Discussion of

“A Performance Analysis of Riester Pension Schemes”
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Contribution of the Paper

• Analyzes specific private pension products available in Germany:
  o so called “Riester” (former Secretary of Labor) products
    ▪ deferred, variable annuities with minimum return guarantees
    ▪ with additional direct subsidies from the Government (ignored)
    ▪ and an often complex fee structure (which are carefully modeled)
• Compares two Riester products with an investment in a mutual fund
• Focuses on the distribution of terminal wealth net of fees at the end of the accumulation phase (25 years, annual payments of 1200 Euro)
Properties of the Riester Products and Simulation Results

- Riester fund
  - linked to an investment fund (no investment options)
  - 0% return guarantee before costs if contract is held to maturity
  - Target-date fund features are common: shift to less risky assets during accumulation phase
  - Simulation results: risk-taking investors prefer mutual funds

- Riester life insurance
  - Linked to the insurer’s profit (surplus), usually not very volatile
  - 1.75% (typically) annual return guarantee before costs
  - Simulation results: preferred choice for risk-averse investors
Comments: Institutional Features

• Provide more background about institutional features:
  o Annuitization is compulsory, not obvious from paper
  o Describe tax incentives, direct subsidies, and options (see below)
  o Money’s worth (Mitchell et al., AER, 1999) of the Riester annuities

• Focus on the wealth accumulated at the end of the accumulation phase:
  too narrow to evaluate products:
  o Money’s worth of a Riester deferred annuity may be different from
    the one of an immediate annuity offered by insurance companies
  o Tax incentives and direct subsidies may affect the ranking and should
    not be ignored when comparing products
Comments: Evaluation Framework

- Authors employ mean-variance preferences and power utility (similar to mean-variance assuming log returns are normal) in terminal wealth.
- Household’s decision problem is better described by a life-cycle framework:
  - Household obtains utility from consumption
  - Household receives uninsurable labor income (and may be subject to other background risks like housing and health expenditures)
- There is a large literature investigating the (certainty equivalent) utility gains from access to annuity products in a life-cycle framework, e.g.
  - Brown (J PubE, 2001), Inkmann, Lopes and Michaelides (RFS, 2011)
  - Maurer, Mitchell, Rogalla, Katashov (J RI, forthc.) on deferred variable
Comments: Evaluation Framework (cont’d)

- Life-cycle framework allows for combined analysis of accumulation and decumulation phase.
- Deferred annuities more likely to dominate mutual fund investments (which most likely will not be annuitized) in a life-cycle framework.
- Target-date fund features become more valuable in a life-cycle framework (see Gomes, Kotlikoff, Viceira, AER, 2008).
- Also allows for an account of tax treatments and direct subsidies (similar to Gomes, Michaelides, and Polkovnichenko, RED, 2009).
- Money’s worth of deferred annuities can easily be incorporated.
Comments: Possible (Additional) Contributions

- Possible contributions to the life-cycle literature (maybe another paper):
  - How do minimum return guarantees affect the possible utility gains households receive from access to deferred variable annuities?
  - How do surrender options and fees affect possible utility gains?
  - Riester products also allow withdrawal of wealth for the acquisition of (own) housing. This is an interesting option to investigate given that annuities are frequently criticized for being inflexible.
  - Riester products allow for the annuity to be paid to the spouse if the purchaser dies within an agreed period. Again an interesting option to analyze given the discussion about bequest motives and annuities.
Some Minor Comments

- Is a mutual fund investment the correct benchmark for a comparison given there is no compulsory annuitization?
  - How about alternative government-subsidized pension products like Ruerup or Eichel products (not that I know their details)?
- The Riester life insurance is linked to the insurer’s surplus, which seems to exhibit very low volatility. The difference between the 90\textsuperscript{th} and 10\textsuperscript{th} percentile of terminal wealth is less than 500 Euro. Representative?
- Notation: the “+” and “-” indices are quite confusing and not necessary.
- Maybe use more familiar box-and-whisker plots for Figure 2.