EIOPA-BoS-14/193
27 October 2014

EIOPA's Fact Finding Report on Decumulation Phase Practices

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1. Introduction

1.1. List of countries and applicable EU laws

MS abbreviation	MS
AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
GR	Greece
HR	Croatia
HU	Hungary
IE	Ireland
IS	Iceland
IT	Italy
LI	Liechtenstein
LT	Lithuania
LU (CAA)	Luxembourg, Commissariat aux Assurances
LU (CSSF)	Luxembourg, Commission de Surveillance du Secteur Financier
LV	Latvia
MT	Malta
NL	Netherlands
NO	Norway
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI (ISA)	Slovenia, Insurance Supervision Agency
SI (SMA)	Slovenia, Securities Market Agency
SK	Slovakia
UK	United Kingdom

[IORP] Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision.

[IORP art.4] Regulation applicable to occupational-retirement-provision business of insurance undertakings under art.4 of the IORP Directive.

[LAD] Directive 2002/83/EC of the European Parliament and of the Council - current rules (Solvency I); the result of the "Solvency I" revision of the rules – will remain in force until 1 January 2016

Future rules (Solvency II / Omnibus II)

Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

[UCITS] Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

[CRD] CRD IV package: Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC relating to the taking up and pursuit of the business of credit institutions and 2006/49/EC on the capital adequacy of investment firms and credit institutions;

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

[SSR] Regulation (EC) No 883/2004 of the European Parliament and of the Council of 29 April 2004 on the coordination of social security systems.

[NEL] No applicable EU prudential law, possibly with the exception of Directive 2008/94/EC of the European Parliament and of the Council of 22 October 2008 on the protection of employees in the event of the insolvency of their employer (e.g. the case of book reserves).

1.2. Background

Decumulation phase is the phase in the lifecycle of pension scheme or product when accumulated benefits start to be drawn. There have been two drivers for the project on the decumulation phase.

Firstly, many Central and East European (CEE) countries need to introduce legislation on annuities in respect of their 1st Pillar bis schemes and would benefit from an investigation on how the decumulation phase of pension arrangements around Europe is regulated and organised.

Secondly, EIOPA's report of 2013 on Good practices on information provision for DC schemes[1] highlighted the need to provide scheme members in DC schemes

[1] https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/reports/Report_Good_Practices_Info_for_DC_schemes.pdf

with clear, understandable and user friendly information about options for drawing their benefits from a pension scheme, such as lump sums, programmed withdrawals, annuities, etc. The disclosure of costs to members and transparency could also be explored together with the options available in different Member States.

The decumulation phase is normally a separate phase for DC schemes. DB schemes have the decumulation phase incorporated within the scheme itself, but there may also be some options for members available at the point of retirement.

1.3. Scope

The report focuses on current rules, practices, approaches and options available to members at the decumulation phase of IORPs[2], both DB and DC in various Member States. Some Member States have also provided, on a voluntary basis, information on practices in non-IORPs.

The starting point for the project has been EIOPA's Database of Pension Plans and Products in EEA.

The work has been carried out by a dedicated OPC sub-group, which prepared a survey about decumulation arrangements and different rules, approaches and practices in Member States, with the following main topics:

- Start of the decumulation phase (circumstances of retirement);
- Information disclosure rules at decumulation;
- Cost and charges levied on pension benefit payments and their disclosure;
- Options available to members at retirement including tax treatment;
- Types of annuities offered to members.

The survey explored all different types of occupational pension schemes provided by IORPs and the decumulation phase options that they are permitted to offer to members. NCAs have also been asked to provide information on a voluntary basis on other pension products/schemes/providers listed in EIOPA's Database of Pension Plans and Products in EEA.

1.4. Responding countries

On 6 February 2014 the questionnaire was sent to 31 EIOPA members and observers[3]. Replies were received from 30 countries: Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary,

[2] Including Article 4 IORPs -insurance undertakings
[3] I.e.: to national competent authorities representing 31 countries.

Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg (Commission de Surveillance du Secteur Financier - CSSF), Malta, The Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom. 22 Member States (AT, BE, DK, EE ES, FR, HR, HU, IE, IS, IT, LI, LT, MT, NL, NO, PL, PT, RO, SE, SI, SK) provided information on decumulation phase practices also for non-IORPs on a voluntary basis.

The Czech Republic did not reply to the questionnaire.

Estonia, Iceland and Lithuania responded that there are currently no IORPs in their countries but provided information based on their current legislation. Iceland replied to the questionnaire only for non-IORP products and all references concerning Iceland in this report refer to non-IORP only.

In Romania there are no formal IORPs but individual pension funds operating under IORP Directive as informal reference by national legislation. In this report personal pension funds are regarded as providers that fall under IORP Directive.

Some responding countries that are taken into account in this report often included some remarks, comments or made certain qualifications when answering to the questions in the survey. These are reproduced in this report when necessary in order to explain in detail some of the findings. Otherwise, this report provides an overview of the survey's main results.

<u>Context of findings</u>

The findings stated in this report reflect the situation as of October 2014.

In addition to IORPs to which the IORP Directive is applicable, all possibilities mentioned in the report refer to pension products/schemes/providers regulated by LAD, UCITS, CRD, SSR or NEL.

2. Start of the decumulation phase (circumstances of retirement)

2.1. General remarks

This chapter focuses specifically on:

- normal retirement age
- options for an early decumulation (including misfortunes such as disability or death)
- options of delaying retirement and
- options to continue working in retirement.

Most answers provided by Member States (MS) on those topics apply to both IORP and non-IORP institutions. The reason may be for those MS that provided answers for both IORPs and non IORPs that mostly the legal and/or fiscal framework confines what is allowed or not, without differentiation between types of pension providers and/or products/schemes. As a result, this chapter primarily describes the policy and practices concerning IORPs. In case there are some remarkable differences within non-IORPs they have been reflected in the text.

2.2. Ranges of retirement ages or dates

In general, the first pillar pension scheme is a state supplied pay-as-you-go scheme. The basic provision of this first pillar system can be supplemented by funded 1st pillar bis and/or occupational pension schemes and/or other personal pensions. In IORPs Member States generally apply a 'normal' retirement age determined by the retirement age specified in the first pillar. For the supplementing pension schemes (non-IORPs) this age mostly serves as the target retirement date as well.

Specific arrangements in supplementing pension schemes may offer flexibility to members. An important and appreciated type of this flexibility is the option of an earlier retirement than the 'normal' age mentioned above. The fiscal system will not always support an early retirement; at least not that much as it does with the 'normal' retirement age (and may even discourage early retirement). Members, who opt for an early retirement, may temporarily face a less favourable tax treatment than in case of the regular retirement. For that reason, schemes may temporarily offer higher benefits to tackle this inconvenience (of higher personal taxes) at the cost of lower retirement benefits afterwards. This reallocation during the pay-out phase will generally be based on an actuarially neutral recalculation. Table 1 highlights the retirement starting date flexibility that the occupational pension schemes may and can offer.

Table 1: Retirement ages

MS	Age when a member can start decumulation		Is 'normal'retirement agealigned with 1st pillar pension age?	Is an early retirement possible?
	Minimum	Normal	IORP	IORP
AT	50	60	No	No
BE	60	65 (see text)	No	Yes
BG	55	60	No	Yes
CY	45 (see text)	64 (see text)	Yes	Yes
DE	Depends on plan rules	65 [67]; (see text)	Yes	Yes (plan rules)
DK	60-62	65	Yes	Yes
EE	No connection with age	No limit to the latest age	No	Yes
ES	"Ordinary age of retirement"	"Ordinary age of retirement"	No	Yes
FI	Depends on plan rules	63-68	Yes	No (in general)
FR	62	67	Yes	No (in general)[1]
GR	No connection with age	Latest at age 67-(mandatory funds)	Yes	Yes
HR	50	61(F)/65(M)	No	No
HU	62	62-65	Yes	Yes
IE	50	60	No	No
IS	60	67	Yes	
IT	subject to certain contions	66[2]	Yes	Yes
LI	60	64	Yes	Yes
LT	60	65	Yes (65)	Yes[3]
LU	50[4]	65	No	Yes
LV	55	65	No	Yes, for specified occupations
MT	50	60 [65][5]	No	No
NL	55	67	Yes (not obliged)	Yes
NO	62	67[6]	Yes	Possible for predefined occupations
PL	55	67[7]	No[8]	Yes
PT	55	66	Yes (not obliged)	Yes
RO	60	60	No	No
SK	60	62	Yes	Yes
SI	58 [60]	62(F)/64(M) [65]	Yes	Yes
SE	55	65	Yes	No
UK	55	65[9]	No	Yes

[]: Between brackets is the retirement age in the near future due to the end of transitional period usually in progressive steps.

[1] FR: Yes: in the case of the end of unemployment benefit, excessive debt, death of the spouse is possible to receive some kind of retirement benefit before regular retirement.

[2] IT: Normal age is indexed to life expectancy. For employed workers of the private sector, normal retirement age is slightly lower, but will be aligned to that of men by 2018.

[3] LT: In the case of supplementary voluntary pension schemes and life assurance contracts providing cover against biometric risks and/or guarantee either an investment performance or a given level of benefits (non-IORPs), such early benefits are not possible.

[4] LU: According to the Social & Labor Law, where a scheme member leaves the undertaking before the retirement age, he may request to cash his vested rights under the following circumstances: (1) a) where the

scheme member joins an undertaking whose head office is located outside Luxembourg; b) where the scheme member is aged 50 or more upon leaving the undertaking; c) where the retirement benefits are paid as annuities and the amount of those annuities do not exceed one tenth of the minimum monthly social salary for a non-qualified worker aged 18 or more, d) where the retirement benefits are paid as lump sum capital and that lump sum capital does not exceed one tenth of the minimum monthly social salary for a non-qualified worker aged 18 or more. (2) Where a scheme member leaves the undertaking before retirement, the undertaking may decide to pay him the cash value of his vested rights without his prior consent in the cases referred under c) and d) of paragraph (1) above. (3) In all cases, the scheme member shall receive a lump sum capital corresponding to the present value of his vested rights and obligations under the pension scheme.

[5] MT: Dependent on birth date normal retirement age may be gradually earlier.

[6] NO: The default age of retirement is 67, but the member can choose to select 75 as the latest age.

[7] PL: Currently (from the beginning of the year 2013) in Poland there is a transitional period with regard to 1st pillar retirement age. The said age is constantly rising month by month and finally will be 67 both for men (from 2020) and for women (from 2040). Before the reform (up to the end of the year 2012), retirement age was: 60 for women and 65 for men.

[8] PL: Due to gradual increase of retirement age for 1st pillar, it is only the case in early retirement.

[9] UK: Normal depends on individual schemes but is commonly 65. This is not the same as age, which is currently between 62 and 68 (depending on date of birth and whether someone is male or female). However, some schemes choose to link their normal retirement date.

The age of retirement appears to differ more or less among MS and in many cases it depends on the specific rules of the pension scheme. Nevertheless, the general age when decumulation starts is mostly within the boundaries of age 50 to age 70. The 'normal' age as referred to above is mostly within the span of ages 60 to 65, with policy measures in an increasing number of MS rising towards 67. The retirement age in some countries is also dependent on years of service. For early retirees usually there are tax obstacles, at least missing tax advantages, tied to the normal retirement age.

For IORPs in half of the responding MS (15) the age of retirement is not connected with the 1st pillar system (AT, BE, BG, EE, ES, HR, IE, LU, LV, MT, NL, PL, PT, RO, UK). However, in NL, for instance, this is market practice, however not legally obliged whereas in PT the retirement age tends to be aligned with the 1st pillar pension system because of tax rules.

In IE there is no mandatory alignment, although scheme rules may be aligned whereas in PL currently there is no alignment with 1st pillar system because the regular retirement age is constantly rising.

In the remaining 15 MS (CY, DE, DK, FI, FR, GR, HU, IS, IT, LI, LT, SI, NO, SE, SK) the retirement age is linked to the 1st pillar system.

In BE, according to the coalition agreement of the government, the normal retirement age for the 1st pillar system will be raised from 65 to 66 as from 2025 and to 67 as from 2030. As a consequence, even there is no mandatory link between 1st and 2nd pillar, it may be expected that pension schemes will raise the normal retirement age in the future.

In DE the retirement age depends on the plan rules of the IORPs which usually allow for an early retirement if a member is eligible under the social security pension scheme for early retirement. The minimum retirement age in the social security pension scheme is 63. For members born after 1948, the normal retirement age will be increased from 65 to 67 in progressive steps, starting in 2012. For members born after 1963, the retirement age is 67.

