Retirement Income
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In Italy, annuity demand correlates with wealth and education

By Editor Test *Wed, Jun 8, 2011*

Italians were asked: 'Imagine you are 65-years old and will receive an inflation-adjusted pension of €1,000 a month. Would you give up that half of that pension in exchange for an immediate lump sum of €60,000? Of €80,000? Of €100,000?'

In Italy, adults with more years of schooling, who consider themselves in good health, and who have higher incomes are relatively more receptive to purchasing income annuities, according to recent research from the Bank of Italy.

In an April 2011 paper entitled, "What Determines Annuity Demand at Retirement?" Giuseppe Cappelletti, Giovanni Guazzarotti and Pietro Tommasino based their findings on the 2008 results of the Survey of Household Income and Wealth, the bank's biennial survey of the Italian population.

Italians are sensitive to the price of annuities, with sensitivity varying by education wealth and financial literacy. In the survey, heads of Italian households were asked: 'Imagine you are 65-years old and will receive an inflation-adjusted pension of €1,000 a month. Would you give up that half of that pension in exchange for an immediate lump sum of €60,000? Of €80,000? Of €100,000?'

Only 40% of those surveyed said would exchange half the annuity for the lowest lump sum, while 69% would accept the middle sum and 82% would accept the highest sum. Only 64% of those with a primary school education would take the 80,000, while 77% of those with at least a bachelor's degree would. Of those in "very good health," 72% would take 80,000, but only 63% of those in less than good health would.

Among those with a college education, who are also in the highest wealth quartile and evidence the highest level of financial literacy, just 45.3% would give up half the annuity for €100,000, only 17.9% would give it up for €80,000 and a mere 9% would give it up for €60,000.

The Italian market for deferred annuities is strong, but few deferred products are ever annuitized. According to the Bank of Italy, out of 1.94 million deferred annuity products that matured in 2003-2005, only about 11,000 were annuitized. Only about 15,000 annuities were in the payout phase in 2006.

Like many other countries with aging populations, Italy's public retirement program has undergone significant reform in the past few years. People who have entered the retirement system since 1996 have participated in a mandatory defined contribution workplace programs where each person's contribution to personal notional account is 33% of pay, with 22% from the employer and 11% from the employee. The account grows at a rate pegged to the Italian GDP and is converted to a pension as early as age 58 (for those with at least 35 years in the system).