

» SILVER INDUSTRY CONFERENCE AND EXHIBITION

# Don argues against annuity with refund

It is better to keep the extra money needed to buy such an annuity, says economics Nobel laureate

By JEREMY AU YONG

PEOPLE who fear losing out if they do not live long enough to collect on their annuities are looking at it the wrong way, said Nobel laureate in economics Robert Merton yesterday.

This anxiety is one of the biggest concerns that has emerged since the Government proposed compulsory annuities last year.

As a result, Manpower Minister Ng Eng Hen said last month the Government would consider a scheme that returns the remainder of the capital payment to an annuity holder's family if he died before it ran out.

But the Harvard Business School professor argued against such annuities yesterday in his keynote address at the Silver Industry Conference and Exhibition (SICEX).

To make his point, he drew a comparison between such a plan and a lottery ticket.

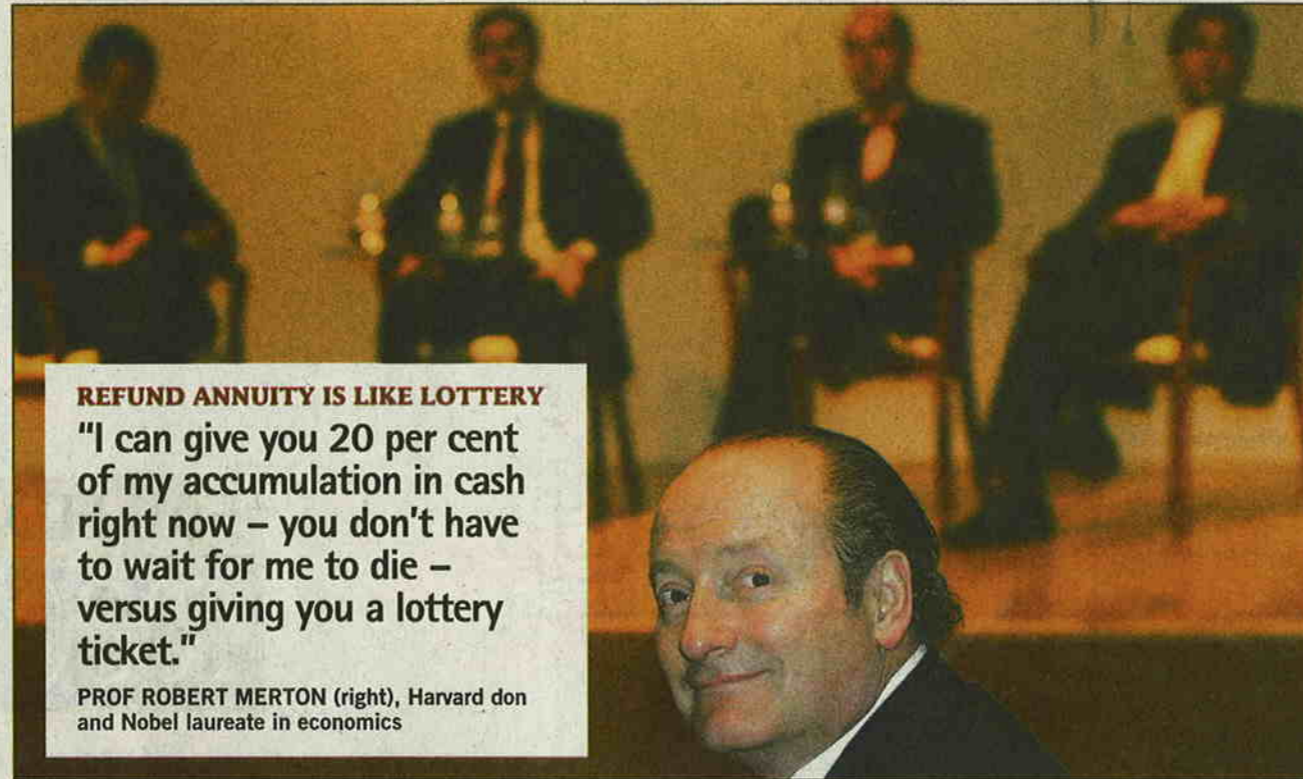
To illustrate, he painted a scenario of two annuity plans with the same payout for the retiree – but one with a provision that allows a refund.