In CY for members of provident funds (IORPs) the age at which the decumulation phase starts is specified in their pension scheme rules and since there is no specific restriction by law it may start at any age that the majority of members decide themselves. In practice, for the majority of provident funds the average range of age that the decumulation phase starts is between 63 to 65 (which is aligned with the 1st pillar pension system retirement age). Regarding the earliest age possible for the start of the decumulation phase it is important to clarify that members of provident funds are allowed to receive their benefit upon termination of employment (regardless of their age); therefore there is no actual age limit for decumulation in this case. The age that the decumulation phase starts for members of pension funds is specified in their pension scheme rules and it is different for a lump sum payment and for an annuity. However, for both a gradual raise (by a half year in each year up to 2022) will be applied (lump sum from 45 towards 50 and annuity from 55 towards 60). Nevertheless, the legislation on pension funds in CY also establishes the latest age (64 in 2014) when the decumulation can begin.

One may notice that especially in MS where 1st pillar bis pension plans/products are offered a direct connection between 1st pillar bis with the 1st pillar retirement age may be expected. However, due to gradual increases in the retirement ages in the 1st pillar, this link may be broken.

Starting decumulation earlier is mostly possible in majority of MS; exceptions are AT, FI, HR, MT, RO and SE. Notably voluntary occupational pension plans offered by IORPs may offer this possibility. An early retirement benefit possibility is offered in more than two thirds (2/3) of MS in case of occupational pension schemes provided by IORPs. It is also common that plan rules stipulate conditions and additional requirements for early retirement benefit.

Some MS stipulate specific conditions to receive some kind of retirement benefit before normal retirement age which are usually connected with a financial situation of a member (an early withdrawal) e.g.: end of unemployment benefit, or a death of a spouse or an excessive debt. In IT, the start of the decumulation phase for supplementary pension plans (IORPs and non-IORPs) is linked to the retirement age in the 1st pillar. However, it may be accelerated by 5 years in case of disability or unemployment.

In IS for mutual insurance division guaranteed by the state and municipalities an early retirement is possible when the age of a member plus consecutive life time career reaches 95 years. In SK early retirement benefit is possible in case of IORPs, where a member can receive a lump sum corresponding to the net value of accumulated savings. In order to discourage members from taking lump sums, contributions paid by employer are not paid out.

Non-IORPs:

Considering that responses for non-IORPs were provided on a voluntary basis, conclusions on retirement ages for non-IORPs are more limited. 10 MS (DK, EE, FR, HR, IS, IT, LI, LT, NO, RO) indicated that the retirement age is aligned with 1st pillar pension age.

11 MS allow for an early retirement in case of non-IORPs: BE, DK, ES, FR, HR, IS, IT, LT, NL, PL and PT.

2.3. Disability

Majority (21) of MS (AT, CY, DE, DK, EE, ES, FI, FR, GR, HU, IE, IT, LT, LV, MT, NO, PT, RO, SI, SK, UK) allow for the possibility of an early retirement due to disability in case of pension schemes provided by IORPs. This option is often connected with additional requirements (level of disability) and other conditions for disability benefit under the first pillar pension system. Generally, the retiree has to provide some sort of a medical certification prior to becoming eligible for a disability benefit.

For those MS that provided information on non-IORPs the rules are usually the same, with a few exceptions where disability retirement is a possibility for IORPs but not for non-IORPs (e.g. LT, SK). 14 MS (AT, EE, ES, FR, HR, IE, IS, LT, MT, NO, PT, RO, SI, UK) permit an early retirement benefit due to disability in case of non-IORPs where also further requirements, often connected with 1st pillar conditions, are in place.

2.4. Death before decumulation

In case of death before the decumulation phase began, in most MS, usually the beneficiaries (specified or non-specified survivors or heirs) will receive benefits, either in the form of a lump sum or an annuity or the conveyance of the accumulated assets. Arrangements may differ according to specific agreements in the pension contracts or scheme rules. Whether the provider is an IORP or not does not seem to make a difference. In case of not having any beneficiaries appointed or any other heirs, usually the assets are considered as an income to the pension scheme or pension plan/product of the deceased, so capital turns into an actuarial gain for the pension provider.

In many MS benefits payable in case of a member’s death are specified in the contract (DK, ES, HR) or in the scheme rules (BE, CY, DE, FI, IE, NL, LI, LV, PT, UK).

There are several products/plans in FR and a few in NO where there is no benefit paid in case of an early death of a member.

In the UK most schemes provide some benefits on members' early death but the benefits provided will depend on the type of pension and, where retirement benefits have been taken, the product(s) used to provide these benefits:

For DC pensions that have not yet been used to purchase an annuity, this is generally in the form of a lump sum paid upon the event of death, although beneficiaries may be able to choose an alternative option.

- For DB pensions prior to retirement it is likely to provide specified spouse's or dependants' benefits, which is typically a lump sum and/or an ongoing income which is a percentage of the member's pension entitlement.
- Where an annuity is in payment, or income is being paid from a DB scheme, the spouse's or dependants' benefits will depend on whether the member or scheme has chosen to include these.

Some schemes contain specific arrangements concerning funeral costs allowances (e.g. FI, DE). In DE, in the event of death, Pensionskassen may only provide benefits to surviving dependents though a death grant, which may not exceed standard funeral costs, may be included for third parties who have to bear the costs of a funeral. In the case of Pensionsfonds benefits may be provided to surviving dependents.

In case of 1st pillar bis scheme in HR, the assets of the deceased member are under certain conditions[4] transferred to the 1st pillar.

2.5. Delaying decumulation: options and consequences

In most MS we see a gradual increase of the target retirement date; the same holds for the starting date of the range of retirement options (but these options are generally part of the specific pension agreement).

The first question to ask is whether it is possible for members to delay decumulation at all. With the exception of MT, PT and RO, members may generally delay decumulation in most of the pension schemes available. In BE,

[4] HR-1: If a mandatory fund member dies without becoming entitled to a pension benefit in accordance with Mandatory Fund Law (1st pillar bis) and the members of his/her family are entitled to a survivors' benefit in accordance with the Pension Insurance Law (1 pillar), the total capitalized assets standing to the account of that member shall be transferred by the mandatory fund to the Croatian Institute of Pension Insurance which will determine a survivors' pension, as if the deceased insured person had been only insured in the 1st pillar. This is not applicable if a deceased member of mandatory fund was more than 55 years old at the moment of death, and if he had been the member of mandatory fund for more than 10 years, and if the monthly sum of survivors' pension based on the total capitalized assets of the deceased member of a mandatory pension fund and granted to the family members under the pension insurance company's scheme, increased by the sum of basic disability pension, would exceed the monthly sum of survivors' pension determined in accordance with Pension Insurance Law. In that case the total capitalized assets standing to the account of the deceased mandatory fund member shall be transferred to the pension insurance company chosen by the family members which would provide to them permanent monthly survivors' pension benefits under its scheme.

delay of decumulation in practice only happens when a member stays in service after the normal retirement age. In CY[5], delay is not possible for pension funds; for provident funds delay of decumulation is possible when stated explicitly in the fund rules, but it is not very common.

The pension laws in most MS do not block decumulation delay, but it depends on specific scheme rules whether it is a recommended option or not (e.g. LU). In DE, members of IORPs can delay decumulation if it is possible according to the pension plan and general contract conditions. In FR, it is possible to delay decumulation but an employer is also allowed under certain strict conditions to force an employee to retire provided that an employee is at least 70. Sometimes (IE, NL) a specific ultimate age limit is denoted (75). In general though, it is not particularly common for a member to delay the decumulation phase.

It is quite logical to assume that delayed decumulation is likely to affect the benefit payable, since the extension of a member's participation in the IORP may result in additional months/years of contributions and hopefully additional returns on investments. Of course, delay also implies a double-edged sword: more years of accumulation will generally imply fewer years of (expected) decumulation, resulting in higher yearly retirement benefits; on the other hand value of assets may also drop causing lower benefits. Therefore, in general, delaying the pay-out phase indirectly affects the benefit to be received, if the core mechanisms of the pension schemes remain active.

This 'DC logic' holds also for DB schemes but in a slightly different way. Here depending on the benefits promised delaying retirement will lead to higher benefits because (i) annual accrual continues until the new retirement date and (ii) the already accrued benefits will be actuarially recalculated to take into account the later retirement date.

In IE benefits amount depends on a number of years a member has been an active member of the occupational pension scheme. If the total service exceeds 40 years, each year in excess of 40, with a limit of 5 years, may earn a further $1/60^{th}$ of a final remuneration and the max benefit then becomes $45/60^{th}$ of the final remuneration at the actual date of retirement.

In LT delaying the decumulation phase does not affect the benefit amount. In LV only fluctuations of financial markets affect the accrued capital.

A little bit more complicated situation arises if it is possible to receive pension benefits and continue working with the same or with an alternative employer after starting decumulation. In some MS this is not a possibility (RO, SI and SK), while in most it is. Again, there are no specific differences between IORPs or other provider types.

[5] CY: Provident funds and pension funds are IORPs in CY.

In FR some constraints apply, specifically a member cannot return to work with the same employer for at least 6 months after the start of the pay-out phase. In principle, however, it is mandatory to stop any kind of professional activity except if this activity is related to a system other than the system for employees (for example a self-employed system). Under exceptional circumstances, it is possible to receive pension benefits while continue working. These exceptions are regulated either by law or by the administration practice.

A related question is whether it is also possible for members to contribute into the same arrangement from which the payment of an annuity has started in order to increase the amount of that annuity later or to constitute a lump sum. Here in most countries this is not a possibility. However, for some pension schemes in some MS it is allowed: DK, HR, IS (but not for civil servants), NL, FR, LV, MT and SE.

The final option for flexibility in delaying the decumulation phase is to transform a part of the accumulated capital into an annuity, while in the same time continue paying contributions to the same arrangement in order to buy additional (separate) annuities from it later. Only in DK[6], MT and the UK (if stated in the scheme rules) this is an allowed option.

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[6] DK is an example of a MS offering this flexibility; however, some restrictions apply. "The ability to postpone an occupational or personal pension depends on the specific scheme:

- Life annuity: an annuity is usually for life, but can also be paid out over a shorter span of years, for example ten years. There are restrictions on the latest date for start of pay out which varies from 75 to 82. However, in some occupational pensions, there is an age annuity/pension for life that stipulates the age of 70 as the starting point.
- An instalment: earliest time for pay-out is five years from the date that the agreement has been entered into. An instalment is paid out over 10 to 25 years and must start at the latest when you are between 75 and 77 years. The last pay-out is then when you are between 85 and 87 years. You can always convert an instalment into an annuity/pension for life.
- Capital pension/lump sum: you must have your capital pension paid out when you are between 75 and 77. You can always convert a capital pension to an annuity.

3. Information disclosure rules at decumulation

3.1. General remarks

The main aim of information disclosure to members approaching or in retirement should be to help members better understand the decumulation phase. Good disclosure should also engage members and encourage a positive attitude towards their retirement. Ideally, all information will take members through a journey of understanding retirement, understanding different ways of taking their retirement income and understanding how to buy annuities where applicable.

Depending on the benefits promised some information elements on this journey may be unclear to scheme members and those acting on their behalf. Where this is the case, it can be more difficult for members to make an informed choice about how to take their retirement income, if they have a choice. Different MS have different ways of handling this problem, if it is relevant in the MS. For example, in some jurisdictions IORPs providing DC pension schemes are required to give members access to specialists, whilst in others there are incentives to shop around so that members are directed straight to the best sources of support. The differences between pension promises, such as DB or DC, have to be borne in mind when considering this topic.

3.2. Information that pension providers are required to send to members approaching retirement

<u>IORPs</u>

In the majority of countries (AT, BE, DK, FI, HU, IE, LI, LT, LU, LV, NL, NO, PL, PT, SE, UK), special information disclosure rules apply at, or a few months before, retirement.

Ten countries (BG, CY, DE, ES, FR, GR, HR, SK, SE, SI) use the same information disclosure rules for members approaching retirement or at retirement and other members i.e. they do not have additional information disclosure rules at or prior retirement in place. These countries either reported that they require providers to send their annual information to members or they reported that the same disclosure rules apply for all members.

Seven countries (CY, DE, DK, LV, MT, PT, SI) reported that IORPs provide additional information when requested by members.

Even where there are specific disclosure requirements for the decumulation phase, these requirements differ between countries. However, annual statements, information on the types of benefits and the possibilities of payouts, if available, are common features in most of the reporting countries.

Information[7] to be disclosed in GR includes the member's expected level of benefits, how these benefits are financed and the level of benefits in the event of termination of employment.

In IE the information provided to members in retirement contains the amount of benefit payable and its method of calculation, conditions attached to the continued payment and the provisions for alteration as well as the risk statement.

In NL in addition to information about the amount of the old age pension, including the widows pension if included in the scheme, as well as information about indexation that has to be provided in a timely manner (supervisory advice is at least 6 months before retirement), IORPs must also provide yearly overview of the pensions paid.

The information provider also varies between reporting countries. In general, the IORP provides the information to its members and beneficiaries. However, in PL the requirement to inform members of an occupational pension fund is mainly the responsibility of an employer.

