic techniques from probability theory.

### What you need to know:

Corporations, governments, and insurance companies may be underestimating the financial risks of the new generation of personal pension and retirement income products. Insurance providers may not be charging consumers enough, when you consider the long-term guarantees and promises embedded within these products.

### What did the researchers find?

The York researchers found that insurance providers may be under-pricing annuities with the following guarantees:

- Guaranteed Minimum Withdrawal Benefits (GMWBs)
- Guaranteed Minimum Accumulation Benefits (GMABs)
- Guaranteed Minimum Income Benefits (GMIBs)

A lack of proper risk management procedures and strategies may be causing some insurance providers to make promises that they can't afford to keep. These providers may also lack experience in terms of pricing the annuities they offer. Ultimately, under-charging may threaten the long-term sustainability of some insurance companies.

### How can you use this research?

The North American media has already reported the results of this timely research to a wide audience. Financial planners, investment advisors, insurance representatives, and consumers will find the results highly relevant.

### About the Researchers

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### Keywords

Pensions, Actuarial risk, Insurance, Investments, Financial planning

### Knowledge Mobilization at York

York's Knowledge Mobilization Unit provides services for faculty, graduate students, community and government seeking to maximize the impact of academic research and expertise on public policy, social programming, and professional practice. This summary has been supported by the Office of the Vice-President Research and Innovation at York and project funding from SSHRC and CIHR.

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