He estimated that the difference in the cost of the two would be about 20 per cent.

"I say to my beneficiary, these are your choices: I can give you 20 per cent of my accumulation in cash right now – you don't have to wait for me to die – versus giving you a lottery ticket.

"The lottery ticket is you may get a bunch of money, I don't know how much, tomorrow, a year from now, or 30 years from now, or not at all," he said.

Having thrown up a stark example



## REFUND ANNUITY IS LIKE LOTTERY

"I can give you 20 per cent of my accumulation in cash right now – you don't have to wait for me to die – versus giving you a lottery ticket."

PROF ROBERT MERTON (right), Harvard don and Nobel laureate in economics

in support of annuity, he said poor marketing was partly to blame for its bad reputation.

Said Professor Merton: "One needs to find simple messages to convey what the annuity does and does not do."

Keeping things simple was a key message of his 40-minute speech.

He urged those providing retirement plans to put the clear choices to people, instead of asking "how much Thai real estate they want to hold in their portfolio" or "what standard deviation versus expected return they want".

Making this easy for the consumer though, he said, meant a lot of work for the provider.

"It's almost like a ballerina. If she's

up on stage, she is trying to make all her moves as if it were effortless, but if you watch closely, she's killing herself," he said.

But those that manage to make it easy have a lot to gain.

"Because it involves more complexity, more skills, if you are good at what you do, you'll protect your margins and your technology because they are not easily replicated," he said.

But in the current complicated market, he said jokingly: "I can run an advisory service for mutual funds out of my garage. All I have to do in the US is to pass an exam."

Prof Merton is well versed in the field of retirement planning, not just because he is aged 63, but also be-

cause he is the chief science officer of the Trinum Group, a company that has helped multinationals such as electronics giant Philips design employee retirement schemes.

While he would not be drawn on whether he would support compulsory annuities, he repeated points he made during his last visit here in October, giving a ringing endorsement for such products.

The annuity, he said, should be the centrepiece of a retirement plan.

"If we are going to achieve the standard of living in retirement people want, with peace of mind, minimising the risks that have to be borne, then what we have to do is to address longevity," he said.

jeremyau@sph.com.sg

## Singapore has an edge in growing silver industry, say experts

SINGAPORE is a good launchpad for the silver industry.

This endorsement came from three industry experts at the Silver Industry Conference and Exhibition (SICEX) yesterday.

Dr Joseph Coughlin, founder and director of the Agelab in the Massachusetts Institute of Technology said that the high standard of living here made the country a good example for active ageing.

"Ageing is about extended quality of life," he said. "In that sense, Singapore could be a living laboratory for the rest of the world to understand how longevity could be good living, not just longer living."

Mr Paul Hancock, Prudential Asia's head of pensions, in turn, told a story in his speech on how his insurance company chose Singapore out of a list of 12 countries as a place to launch a new financial product.

The reason: the legislative framework.

"The legislation framework is good and predictable and that is something Singapore offers which is superior within the region," he said.

Perhaps the most fulsome praise came from Prof Robert Merton, a Nobel laureate in economics, who devoted a chunk of his keynote address to Singapore's strategic advantage.

One feature he highlighted was the country's good reputation.

"You're asking people to entrust that for a given annuity, to trust all their wealth to you, to take care of them for the next 30 years on a contractual basis. That's a huge bet. Everything that is offered will depend critically on reputational capital. Singapore has reputational capital," he said.

Responding to Prof Merton's remarks, Minister in the Prime Minister's Office Lim Boon Heng, who was guest of honour at the conference said: "As somebody looking at us from outside, he has seen a number of strengths that we have and I think these are valid strengths, and Singapore should make use of these strengths to develop the silver industry so businesses can tap the silver market."

JEREMY AU YONG