Information requirements may also differ depending on if and what options members have at retirement. For instance, in some countries (IT, UK, SI, NL-DC) members are given the option of selecting an annuity from an insurance company of their choice other than the one they saved with. In the UK, pension scheme members will be entitled to receive free guidance on their retirement options from April 2015. Pension schemes and providers will have to signpost this 'guidance guarantee' to members as part of their pre-retirement communications.

In IT, an information document about the decumulation phase of the scheme (Documento sulle Rendite) is made available by the IORP during all the participation to the pension scheme. When approaching retirement, a member is asked to choose between a lump sum and an annuity. In the first case, he/she will receive specific information by an IORP. In case of requesting an annuity, the provider chosen typically provides information on the retirement income. Moreover, in IT members can monitor their accumulated capital and their expected retirement benefits throughout the entire accumulation phase by means of the Personalized Pension Projections (Progetto Esemplificativo Personalizzato) that pension funds are required to send them annually.

[7] In GR funds are required to inform members for economic, technical and other parameters of insurance partnership, for their rights and obligations to fund and indicative for changes to legal requirements, for the expected level of benefits, the actual financing of benefits and for the level of benefits in the event of termination of employment. Funds in GR are required to inform members at least annually, with fund's expenses, for paid contributions and their rights for benefits.

Non IORPs

Countries that provided information for non-IORPs either require the same type of information as for IORPs or have no obligation to send information to members, but it is good market practice to do so (e.g. MT). Many MS (BE, DK, ES, FR, HR, HU, IS, IT, LI, LT, NL, NO, PL, PT, SK, SE, UK) have information disclosure rules in place.

As with IORPs, information disclosure varies between countries also with non-IORPs. In EE information disclosure rules are on a contractual basis and in ES compulsory information about profitability, inversions, value of the acquired rights, options for collecting benefits and others have to be disclosed to members annually, semiannually and quarterly.

In DK, information requirements are split into 3 different areas: (i) information when entering an agreement, (ii) information during the maturity of the agreement and in connection with amendments, (iii) information in annual statements where policyholders must receive an annual report with information on the amount of benefits and bonus if any, the total annual return, the cash surrender value and minor amendments to the policy. This is in order to protect customers, to increase transparency and with reference to the work on targeting and "layering" customer information.

3.3. When to send information to members approaching retirement

There are countries with specific rules regarding when to send information to members approaching retirement. In some cases, information must be provided well in advance of approaching retirement age. For instance in BE, a member has to be informed every five years from the age of 45 about the amount of the expected annuity he will receive at the age of 65.

In IE, the information must be provided as soon as practicable and in any event within 2 months after the benefit become payable. In other countries, such as SE, the information is usually sent out 3 to 4 months before retirement whilst in NL it is 6 months before the retirement date.

In the UK, trustees of DC IORPs should send a 'wake-up' letter including prescribed information[8] 4 months prior to retirement. In addition, DC schemes with lifestyling must provide information about the beginning of de-risking of investments in the run-up to retirement i.e. 5 to 15 years prior to retirement.

[8]UK DC: The compulsory information are (i) a statement that the member is able to select an annuity, (ii) a statement that the member is able to select the annuity provider (where that applies under the scheme rules), (iii) a statement that different annuities have different features and different rates of payment and giving some examples of the different types of annuity that are available, including level annuities and increasing annuities, single life and joint life annuities, annuities with or without guarantee periods; (iv) a statement that the member should consider taking advice on the most suitable annuities for their needs.

Open pension funds (SSR; non-IORP) in PL and HU are obliged to start sending members information about starting transferring funds accumulated 10 years before reaching retirement age (PL) or about the annuity expected to be paid 15 years before reaching old age retirement age (HU[9]).

3.4. Conditional information - timing and frequency of disclosure

Conditional information is information that has to be provided to members and/or beneficiaries when certain conditions are fulfilled.

Nine MS (BE, FR, IE, IT, LV, NL, NO, PL, UK) have declared that conditional information is required from IORPs in some circumstances. The other countries either do not require conditional information, did not respond to the question or do not have IORPs.

In IE, where a benefit already in payment is altered the trustees must provide the payee with a statement of the amount of the revised benefit, and if the benefit has been increased, a statement of any conditions applying to the continuation of that increase. In NO, members must be informed if there is any benefit reduction related to the risk regarding chosen pension commencement age (Foretakspensjonsordninger) or the effects and consequences of transforming the pension capital to an annuity (Innskuddspensjons-ordninger).

As with mandatory information, timing of conditional information varies between countries. In BE timing of information disclosure is two months before retirement or within two weeks after the institution has been informed about early retirement. In the UK, schemes must explain the advantages and disadvantages of lifestyling 5 to 15 years before retirement.

3.5. Disclosure of voluntary information

In some countries IORPs typically disclose at least some information on a voluntary basis (HU, IE, IS, IT, LV, NL, NO, SI, UK). Voluntary information differs between countries but examples given include information about flexibility, for instance on partial retirement (NL) the amount of annual retirement income to start from a specified age (NO) and technical information on how to switch to decumulation and other options available (LV).

For UK DC schemes, good practice and regulatory guidance leads schemes to provide information in a phased manner throughout the member’s lifecycle to prepare members for the decisions they need to make at retirement. The communications are expected to take members on a journey to understand retirement (e.g. consider their overall circumstances and lifestyle plans, the

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[9] In HU the account statement sent to the member shall include inter alia the amount of annuity expected to be paid to the member upon his retirement, provided the member joined the private pension fund more than 15 years before will reach the old age retirement age applicable to him within 15 years.

different ways to take retirement income and the practical steps the member needs to take (e.g. how to shop around and the free resources that are available, including the government's Money Advice Service website).

3.6. Availability of a comparison tool/central quotation system

The vast majority of MS do not have comparison tools or a central quotation system available to allow members of IORPs or non-IORPs to compare between different benefit payment options or between different types of annuity. The exceptions are DK, EE, NL, NO, SE and UK, which have websites, or online tools that provide information on pension schemes and pension benefit payment, or offer an overview about the national pension system.

In **DK**, the available comparison tools are provided by the Danish Insurance Association, as part of the initiatives related to its strategy on openness and transparency.

Firstly, PensionsInfo is an online portal which allows consumers to access and get an overview of all of their pensions and associated life insurance entitlements from all of the providers, including public pensions.

Additionally, all pension providers are required to have a calculator on their website which allows consumers to calculate their expected future annual pension costs.[10]

Consumers and other interested stakeholders, such as journalists, can also use a specific website to compare the elements of different standard pensions offered by Danish pension providers (Comparing Pensions).

In addition, there is an internet tool (Pensions Calculator) which, based on the input from consumers, calculates their projected income on retirement, comparing it to their current day salary. This tool can also be used to calculate the effects of certain circumstances, such as later retirement or the payment of higher contributions.

There are also some webpages with general information on (i) the different elements that consumers should be aware of in a pension scheme, like marital status, dependants, etc., (ii) the pension and insurance needs of an average consumer, together with advice on what consumers need to be aware of in certain situations, or (iii) which outline the different types of payments that consumers may be entitled to under certain circumstances, such as retirement, illness, disability or death (Payout Methods).

[10] Pension companies also have to display information in an easily accessible way in their annual pension statements or continuously on their web-based statement. This information comprises the following six categories of information: entitlements, contributions, premium for insurance, costs, investment return and value of the scheme (Pensions Overview).

Finally, there is also a teaching tool (Pensions ABC) where the consumer is able to choose modules on different topics, such as the Danish pension system, the sources of retirement income (public, occupational and personal) and other information, such as types of products, providers or costs.[11]

In **EE**, the website www.pensionikeskus.ee, which is owned by the Estonian Central Register of Securities, includes the basic information about the Estonian pension system, available in Estonian, Russian and English. This website is used both by the public and also by asset managers themselves, as it provides a well presented comparative overview.

There are currently no IORPs in EE, but in general it is possible to find the following information on the website:

- Basic information about the pension system in EE and detailed information about the second pillar (mandatory funded pensions) and the third pillar (supplementary pensions);
- The list of the second and third pillar funds and insurance companies;
- Statistical information (e.g. rate of return, risk level of pension funds) and reports, based on available information; and
- Annuity calculator.

In the **NL**, there are various sources of information that include the decumulation phase.

The website www.mijnpensioenoverzicht.nl provides general information and projections on people's pension benefits accumulated in the first and second pillars. The website is made available by the pension funds, pension insurance companies and the Sociale verzekeringsbank (the organisation that implements the national insurance schemes, including the first pillar, by order of the government). This website is very popular, especially among people above 45 years old and those approaching retirement.

Additionally, there are several organisations that give people more descriptive information about the available options in the decumulation phase via their websites. These are Pensioenkijker (http://www.pensioenkijker.nl), Nibud, Wijzer in geldzaken (http://www.wijzeringeldzaken.nl) and Consumentenbond. These four organisations make reference to each other's websites.

The first, Pensioenkijker, is offered by the same entities that offer https://www.mijnpensioenoverzicht.nl and provides information about the different possibilities in the decumulation phase. For instance, the different options with respect to the widowers' pension, the possibility of receiving a

[11] There is also an independent advice service offered by the Danish Insurance Association to consumers, which they can access via telephone or email (Pensions Hotline). Additional information on all of these tools can be found at http://www.forsikringogpension.dk/pension/fakta/Sider/fakta-om-pension.aspx.

higher level of benefits at first and a lower level of benefits later on, and the impact of retiring sooner or later.

Nibud (National Institute for Family Finance Information) is an independent foundation, partially financed by the revenues of its products (70%) and partially financed by the national government and the private financial sector (30%). Its goal is to promote a rational planning of family finances and one of their tools is designed to support people to plan for retirement.

Wijzer in Geldzaken is an initiative of the Dutch Ministry of Finance. A great number of organizations from the financial sector, from science, the government, education, communication and consumer organizations are working together to stimulate responsible financial behavior. Their website is designed to support people with retirement planning.

Consumentenbond is a nonprofit consumer organisation financed by the contributions of its members. Pension issues are one of the elements included on their website. Specifically with regard to purchasing an annuity, consumers are informed that they are not obliged to purchase the annuity from the provider where they accumulated their pension savings. Additionally, they recommend that members should compare the net outcomes of different offers and pay attention to the costs. They compare the pension benefits for a number of providers and this information is publicly available.

Finally, there are also various online initiatives that enable people to compare decumulation products. These are for instance offered by (groups of) financial advisors.

In **NO**, the website www.norskpensjon.no consists of information from the majority of private pension providers. The individual can log in and view collected information about their former and current pension schemes, before start of payments to beneficiaries. This free service website is owned by some of the insurance undertakings, and in certain way it also co-operates with public sector.

In **SE**, the website www.minpension.se gathers information about almost all pension providers. Members can log in and view gathered information about pension schemes from all pillars (accrued benefits and projections of future pension payments). This website is owned by Insurance Sweden and run in cooperation between the state and the pension providers (who provide all the data). It is a free service for all members entitled to any pension.

In the **UK**, the government provides a financial education website (http://pluto.moneyadviceservice.org.uk/annuities) that includes an annuity comparison tool that provides real-time annuity quotes from most providers who are currently active in the annuity market. This comparison tool also includes rates for smokers and individuals with certain common medical conditions.

Table 2: Overview of the main comparison tools

MS	Comparison Tool	Website
DK	**PensionsInfo** (initiative of the Danish Insurance Association - "DIA") – Provides an overview of all pensions and associated life insurance entitlements from all providers, including public pensions.	www.pensionsinfo.dk
	Comparing Pensions (initiative of the DIA) – Allows the comparison of the elements of different standard pensions offered by providers.	www.faktaompension.dk
	Pensions Calculator (initiative of the DIA) - Calculates the projected income on retirement, comparing it to the current day salary, and the effects of certain circumstances (v.g. later retirement or higher contributions).	www.pensionsmaaler.dk
	Pensions ABC (initiative of the DIA) – Teaching tool on different topics, such as the Danish pension system, the sources of retirement income (public, occupational and personal), and the types of products, providers and costs.	www.fogp.dk/pension
EE	**Pensionikeskus** (initiative of the Estonian Central Register of Securities) - Presents basic information about the Estonian pension system and provides a comparative overview, statistical information (e.g. rate of return, risk level of pension funds) and an annuity calculator.	www.pensionikeskus.ee
NL	**Mijnpensioenoverzicht** (initiative of the providers and the organization that implements the national insurance schemes by order of the government) - Provides general information and projections on pension benefits accumulated in the first and second pillars.	www.mijnpensioenoverzicht.nl
	Pensioenkijker (initiative of the providers and the organization that implements the national insurance schemes by order of the government) – Provides information about the different options in the decumulation phase (e.g. widowers pension, the possibility of gradually decreasing the level of benefits and the impact of retiring sooner or later).	www.pensioenkijker.nl
	Nibud (initiative of the National Institute for Family Finance Information) - Supports people with retirement planning.	www.nibud.nl
	Wijzer in geldzaken (initiative of the Dutch Ministry of Finance) - Supports people with retirement planning.	www.wijzeringeldzaken.nl
	Consumentenbond (initiative of this consumer organization) – Includes information on pension issues, namely related to the purchase of annuities, and some recommendations (e.g. to compare the net outcomes of different offers and to pay attention to the costs). It also compares pension benefits for different providers.	www.consumentenbond.nl

NO	**NORSKPENSJON** (initiative of the Norwegian Life insurance companies) - Collects information on pension schemes/plan, from both insurance undertakings and from IORPs, for the individual for illustration purpose after applied request	www.norskpensjon.no
SE	**Minpension** (initiative of Insurance Sweden run in cooperation with the state) - Gathers information on pension providers and pension schemes from all pillars (accrued benefits and projections).	www.minpension.se
UK	**The Money Advice Service** (initiative of the government) - Includes an annuity comparison tool that provides real-time annuity quotes from most providers in the open market.	pluto.moneyadviceservice.org.uk/annuities

3.7. Types of costs and charges levied on pension benefit payment and applicable legal requirements

This section provides an overview of how costs and charges levied on pension benefit payments are regulated across MS.

