

Recent Trends in Retirement Income Choices at TIAA: Annuity Demand by Defined Contribution Plan Participants

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Key Findings and Policy Implications

The paper analyzes trends and cross-sectional variations in the annuitization and withdrawal decisions of defined contribution plan participants. It also explores two potential explanations for the drop in annuitization rates since 2000: falling nominal interest rates and rising ages of income-claiming. The paper uses administrative data from TIAA, one of the largest defined contribution retirement plan providers in the United States. The study finds that:

- The fraction of first-time retirement income claimants who selected a life-contingent annuitized payout stream dropped from 54% in 2000 to 19% in 2017. Over the same period, there was a sharp increase – from 9% to 58% - in the fraction of retirees making no withdrawals until the age at which they needed to begin required minimum distributions (RMDs).
- Among those who made an initial income selection before age 70, the annuitization rate was higher, and the decline in annuitization rates was more modest, than for those who made this selection at an older age. Those who began drawing income after age 70 were like to withdraw only the amount needed to meet the RMD.
- Nominal interest rates are a key determinant of the payout-per-premium ratio on newly purchased annuities, and annuitization decisions are sensitive to this ratio. The 10-year Treasury interest rate declined by over three percentage points during the sample period, and this likely contributed to declining annuity demand.
- Over the same sample period, the average retirement age of TIAA participants increased by more than 1.5 years, and the average age of first-time income draws rose by nearly five years. Since annuitization is much more likely among those who begin taking income before age 70, later claiming may have also contributed to declining annuity demand since 2000.

With the increasing number of retirees who have accumulated assets in defined contribution plans, understanding the annuitization and withdrawal decisions of participants is important in understanding the broader financial circumstances of Social Security beneficiaries.

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