

Application 2

SETTING AN ANNUITISATION DEFAULT

Legislation will likely require boards of trustees to select a default option for fund members who annuitise their fund credit at retirement. This default could be offered within the fund or outside the fund; it could be a life annuity or a living annuity. Unfortunately, research shows that no single default is likely to meet the needs of the majority of any fund's population¹².

What makes this particularly challenging is that **funds will have to set a default and individuals are likely to take this as advice**¹³. For this reason, trustees will need an explicit strategy to engage individuals in

the decision of choosing a default. This could include providing advice, providing simple engagement tools that direct them to choose smart defaults or providing just-in-time education to help them make the decisions themselves. We discuss communication techniques in **Part 2, Chapter 7**.

Trustees need to consider what types of annuities to offer as well as how to provide the appropriate advice to support decision making. In keeping with our framework, some of the key steps involved will be:



¹² Butler, Hu and Kloppers (2012)

¹³ Brochetti, Dee, Huffman and Magenheim (2011)