Not all MS have legal requirements on costs and charges levied during the decumulation phase. Sometimes, they are freely agreed by the parties involved, other times such requirements only apply to the accumulation phaseor no such requirements apply either in the accumulation or in the decumulation phase.

Considering that responses related to non-IORPs were only provided by some MSs on a voluntary basis, the information contained in this section regarding non-IORP schemes is not comprehensive and is only intended to give a brief overview where answers have been provided. Nevertheless, for simplicity's sake, unless otherwise specified the elements described below refer to both IORPs and non-IORPs.

In some MS, like AT (IORPs), BE, DK, EE (non-IORPs), ES (some non-IORPs), HR, LT, MT, PT, SE (IORPs), SI and SK (for annuities), costs and charges are contractually agreed by the parties. In DK, although there are no rules on costs and charges levied on pension benefit payments, there is an obligation to notify the costs associated to the plans to the supervisory authority (DFSA), as part of the technical basis.

Costs and charges are not levied on pension benefit payments in a number of MS, such as CY (IORPs), DE (IORPs), ES (in some IORPs and non-IORPs), FI (IORPs), FR (in some IORPs), IE (in some IORPs and non-IORPs), LI, LT (in some non-IORPs), LV (IORPs), NL (in some IORPs and non-IORPs), NO (in some IORPs and non-IORPs), PL (IORPs), RO (non-IORPs) and SK, although they may be permitted during the accumulation phase. Some of these cases refer, however, to DB schemes/plans where costs and charges are not borne by members.

The types and categories of costs and charges levied on pension benefit payments vary across MS. Some of the costs and charges that were explicitly mentioned by MS were the following:

- Investment fee on the rate of return (BG);
- Management and depositary commissions (ES);
- Administration and management costs and charges (FR);
- Fee for covering expenses (HR);
- Fund management charges (IE);
- Operation and investment costs (IS);
- Costs of selling the units and usual costs included when buying the annuity (NL);
- Investment and administration costs (NO);
- Banking commission or postal fee (RO);
- Adviser charges, commission charged by annuity brokers, providers' charges, provider administration charges, investment management charges (UK, in relation to different decumulation options).

In what concerns legal requirements/restrictions applicable to costs and charges levied on pension benefit payments, some limits were explicitly referred by AT, BE, BG, ES and SI.

For instance, in AT (plan/product AT-1.1 – IORP, DC), regarding lump sums the Pensionskasse shall be entitled to withhold a one-time expense loading not exceeding 1.0 per cent of the vested amount in the case of calculation or transfer of a vested amount, with the expense loading not being allowed to exceed € 300 per vested amount. Furthermore, the Pensionskasse shall be entitled to charge an annual expense loading not exceeding 0.5 per cent of the respective cover requirement for the administration of non-contributory expectancies, with the expense loading not being allowed to exceed €100 per non-contributory expectancy. For investing the assets of the security-oriented IRG, the Pensionskasse shall be entitled to withhold a fee from the investment result, which shall not exceed 0.55 per cent of the assets allocated to the security-oriented IRG per financial year. The percentage must be the same for all beneficiaries (recipients) of the security-oriented IRG.

In BE, for one type of IORP (BE-1.1) and for other three kinds of products (BE-2.1, BE-2.4 and BE-2.8), a maximum limit of 0% or 5% for costs is used to determine the minimum rate of return to be guaranteed by the employer for DC plans (i.e., the employer has to guarantee 3,25% on 95% of the employer contributions and 3,75% on 100% of the employee contributions).

In BG, during the decumulation phase the pension insurance company (IORP) can charge an investment fee on the rate of return achieved, up to a maximum of 10%.

In ES, for IORPs and non-IORPs, management and depositary commissions cannot exceed 2,5%.

In SI, for lump sums paid by IORPs exit costs cannot be higher than 1% of the surrender value. For annuities provided by IORPs, the types of costs levied on annuities are not prescribed and the provider can charge many different types of cost (can be in nominal amount or in percentage of some value, can be regular or recurring) within the price of annuity, but in total restriction on all costs considered in the annuity pricing calculation apply. This means that total costs should not exceed 12% of the annuity paid to member. Actual costs can differ throughout the decumulation period: costs can be higher at the beginning and then level through the lifetime of annuity or costs can be level during the lifetime of annuity.

In the UK, although no explicit cap is established for IORPs in the decumulation phase, where benefits are not provided within the IORP (e.g. through purchasing an annuity) there is a regulatory requirement to treat customers fairly, so fees and commissions should be proportionate and reflect the work actually undertaken by the intermediary or the provider.

The main conclusion to be drawn from this overview is that the types of costs and charges applicable to pension benefit payment differ significantly among MS, as well as the rules applicable to them. The different regimes can be partially explained by the type of providers and/or schemes that prevail in each MS (IORPs vs. non-IORPs, DC vs. DB schemes).

In a significant number of MS costs and charges are either not regulated or not levied during the decumulation phase. Only a few MS apply some kind of limit or restriction to such costs and charges.

3.8. Rules about disclosure to members of costs and charges on pension benefit payments

There is a variety of systems across MS in what concerns disclosure to members of costs and charges levied on pension benefit payments.

Even where no specific requirements apply to the disclosure of costs related to IORPs, standard pre-contractual information requirements for insurance contracts may apply in the case of annuities, as referred to by EE.

In some cases, information is provided in connection with the completion of the contract or is included in the contract (DK, HR, LT, UK-IORPs), in the articles of association (PL in some non-IORPs) or in the pension plan (SI for exit costs in IORPs).

In addition, some MS require IORPs to provide an annual information or an account statement to beneficiaries (AT, BG, LV, SE). In ES, except for collective insurance (where information is provided on an annual basis), information is provided annually, biannually and quarterly.

In a number of MS there are no rules about disclosure of costs and charges to pensioners on benefit payments (BE, CY, DE-IORPs, IE, IS, LT for some cases, MT, PT, RO non IORPs, SI). In some of these cases, the lack of disclosure rules is due to the fact that costs and charges are not levied. In other cases, only changes to the disadvantage of the policyholder shall be notified (DK). One MS establishes that information on costs shall be provided by IORPs on request (LI).

Once again, in what concerns the disclosure rules on costs and charges levied during the decumulation phase, if relevant for members and beneficiaries, the legal frameworks of the majority of MS mainly refer to principles.

4. Options available to members at retirement incl. tax treatment

4.1. General remarks

Members in some MS, have multiple options available when reaching the decumulation phase, whereas in other MS they have only one option. Five main options listed in the questionnaire circulated to NCAs were[12]:

- Annuity
- Lump sum
- Programmed withdrawal
- Income drawdown
- Other

There was also a possibility to indicate combinations of the above.

When designing the decumulation phase options, MS need to balance flexibility and protection from longevity risk. A pension system should protect people from outliving their own income/resources, that is, provisions on the pension decumulation phase should insure individuals against longevity risk. At the same time, the pension system may also provide some flexibility to members when facing unforeseen circumstances (e.g. health care costs), in paying off debt or allowing for an inheritance (to all or to a part of the accumulated assets or rights).

A **lump sum** is the most flexible option at decumulation, but at the same time it requires a lot of responsibility from a beneficiary. With a lump sum, members receive the entirety or part of the assets accumulated at retirement as a single payment that can be freely used, for example, to buy an annuity, pay down debt, cover contingency expenses, invest or spend on discretionary items such as holidays, car or other items.

A **lifetime annuity** is a stream of income paid at regular intervals for as long as the individual lives. A lifetime annuity is the only decumulation option that fully protects individuals from longevity risk.

A **programmed withdrawal** is a series of fixed or variable payments, generally calculated by dividing the accumulated assets by a fixed number or by life expectancy in each period. A programmed withdrawal provides more financial discipline than a lump sum but does not cover against longevity risk.

An **income drawdown** (also known as Unsecured Pension) is where retirement savings continue to be invested and an individual receives an income each year rather than buying an annuity. This facility can often only be used during a

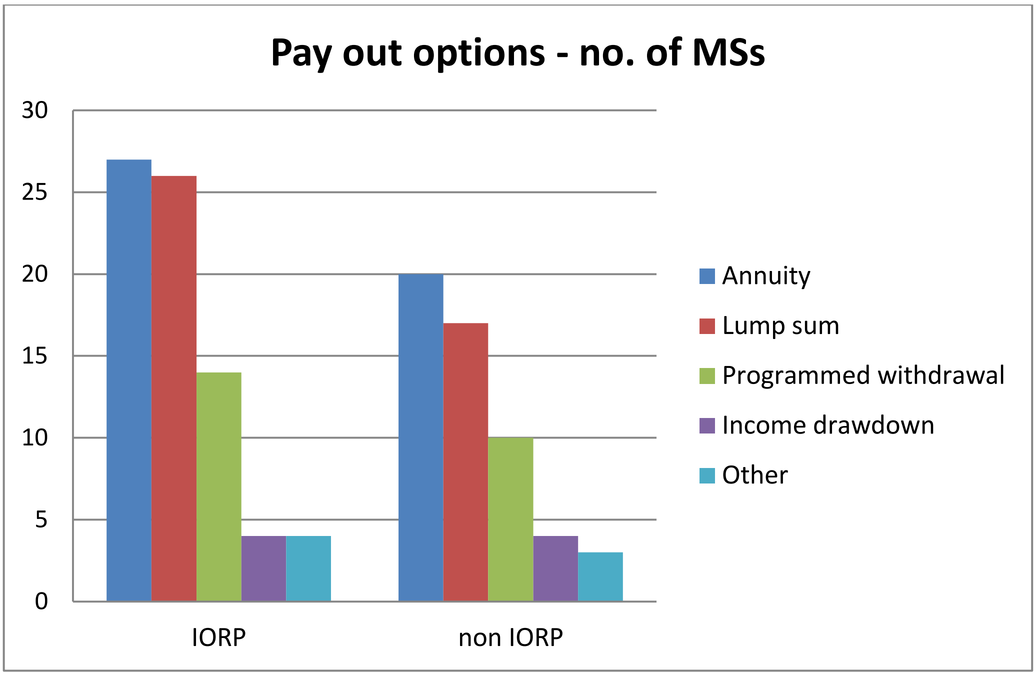
[12] i.e. national competent authorities who are the members of EIOPA Occupational Pensions Committee.

certain age interval (for example from 50 until 75), after which an annuity may need to be bought. This decumulation option is a combination of the programmed withdrawal and the lifetime annuity hence it is quite flexible and to some extent may protect from longevity risk.

Different annuity types offer various levels of guarantees and may protect against various risks (e.g.: a variable annuity allows individuals to have access to stock markets gains and losses) or cover against a drop in value of money, whereas an annuity with price index indexation protects members from inflation risk.

Chart 1 below shows the number of MS that allow the following pay out options: annuity, lump sum, programmed withdrawal, income drawdown and other. This chart contains replies from 30 MS in case of IORPs and 22 MS in case of non-IORPs.

Chart 1: Pay-out options – high level overview



In the following parts of the text, the term “not allowed” means an option which is explicitly not permissible by national law in a MS, whereas the term “not available” refers to a situation where an option is not offered in the market and the law may be silent on that matter.

In addition, considering that responses for non-IORPs were provided on a voluntary basis and in almost 40% cases no answer was indicated; only brief summaries are provided for non-IORPs.

4.2. Annuity

4.2.1. IORPs

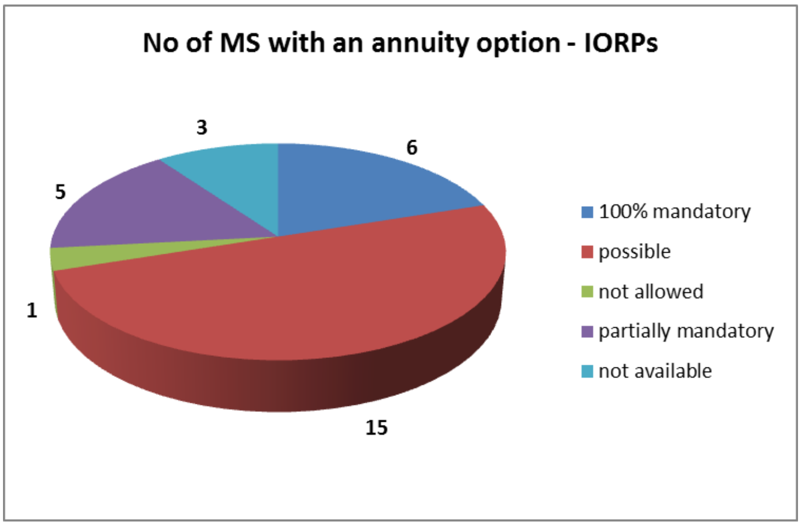
In the majority of MS, the possibility of providing an annuity exists either on a mandatory (partially or 100%) or voluntary (possible) basis.

In 6 MS (AT, FI-DB, GR[13], NL, NO, SE) annuities are 100% mandatory. Whereas in 5 MS (HR-closed-ended voluntary pension fund with decumulation phase through pension insurance company, IT, LT, PT, SI) annuities are partially mandatory.

15 MS indicated an annuity as a possible option (BE[14], BG, CY, DE, DK, EE, ES, HU, IE, LI, LU, LV, MT, SK and UK).

In three reported cases (HR - closed-ended voluntary pension fund with decumulation phase through pension company, LV - DC IORPs and PL-Occupational pension schemes in the forms of occupational pension fund or in the form of foreign management) annuities are not available. For CY - Cypriot Provident Funds annuities are not allowed.

Chart 2: Annuity option – IORPs



[13] In general for IORPs three types of funds are offered: a) annuity only, b) lump sum only or c) option between annuity or lump sum.

[14] In BE, if the pension promise is the pay-out of a lump sum, the member has always the legal right to have the lump sum converted in an annuity (according to social conversion rules setting the minimum level of annuity). As a consequence an annuity is always possible.
In BE IORPs can provide for retirement income under the form of annuities if the assets were accumulated within the IORP (i.e. the IORP operated the pension plan):
- an IORP can provide annuities for the assets accumulated within the IORP;
- an IORP cannot provide annuities for assets that were accumulated in another IORP or insurance company;
- insurance companies can provide annuities for assets that were accumulated in another IORP or insurance company. Such annuities are bought by the member (his decision - no obligation) after it received its lump sum from the IORP (or insurance company); they are no longer considered as an occupational pensions product but as a private pensions product (i.e. third pillar).

Art. 4 IORPs/insurance undertakings:

With regard to Art. 4 IORPs:
- in FR an annuity is either 100% mandatory, possible or not available option[15],
- in LT and SI an annuity is partially mandatory whereas
- in SE an annuity is always a 100% mandatory option.

4.2.2. Non-IORPs

In comparison to IORPs, the split between providing an annuity option on a voluntary and mandatory basis is more evenly split among non-IORPs. However, considering that responses for non-IORPs were provided on a voluntary basis only a brief summary is provided.

Annuity is 100% mandatory in some of the pension plans/products offered in 8 MS (AT, FR, HR[16], IS, NL, NO, SE, SI) and partially mandatory in 4 countries: HR, IT[17], LT and SK.

13 MS (AT, BE[18], DK, EE, ES, FR, HU, IE, LI, LT, MT, NO, PT) indicated annuity as a "possible" option for non-IORPs.

In 10 reported cases of pension plans/products provided in 5 MS (HR, IS, LT, PL, RO) the annuity is not available.

4.3. Lump sum

4.3.1. IORPs

Lump sum as a "possible" option is available for IORPs in 25 countries (AT, BE[19], BG, CY, DE, DK, EE, ES, FI, FR, HR, HU, IE, IT[20], LI, LT, LU, LV, MT, PL, PT, RO[21], SI, SK, UK) while only in GR a lump sum may be offered on a 100% mandatory basis in some cases[22].

3 MS (NL, NO, SE) do not allow for a lump sum payment.

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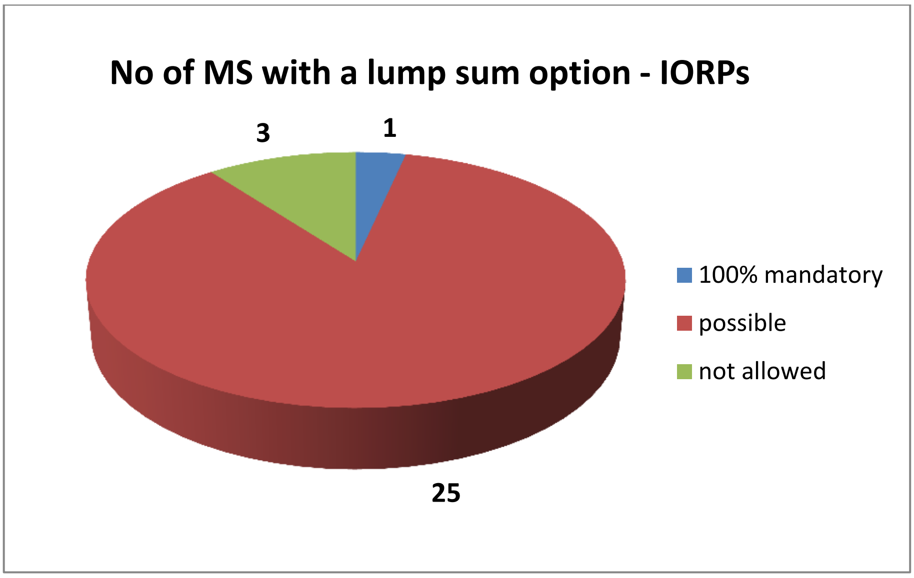
[15] FR: For schemes under article 39 and 83 of the French General Tax Code; Madelin law schemes and PERE it is 100% mandatory. For Indemnités de fin de carrière (IFC) it is not available. For schemes under article 82 of the French General Tax Code annuity is a possible option.
[16] In HR 100% mandatory and partially mandatory options are provided.
[17] IT: Annuity is not mandatory if the accumulated capital is under a certain threshold.
[18] In BE, if the pension promise is the pay-out of a capital, the member has always the legal right to have the lump sum converted into an annuity (according to social conversion rules determining the minimum level of annuity). As a consequence, an annuity is always possible.
[19] BE: It's possible in the sense that the benefit provided for in the plan rules can be a lump sum. But when the pension promise is expressed as an annuity and the plan rules don't provide the possibility to convert into a lump sum, the lump sum isn't possible for the member.
[20] IT: Lump sum is allowed up to 50% of the accumulated capital. In case the accumulated capital is under a certain threshold, it is possible to ask for a 100% lump sum.
[21] In RO a lump sum is the only possible option, however that is due to the lack of legislation regarding the pay-out phase.
[22] See footnote 13.

For FR in several cases (schemes under article 39 and 83 of the French General Tax Code; Madelin law schemes and PERE) a lump sum is not allowed because annuity is 100% mandatory whereas for IT DB "Old" autonomous contractual pension funds this option is not available.

Chart 3: Lump sum option - IORPs



Art. 4 IORPs/insurance undertakings

With regard to Art. 4 IORPs:

- in FR a lump sum is either 100% mandatory, possible or not allowed[23],
- in LT and SI a lump sum is possible whereas
- in Sweden this alternative is not allowed.

4.3.2. Non-IORPs

A lump sum continues to be a popular option also among non-IORPs. In the MS that provided answers for non-IORPs it was indicated as a possible option by 17 MS (AT, BE[24], DK, EE, ES, FR, HR, HU, IE, IS, IT, LI, LT, MT, PL, PT and RO).

In RO a lump sum is the only possible option however, as mentioned earlier, that is due to the lack of legislation regarding the pay-out phase.

[23] FR: 100% mandatory for Indemnités de fin de carrière (IFC); not allowed for Schemes under article 39 of the French General Tax Code, Madelin law schemes and PERE and for schemes under article 83 of the French General Tax Code but possible for Schemes under article 82 of the French General Tax Code.

[24] BE: It’s possible in the sense that the pension promise provided for in the plan rules can be a lump sum. But when the pension promise is expressed in the form of an annuity and the plan rules don’t provide the possibility to convert into a lump sum, the lump sum isn’t possible for the member.

Only 6 MS (HR, NL, NO, SE, SI and SK) described lump sum option as not allowed.

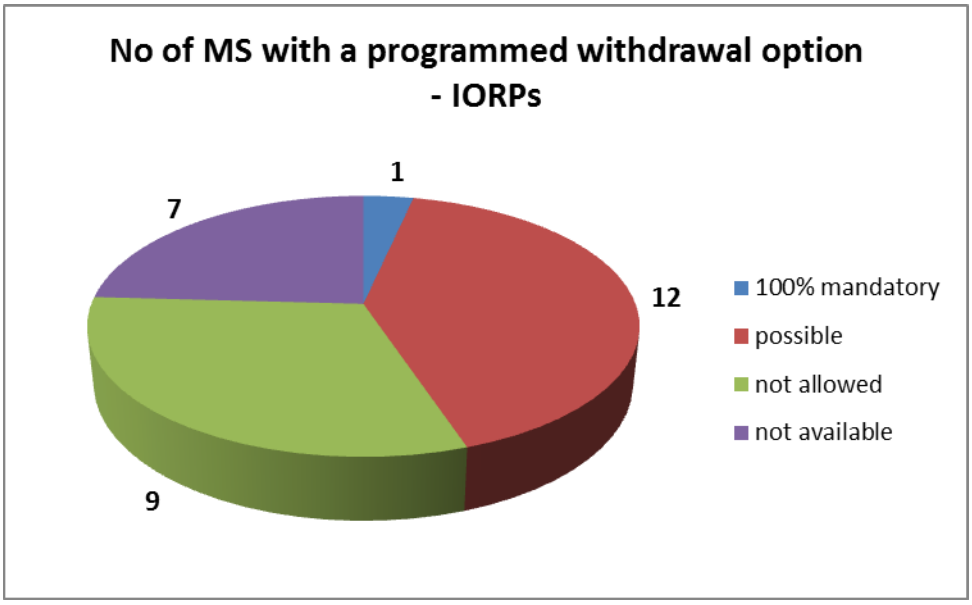
In three specific pension plans provided in 2 countries (IS, PL)[25] lump sum is not available.

4.4. Programmed withdrawal

4.4.1. IORPs

This option was indicated as possible in 12 MS (BG, DE, DK, EE, HR, LI, LU, LV, MT, PL, SK and UK). Programmed withdrawals are not allowed in 9 MS (AT, CY, ES, FI – DB IORPs, HU, IT, NL, NO and PT). They are also not available in 7 countries' cases (BE, FR, GR, IE, LT, SE, SI). For FI DC IORPs this alternative is 100% mandatory.

Chart no 4: Programmed withdrawal option – IORPs



<u>Art. 4 IORPs/insurance companies:</u>

Programmed withdrawals are not available in Art. 4 type of pension provision.

4.4.2. Non-IORPs

Programmed withdrawals were described as a possible pay-out option in 9 MS (DK[26], EE, HR, IS, MT, NO, PL[27], PT[28], SK) and as not available for some of the

[25] Icelandic "Lífeyrissjóður-public sector (civil servants) Mutual insurance division guaranteed by the state and municipalities" and "Lífeyrissjóður Mutual insurance division" and Polish "Otwarty fundusz emerytalny" Open pension fund (SSR; non-IORP; 1st pillar bis institutions).

pension plans/products offered in 12 MS (BE, EE, FR, IE, IS, LI, LT, NO[29], PL – OFE 1st Pillar bis, RO, SE, SI). In 7 MS (AT, HR, ES, IT, NL, NO[30], PT) programmed withdrawals were described as not allowed.

In Poland, since the beginning of the year 2014 there are new legal provisions in place concerning, among others, decumulation phase for OFE (open pension funds – 1st pillar bis institutions). 10 years before reaching retirement age, funds accumulated in OFE are being gradually transferred into Social Security Fund managed by ZUS (Social Insurance Institution, responsible for first pillar pensions). After reaching retirement age all assets previously accumulated on the pension fund member's account are in the Social Security Fund (the whole amount). Thus, decumulation phase is provided by Social Insurance Institution together with state pensions from first pillar.

4.5. Income drawdown

4.5.1. IORPs

For IORPs this alternative is possible in a trust based environment in IE (however not for DB schemes) and the UK (also not for DB schemes). It is also one of the possible pay-out options for DE and ES IORPs.

In **IE** funds are held in an Approved Retirement Fund (ARF) and are subject to an Approved Minimum Retirement Fund (AMRF) or guaranteed pension income requirement[31].

In the **UK** members can choose any combination of options. However, they must currently (until April 2015) meet the minimum income requirement, of at least £12,000 secured income per year, in order to choose flexible drawdown - i.e. there are no limits on the amount they draw out of their fund. Members can also set up a series of time-limited annuities or drawdown arrangements so that income levels or features are able to change when members' need change; this is known as "phased retirement". Phased retirement also allows any pension pot that hasn't been crystallised to be returned to beneficiaries without any inheritance tax or death benefits charges.

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[26]DK: An instalment pension is paid out monthly for an agreed period of time - at least 10 years and not more than 25 years. A discontinuing annuity is a pension paid out from an agreed date. The pay-out will stop after a certain period.

[27] PL: For: Occupational pension scheme in the form of agreement concluded with life assurance company or with a open-end investment fund. It is also possible for Individual retirement account (IKE) Individual retirement savings account (IKZE).

[28] For retirement saving schemes only.

[29]NO: Ordninger for Avtalefestet Pensjon (AFP) Contractual Early Retirement Pension Schemes

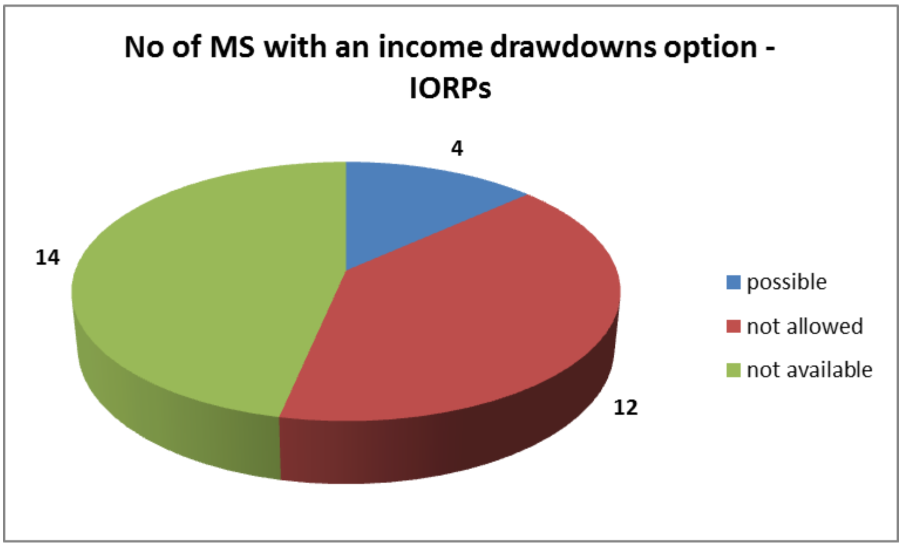
[30]Three NO pension plans, products: Foretakspensjonsordninger - DB company pensions; Sykehjelps- og pensjonsordning for leger - Pension scheme for medical practitioners and Kommunale pensjonsordninger - Municipal Pension schemes

[31]IE: In general in Ireland in order for a member to avail of the ARF option a guaranteed pension income for life in the amount of €12,700 pa must be provided. If that's not possible €63,500 must be invested in AMRF.

However, in the UK from April 2015, from age 55, all restrictions on access to pension pots will be removed so that individuals can take the entire pot as cash if they wish, subject to paying their marginal rate of income tax in that year. Under the coming changes, no product will be prescribed for people to purchase or invest when accessing their savings - it will be up to individuals to decide how they want to access them, either through some sort of financial product (i.e. annuity or drawdown) or lump sum. Employees who use 'income drawdown' (keep the money invested and withdraw money when they need it) will be allowed to take larger sums as income.

14 MS indicated income drawdowns as not available (BE, DK, EE, FR, GR, HR, LI, LT, LU, LV, MT, PL, SE, SI). In 12 MS this option is not allowed: AT, BG, CY, FI, HU, IE – DB IORPs, IT, NL, NO, PT, SK, UK-DB IORPs).

Chart 5: Income drawdowns option – IORPs



Art. 4 IORPs/insurance companies:

Income drawdown is not available in Art. 4 type of pension provision.

4.5.2. Non-IORPs

The income drawdown option is offered very selectively in a handful of pension plans, products in only 4 MS: DK, ES, IE and IS (see table below).

Table 3: Income drawdowns – non-IORPs

MS	Name of a pension plan, product
DK	Livsforsikringsselskab - Personal schemes
ES	Fondo de Pensiones personal - Personal pension fund
	Seguros colectivos - Collective insurances
	PPSE - Employer Social Prevision Plan
	PPA - Prevision Plan Assured
IE	Personal pension
	Personal Retirement Savings Accounts
IS	Séreignasparnaður - Personal pension scheme

4.6. Other options

Other options than annuity, lump sum, programmed withdrawal and income drawdown were indicated in only a handful of countries (ES, HU, LT, PL, UK)

Table 4: Other options – high level overview

MS	IORPs	Non IORPs	Details
ES	x	x	Decumulation options different from the other options with payments without stable regularity
HU	x		Benefit for a defined period
LT	x	x	Periodic pension benefits
PL		x	In Poland since the beginning of the year 2014 there are new legal provisions in place concerning, among others, decumulation phase for OFE (open pension funds – 1st pillar bis institutions). 10 years before reaching retirement age, funds accumulated in OFE are being gradually transferred into Social Security Fund managed by ZUS (Social Insurance Institution, responsible for first pillar pensions). After reaching retirement age all assets previously accumulated on the pension fund member's account are in the Social Security Fund (the whole amount). Thus, decumulation phase is provided by Social Insurance Institution together with state pensions form first pillar.
UK	x		Trivial commutation is possible provided that the total amount of all pension benefits is less than £30,000, or the member has one or more pensions with a capital value of less than £10,000.[32]

[32] UK: In summary, immediate changes introduced now in the UK are as follows:

4.7. Combinations of pay-out options

The available combinations of options differ among MS. The below summary provides countries specificities in more detail:

- **BE** – for IORPs and non-IORPs combinations are not often provided. However, where the benefit is provided in the form of a lump sum, a member can always on the basis of social and labour law choose an annuity instead. In DC type of pension plans the benefit is always a capital. Again, a member has always the right to ask for an annuity instead.

- **BG** - a combination of options is possible depending on the rules of the scheme. Upon retirement members can receive a temporary annuity, a lump sum, a programmed withdrawal or a combination of these benefits in accordance with the conditions of an occupational pension scheme. When a members chooses a programmed withdrawal he/she concludes a contract with an IORP, which regulates in detail the respective payments.

- **CY** – a combination of lump sum and annuity can be provided for DB IORPs.

- **DE** – for IORPs a combination of lump sum and annuity is possible; the available decumulation options are laid down in the pension plan and general contract conditions.

- **DK** – a combination of what can be taken is specified in each member's specific agreement. The specific or collective agreement stipulates the pension type e.g. a lump sum, life annuity or instalment pension (ongoing) or a combination of the mentioned types. It is possible to convert an instalment pension (ongoing) into an annuity, but not the other way around. Therefore, to some extent it is possible to choose between the mentioned types. However, unless the conversion is chose, it is the originally stipulated type of pension (according to the agreement) that dictates the form of pay outs.

- **FR** – for schemes under Article 82 of the French General Tax Code, a lump sum is paid out only if it is specified in the agreement. In PERP arrangements up to 20% of the benefits can be paid as a lump sum or 100% of the benefits if they are used to buy a house for the first time.

- the minimum income requirement for entering flexible drawdown was reduced from 20,000 to £12,000
- the amount of total pension amount which can be taken as a lump was increased from £18,000 to £30,000
- the capped drawdown withdrawal limit was increased from 120% to 150%
- the small pot limit (the amount of pension amount that can be taken as a lump sum, regardless of total pension amount) was increased from £2,000 to £10,000; also the number of personal pots that can be taken under these rules was increased from two to three.

Combinations are also possible for schemes under Article L.441-1 of Insurance Code, L.932-24 of Social Security Code, L. 222-2 of Mutual Code only for one type of the schemes under up to 20% of the benefits can be paid out as a lump sum.

- **GR** – for IORPs three types of funds are offered: a) annuity only, b) lump sum only or c) option between annuity or lump sum.

- **HR** – for IORPs and non-IORPs if the asset value on members account does not exceed 6.500 EUR, a member can opt in for income pay-out from a pension company of minimum 5 years duration with periodical payment. Otherwise, the benefit payment shall be mandatory from a pension insurance company.

- **HU** – a combination of lump sum and annuity is possible. In IORPs case it is also possible to combine lump sum, annuity and a benefit for a defined period.

- **IE** – for DB IORPs a combination of an annuity and lump sum is possible. For DC and Hybrid IORPs as well as for non-IORPs a combination of a lump sum and either annuity or ARF/AMRF is provided.

- **IT** – a combination of an annuity and lump sum is available for IORPs and non-IORPs members.

- **LI** - annuity and lump sum may be combined.
- **LT** - the annuity is mandatory when accumulated assets exceed the certain threshold. If not, a member has the right to receive a periodic or lump sum pension benefit. Also the upper limit exists, i.e. when the amount of accumulated assets exceeds the certain limit part of the accumulated fund should be used for purchasing a pension annuity and a remainder can be received as a periodic or lump sum pension benefit.

  An exception is papildomo savanoriško pensijų kaupimo sutartis - supplementary voluntary pension scheme (non-IORPs) where the way of payment of benefits is chosen by a pension fund member.

- **LU** - a combination of annuity and lump sum is possible; the available options are laid down in the pension rules.
- **MT** – for IORPs combinations of various pay-out options are available where 30% of the assets of a member in a Retirement Scheme or Retirement Fund may be paid as a cash lump sum. The remaining assets shall be used to provide a retirement income.

- **NL** – no combinations are possible, annuities are 100% mandatory for IORPs and non-IORPs.

- **PL** - it is possible to switch from programmed withdrawals to a lump sum for IORPs and non-IORPs (except for open pension funds – 1st pillar bis institutions).

- **PT** - there is a difference between options with regard to the source of contributions i.e.: in what concerns employer contributions up to 1/3 of the capital can be paid as a lump sum, subject to the plan rules; the other 2/3 has to be paid in a form of a life annuity. If the monthly pension is less than one-tenth of the statutory monthly minimum wage, the capital can be paid as a lump sum, upon agreement between the pension fund management entity, the employer and the employee. The accumulated amount of employee contributions can be paid as an annuity, a lump sum or both.

- **SE** – there are no combinations as an annuity is offered on 100% mandatory basis for IORPs, Art. 4 IORPs/insurance companies and non-IORPs. Pensions must be paid out over a period of at least 5 years.

- **SI** - assets financed by an employer must be used to buy annuity when the value of those assets exceeds 5,000 EUR otherwise a lump sum is possible; whereas assets financed by member contributions can be used for annuity or for a lump sum. This applies to IORPs and Art. 4 IORPs/insurance companies.

- **SK** – for Dôchodková správcovská spoločnosť - retirement pension savings the combined option is: an annuity (monthly amount must correspond to at least 60% of minimum subsistence) and a programmed withdrawal. Combined options for Doplnková dôchodková spoločnosť (supplementary retirement pension saving products) are: a lump sum (max. 50%) & annuity or a lump sum (max. 25%) & phased withdrawals.

- **UK** - members can choose any combination of the options and do not have to take all their benefits at the same time, although they may have to transfer into a different type of pension if their existing scheme does not offer the options they want. As long as they meet the minimum income requirement of at least £12,000 secured income p.a. (which will remain in place until April 2015) they can elect for a flexible drawdown (i.e. no limits on the amount they draw out of their fund).

4.8. Benefits that can be paid out as a lump sum

The collected evidence shows that even for IORPs the % amount of assets/total value of benefits that can be paid out as a lump sum differs substantially among MS e.g.: from 0% in NL and NO, through 25% in SK, IE and the UK (although this is proposed to increase to 100% from April 2015), 30% in HR and MT, 33.33% in PT (in what concerns employer contributions), 50% in SK and IT to 100% in AT, BE, DE, BG, ES, LV, PL and SI.

In some countries this ratio depends on a threshold (e.g. AT, IT, LT, SI).

Those limits (as ratio and/or threshold) often depend on a plan/scheme rules, other national provisions, applicable thresholds, final remuneration, etc.

Interestingly a possibility of paying out 100% of assets/benefits in a form of a lump sum can be observed quite frequently.

4.8.1. IORPs

Possibility of paying out 100% as a lump sum was clearly indicated by 16 MS (BE, BG, CY, DE, EE, ES - except for IORPS with a predetermined decumulation option, FR, GR, HU, IT, LI, LT, LU, LV, PL and SI). More detailed descriptions of some of the MS are as follows:

- **AT** - a lump sum is only allowed, if on occurrence of the benefit event the cash value of the amount paid out does not exceed EUR 11,300 (indexed).
- **BE** - if the plan rules provide for a lump sum, usually 100 % is being paid out without members using their legal right to convert the lump sum into an annuity (according to conversion rules determined by social and labour law setting a minimum annuity).
- **CY** - for provident funds all assets less expenses is paid out as lump sum (similarly in GR); while for DB IORPs since 01/01/2013 a lump sum payment equals to the total of the yearly annuities (1/800 of the average of gross pensionable salaries) x 14 /3.). That is limited so that yearly annuities cannot exceed 1/2 of the member's yearly pensionable salary.
- **FI** – a lump sum is possible only if the monthly pension is relatively small.
- **HR** – a lump sum can be paid out up to 30% of the amount on members account but max 1.500 EUR.
- **IE** – maximum lump sum is 3/80 x final remuneration multiplied by number of years' membership or in other instances 25% of the pension fund.
- **IT** – a lump sum is allowed up to 50% of the accumulated capital. Only when the accumulated capital is under a certain threshold, it is possible to opt for a 100% lump sum payment.
- **LT** – if less than certain thresholds. Thresholds depend on the age of a pensioner. For example, a 62 years old person is obliged to purchase a pension annuity if his/her accumulated fund exceeds 10.009 EUR, the upper limit – 60.531 EUR. It should be noted that thresholds are recalculated every year.

- **MT** - on retirement 30% of the member's assets in a Retirement Scheme or a Retirement Fund can be paid as a cash lump sum. Where subsequent to a valuation of a retiree's assets it is established that the retiree's value of assets is more than sufficient to provide the retirement benefit determined in accordance with the law (SOC 1.7.3) then 50% of the excess value of such assets as determined by the valuation may be withdrawn as a lump sum. The valuation shall be performed not more than once every financial year and not within the first three years from the commencement of retirement benefits.

- **PT** - in what concerns employer contributions, up to 1/3 of the capital can be paid as a lump sum subject to a plan rules. The other 2/3 has to be paid in a form of a life annuity. The accumulated amount of employee contributions can be paid as an annuity, a lump sum or a combination of both.

- **SI** – for assets financed by employer lump sum is possible if the amount paid out does not exceed certain amount (indexed). Assets financed by member can be paid out in total in form of lump sum.

- **SK** – a lump sum of max 50% (plus annuity) or a lump sum of max 25% (plus phased withdrawal) is provided.

Art. 4 IORPs/insurance companies:

- in FR – it is a 100% lump sum payment for schemes under article 82 of the French General Tax Code (only if it is specified in the agreement) and Indemnités de fin de carrière (IFC);

- in LT - it depends on the amount of accumulated assets, i.e. if it less than the certain threshold, all the accumulated sum can be paid out as lump sum;

- in SI – same rules as for IORPs;

- in SE – this is not applicable as lump sums are not allowed.

4.8.2. Non-IORPs

In a few MS payment of 100% lump sum can be observed: AT, BE, EE, ES, FR, IS, LT, PL (except for open pension funds – 1st pillar bis institutions), PT. However, at the same time, payments of up to other thresholds were identified by MS for some of their pension plan/products: FR (20%), HR (30%), IE (25%) and LI (90%). Again, those thresholds often depend on the plan, scheme rules and national legislation. In EE, for example, it is 10 times the national pension rate.

4.9. Option the most frequently chosen by members

4.9.1. IORPs

Not all MS specified the most popular options among members due to various reasons but usually because supervisors do not collect such data[33].

In the indicated cases, lump sum is the most popular option in BE, CY (for provident funds), IE (2nd being annuity, however ARFs are also frequently chosen), LV (2nd being programmed withdrawals), SI and SK (it is expected that as from 2014 phased withdrawals and annuities will become more popular than lump sums). In RO lump sum is the only choice, as far as there is no pay-out phase legislation yet.

The annuity was identified as the most common option in DE (2nd being lump sum for Pensionskassen), DK, HR (2nd being programmed withdrawal), PT[34] and SE[35].

In the UK the most popular option is currently a lifetime annuity (single or joint-life) in combination with a lump sum (although this may change from April 2015). In addition, trivial commutation (which allows individuals with a modest pension fund to take the whole amount as a lump sum) has become an option for a greater number of pension scheme members. The average DC pot size in the UK at retirement is modest (approximately £30,000). Therefore, for most DC members their only option is to purchase an annuity as generally members must have a pot of £100,000 or more for income drawdown to be financially feasible given the costs involved. In addition, many DC members prefer the certainty of an annuity, although income withdrawal is slowly increasing in popularity especially due to low annuity rates and the perceived inflexibility of annuities.

4.9.2. Non-IORPs

Lump sums seem to be slightly more popular option than annuities among non-IORPs types of pension arrangements in the MS that voluntarily provided answers.

From the data received, one may conclude that lump sum is very popular in BE, IE (2nd being ARFs however the data is limited), IS, IT[36], LT and MT (2nd is the

[33] In IT, the system is still at an early stage and therefore there are still only few cases of exercising options for the decumulation phase. The law allows opting for 100% lump sum when the accumulated capital falls below a certain threshold. Currently, this is the case that occurs more often.

[34] PT: In 2013, 88.7% of the total amount of benefits related to 2nd Pillar pension funds (closed pension funds and collective membership of open pension funds) were paid in the form of annuities provided directly by the pension fund and 7.2% as a lump sum. The remaining 4.1% were paid in the form of a single premium life annuity purchased from an insurer.

[35] For SE IORPs, non-IORPs and Art. 4 lifelong annuities starting from the age of 65 are most common and 5 year benefit payment periods are second popular option.

programmed withdrawal), while annuity is preferred or mandatory in EE, HR (2nd being programmed withdrawals), NL, NO, SE and SI. In ES lump sums and annuities are equally prevalent. In CY a combination of lump sum and annuity is the most popular. In RO lump sum is the only choice, as far as there is no pay-out phase legislation yet. In LI no option is particularly favourable.

4.10. Taxation

4.10.1. IORPs

In majority of reported IORPs cases the pension income provided via annuity is taxable. In a few MS this income is exempt from tax [BG, EE (mostly tax free), HU (could be also taxed), LT, LU, LV (could be also taxed) and MT) or it is taxed at a lower level (FR, HR, IT, SI and the UK].

The lump sum payment often does not carry a tax liability, which can be arranged other via: full exemption (e.g. BG, FR, GR, LT, HU, PL) or partial exemption (e.g. IT, LV, or IE and the UK where 25% of the pension scheme value is tax free).

The table below presents a high level summary of benefits taxation (it needs to be noted that simplifications have been made):

Table 5: Taxation of pay-out options – IORPs – high level overview

MS	Annuity	Lump sum	Programmed withdrawal	Income drawdown	Other
AT	taxed		-[1)]	-	-
BE	taxed	taxed	-	-	-
BG	not taxed	not taxed	not taxed	-	-
CY	taxed	taxed [2)]	-	-	-
CZ	-	-	-	-	-
DE	taxed	taxed	taxed	taxed	-
DK	taxed	taxed/not taxed	taxed	-	-
EE	mostly tax free	taxed		-	-
ES	labour performance	labour performance	labour performance	labour performance	labour performance
FI	taxed	taxed	taxed	-	-
FR	partially taxable	taxed/tax exempt	-	-	-
GR	taxed	tax free	-	-	-
HR	Taxed	taxed	taxed	-	-

[36] In IT lump sum is the most frequent option because for most members, being the complementary pension system still in an early phase, the accumulated capital at retirement falls below the legal minimum threshold. Therefore they are allowed and do opt for 100% lump sum

HU	taxed/not taxed	taxed/not taxed	-	-	taxed/not taxed
IE	taxed	tax free within limits	-	taxed	-
IS	taxed	-	-	-	-
IT	taxed at lower rate	taxed at lower rate	-	-	-
LI	taxed	taxed/tax exempt	taxed	-	-
LT	tax exempt	tax exempt	-	-	tax exempt
LU	tax exempt	tax exempt	tax exempt	-	-
LV	taxed/tax free	taxed/tax free	taxed/tax free	-	-
MT	taxed	tax exempt	taxed	-	-
NL	taxed	-	-	-	-
NO	taxed	-	-	-	-
PL	-	not taxed	not taxed	-	-
PT	taxed	taxed	-	-	-
RO	-	taxed	-	-	-
SE	taxed	-	-	-	-
SI	taxed	taxed	-	-	-
SK	taxed	taxed	taxed	-	-
UK	taxed	tax free within limits	taxed	taxed	taxed

1) "-" addresses circumstances where a pay-out option is not present in a MS and as a result there is no description of tax treatment.

2) CY: Lump sum payments of private pension funds are tax exempt.

Countries' specificities have been summarised as follows:

- **AT** – for annuities pensions from employer premiums are fully taxed whereas 75% of pensions from employee premiums are tax free (the remaining 25% are fully taxed). The payment of a lump sum is only possible if the capital does not exceed €11.400 (indexed).

- **BE** (IRP and Industry-wide pension plan operated by an IORP) –
  As for the lump sum the part vested by member contributions is taxed at 10%, whereas the part vested by employer contributions is taxed at 20%, 18%, 16.5% or 10% depending on the age of a member at the time of payment (60, 61, 62-64 or 65 and older).
  An annuity is added each year to the taxable income (progressive tax rates). However, if the annuity results from the conversion of a lump sum (which is always the case in a DC plan), the taxation is the sum of the taxation applied to the lump sum (cf. supra) to which is added a yearly taxation of 25% of 3% of the lump sum. Profit sharing is free from taxation.

- **BE** pension plan for self-employed persons operated by an IORP - for taxation purposes the lump sum is converted into a notional annuity, which has to be added each year to the taxable income for a period of 13 years. If the lump sum is received at the age 65 or later, only 80% of the lump sum is converted into a notional annuity and this annuity has to be only added to the taxable income for a period of 10 years. Profit sharing is free from taxation.

- **BG** – not taxed
- **DE** – EET[37] system. There are additional detailed rules with regard to the tax treatment also because of the move to an EET-system in the past.
- **DK** - since 1. 1. 2013 new tax system was introduced, where lump sums are now tax free and premiums (contributions) are no longer tax deductible. However, older lump sums, financed by the premiums (contributions) where tax deduction has been made, will be taxed at 40% when paid out.
- **EE** – annuities paid are mostly tax free; lump sums are taxed at 21% or 10% rates.
- **ES** – the taxation of benefits is based on the labour performance.
- **GR** – details regarding tax treatment of the annuity payments are described in the tax law for pensions; lump sum payments are tax free.
- **HR** – receipts deriving from voluntary pension insurance shall be deemed income if the premiums for this insurance are recognised as expenses for taxation purposes. The advance tax shall be paid on the receipts base equalling to the amount of the paid insurance premiums recognised for tax purposes, or the amount received (if the latter is lower than the insurance premiums paid) or the amount of the paid insurance premiums exempt from income tax at a rate of 12%, without the right to the personal allowance pursuant to Income Tax Act.
- **HU** – there is no tax payment obligation if a member has at least 10 years aggregated membership (in one or more than one IORP) or if a member receives pension due to his disability.
- **IE** – annuity payments are subject to the normal tax deductions under the PAYE system. As for the lump sums they are either tax free (within Revenue limits) or taxable (thresholds apply).
- **IS** – annuity payments are subject to the income tax.
- **IT** – retirement benefits (whether annuities or lump-sums) generated by pension plans are taxed at a lower rate than other personal income. While the marginal tax rate on personal income varies between 23% and 43% (on different income brackets), the tax rate applicable to pension fund retirement

[37] DE: EET stands for exempt-exempt-taxed (contributions are deductible from personal income, investment returns are tax exempt, pension/benefit payments/withdrawals are taxed)

benefits has a maximum of 15%, reduced up to 9% as a function of the length of participation. In the pay-out phase, taxation is applied on the sums paid net of the sums that were already taxed as contributions or as investment income in the accumulation phase. Therefore, although the Italian system is often described as "ETT", actually every euro paid into pension funds is taxed "one time only" (i.e. no "double" taxation occurs). The taxation regime is the same for all kinds of supplementary pension funds and plans, whether occupational or personal.

- **LI** – annuity is to be declared as a taxable income. 30% of the amount is tax-exempt (in accordance with Art. 16 para. 2 of the Tax Law). 70% of the amount is subject to tax together with the remaining taxable income. The lump sum is separately taxed from the rest of the taxable income. An amount of 30% is tax-exempted as well. The sum is taxed in accordance with Art. 18 para. 6 Tax Law. [With regard to the tariff, Art. 19 Tax Law is applicable.]
- **LT** – annuities and lump sums payments are tax exempt.
- **LU** - annuities and lump sums are paid out tax free.
- **LV** - sponsor contributions in the pay-out phase are taxed at 24%, employee contributions are tax free; CGT at 10% is also present. In decumulation phase there is different tax basis for contributions paid in and investment income accrued.
- **MT** - the income stemming from any retirement fund or retirement scheme licensed, registered or otherwise authorized under the Special Funds (Regulation) Act or any Act replacing the said Act is exempt from tax, other than income from immovable property situated in Malta.
- **NL** - premiums (contributions) are tax deductible, annuity benefits taxable; EET system applies.
- **PL** – lump sums and programmed withdrawals are not taxed; TEE system applies.
- **PT** – annuities are subject to personal income tax under category H (pensions), with provisional withholding tax and at the applicable rates depending on the level of taxable income. As for lump sum payments the interest component (accrued income) is subject to personal income tax under certain special rules.

- **RO**[38] - lump sum in case of death is not subject of social contribution tax, but a 16% tax obligation on the amount that exceeds 1000 RON. For retirement and disability benefits, there is a 5.5% social contribution tax for the amounts exceeding 740 RON and a 16% tax on the amount that exceeds 1000 RON.

- **SE** - income tax is deducted from the benefit paid out in a form of annuity. Capital tax is charged to the IORP annually.

- **SI** - annuities from voluntary pension insurance are only 50% taxed. This means that 50% of annuity paid out in certain year to the member/policyholder has to be declared to a tax authority to declare personal income tax. In addition, pension fund provider must lower the value of the lump sum before it is paid out to a member for prepayment of general tax rate which is 25%. At the end of calendar year, the whole amount of lump sum is treated as income for the purpose of income tax.

- **SK** – benefits paid out in form of annuity, lump sum or programmed withdrawals are taxed.

- **UK** – Normally 25% of a pension fund is tax free subject to the lifetime allowance (£1.25 million for the tax year 2013/2014), although some members will be entitled to a higher tax free amount due to changes in the tax system since 2006. It is possible to accrue a fund greater than the lifetime allowance and if the excess is taken as a cash payment then the excess on the lifetime allowance is taxed at 55% (chargeable amount). Income is taxed in the same way as earned income, most commonly at 20% but potentially at 40% or 45% for those with higher income.

4.10.2. Non-IORPs

Despite that responses for non-IORPs were provided on a voluntary basis, it can be observed that at the national level tax treatment of annuities provided by non-IORPs is very similar to the one applied for IORPs; in majority of reported cases retirement income provided by annuities is taxable. Also, to a large extent taxation rules regarding lump sum payments are very similar to those available under IORPs arrangements. In a few MS cases where benefits are paid out via programmed withdrawals or income drawdown similarities can be also noted.

[38] RO: Please note that there are currently no IORPs set up in Romania. There is also no legislation in place regarding pay-out phase. Until then any exit from the system (due to disability or death) is made by paying the lump-sum.

4.11. Are members given the right to shop around for the retirement income provider and/or product?

4.11.1. IORPs

The option for a member to choose the product of their choice from the provider of their choice varies from MS to MS.
IE, NL and UK are similar in that IORPs that are DB in nature do not provide an option to members to shop around for either pension product or provider. Each IORP that is DC allows members to shop around for pension product and/or provider. The rational for this being that the members should be entitled to purchase the pension of their choosing with the fund they have accumulated. DB is different in that it is usually the employer or pension scheme who is ultimately liable for providing the pension.
As can be seen from above, DE only has DB schemes and benefits are paid out by the IORPs. The possible payout-options members could choose are laid down in the pension plans and general contract conditions.

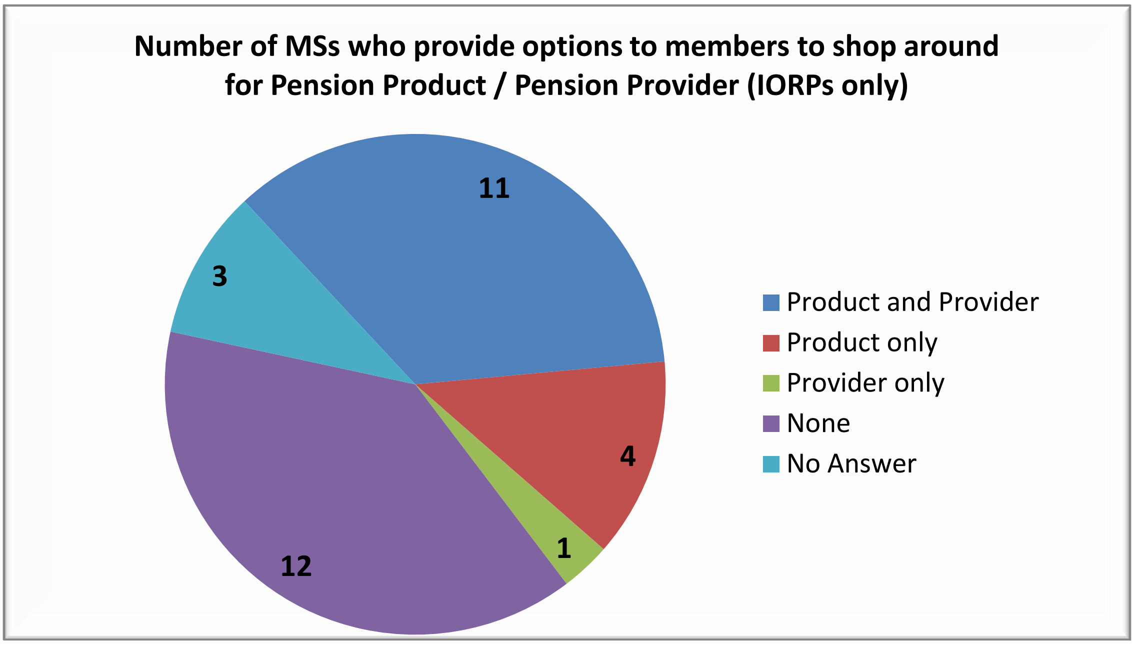
11 MS offer IORP products/schemes that allow members the option to shop around for both their pension provider and pension product (HR, IE, IT, LT, MT, NL-DC, PT, SI, SK, UK-DC, SE). The respective pension plans are both DB and DC. MT says the law is silent on this matter and this does not preclude members to shop around. However, this depends on the structure of the IORP.

Four MS (BG, DK, GR, PL) allow members the option of shopping around for their pension product only while remaining with the same provider. In these circumstances the IORP would pay the benefits and the member would have an option to choose which pension product of that IORP was best suited to their needs.

EE is the only MS that allows a member to shop around for a pension provider while not providing the option to shop around for an alternative pension product but only in case that this is allowed and specified in the conditions of pension fund. Based on the EE law, the units of voluntary pension fund may be changed only for the units of such occupational pension fund according to the conditions of which the employer of the unit holder is the employer contributing to such pension fund

12 of the MS that replied (BE, CY, DE, ES, FI, FR, HU, LI, LU, LV, NO, RO) do not provide any option to members to shop around for either pension provider or pension product. There is no common reason for these MS not allowing for either option. Most plans are DB, however, some are DC only. As BE and LU state, if a member chooses a lump sum, they can do as they like with the funds afterwards.

Chart 6: Shopping around - IORPs



4.11.2. Non-IORPs

MSs differ as regards whether members have a choice of their own product/provider. It is more common for DC schemes to give the member any such option (DK, EE[39], IE, IT, MT, UK).

In NO non-IORPs do not allow members to shop around except for an "Individual Pension Scheme". In PL IORPs and non-IORPs only allow members to shop around for a pension product where the term "product" is meant as an option (among lump sum and programmed withdrawals) or sub-option (e.g. intervals of instalments and/or height of instalment in case of programmed withdrawals), except for open pension funds (1st pillar bis institutions), which are not allowed to offer either option because decumulation phase is provided by ZUS (Social Insurance Institution, responsible for 1st pillar pensions).

In IS and RO there is no option to shop around in non IORP plans. In IS there are no annuity providers on the market and RO only provides lump sum option.

4.12. Financial advice

The answers provided by MS were predominantly in relation to IORPs. Where answers were given in relation to non-IORPs, they were mostly identical to the IORP answer. Therefore, unless otherwise stated, the following does not differentiate between IORPs and non-IORPs.

[39] EE: Based on law the units of pension funds shall be exchanged pursuant to the procedure prescribed in the Funded Pensions Act, Investment Fund Act and in the pension fund rules.

If members have the right to shop around, a number of MS confirmed that while there is no legal obligation, most pension providers would provide advice to members on the best option(s) available. For example the UK has confirmed that 52% of schemes appoint an annuity broker or financial advisor.

DK confirmed a legal obligation on providers to provide advice. DK replied, "According to existing rules on good business practice a financial undertaking must provide advice, if the customer so requests. Furthermore, the undertaking shall provide advice at its own initiative, where circumstances indicate that this is required. Alternatively, the financial undertaking may refer the customer to seek advice elsewhere".

PT replied, "the law requires the entity who managed the accumulation phase to provide beneficiaries with information on the available options regarding the forms of payment (according to the scheme rules), so retirees are generally assisted by this provider and often rely on it for the direct provision or purchase (from another provider) of annuities. Such provider shall act independently and in the exclusive interest of members, beneficiaries and sponsoring employers, according to the applicable legal framework".

MT has confirmed that, while there is no option available to shop around for either retirement product or provider, "Independent Financial Advisers usually advise the member on which scheme to join". As part of that advice, the decumulation options available from each scheme are explained.

Of the IORPs that allow an option to choose pension product and/or provider, the following table summarises the replies received regarding any financial advice being offered by an annuity specialist.

Table 7: Financial advice - IORPs

MS	Reply
BG	No answer (no information on IORPs practice is available, as there are no pensioners from the IORPs yet).
DK	According to existing rules on good business practice a financial undertaking must provide advice, if the customer so requests. Furthermore, the undertaking shall provide advice at its own initiative, where circumstances indicate that this is required. Alternatively, the financial undertaking may refer the customer to seek advice elsewhere.
EE	No answer (no information on IORPs practice is available, as there are no IORPs in Estonia).
HR	Pension insurance company may also provide services to sponsors relating to the implementation of additional pension insurance (informative pension calculation, development of pension program draft, development of the draft report, development of the financial plan and projections for the use of actuary calculations, etc.).
IE	There is no legal obigation to provide advice from an annuity specialist. However, under disclosure rules the different options available on retirement would be explained to a member.
LT	Not applicable, as there are no IORPs established in Lithuania.
NL	There is no specific financial advice, other than certain disclosure rules.

PT	The law requires the entity who managed the accumulation phase to provide beneficiaries with information on the available options regarding the forms of payment (according to the scheme rules), so retirees are generally assisted by this provider and often rely on it for the direct provision or purchase (from another provider) of annuities. Such provider shall act independently and in the exclusive interest of members, beneficiaries and sponsoring employers, according to the applicable legal framework.
SE	No advice offered.
SK	This is not regulated and we do not collect the data, however, in practice providers often give advice.
SI	This option (to choose annuity provider) is new in our legislation and we are not aware yet of any provider who offer financial advice.
UK	52% of schemes appoint an annuity broker or financial adviser (per 2013 TPR Scheme Governance survey).

4.13. Default retirement options

In schemes where there is only one retirement option, a default option is not required. This can be seen in IORPs in NL (life time annuity) and also in non IORPs in HR (annuity), IS (annuity), NL (life time annuity) and RO (lump sum).

In BE, for all IORPs and non-IORPs, the default option is either a lump sum or an annuity. In SE, for all IORPs and non-IORPs, each individual's agreement will specify the default option.

In SI the default retirement option in IORPs is an annuity and providers are entitled to profile members based on age only when determining the annuity. In non-IORPs an annuity is also the default option but providers can profile members based on age and gender when determining the annuity.

In PT, in what concerns employer contributions, IORPs offer the usual benefit as an annuity, unless the retiree chooses to receive up to one third lump sum, subject to plan rules.

In the UK, it is good practice for IORPs and non-IORPs in DC schemes to offer a default annuity tailored to each individuals circumstances. In DB schemes individuals are usually offered a scheme pension and a lump sum based in line with the schemes benefit formula.

Default options in MS are summarised in a table below.

Table 8: Default options – overview

MS	Default Option	Comment
AT	No Answer	
BE	Yes	Both IORPs and Non-IORPs – default is either a lump sum or an annuity.
BG	No	
CY	No	
CZ	No Answer	
DE	Not applicable	
DK	No	
EE	No	
ES	No	

FI	No	
FR	No	
GR	No Answer	
HR	No	Where product only has one option then N/A
HU	No	
IE	No	
IS	No	Where product only has one option then N/A
IT	No	
LI	No	
LT	No	
LU	No	
LV	No	
MT	No	
NL	No	Where product only has one option then N/A
NO	No	
PL	No	
PT	Yes	Life annuities are the usual form of retirement benefit payment in what concerns employer contributions, unless the retiree chooses to receive up to 1/3 of the retirement capital as a lump sum, if the plan rules so permit.
RO	No	Only lump sums are available
SE	Yes	Default option is agreed when entering into pension contract. In all products, IORPs and Non IORPs, annuities are 100% mandatory.
SI	Yes	Annuity is the default in what concerns employer contributions, unless the fund is lower than a certain amount.
SK	No	
UK	No	Good practice in DC is not to offer a default annuity, but to engage with the member and offer an annuity which is tailored to their circumstances. In DB, a member is normally offered a scheme pension and lump sum in line with the scheme's benefit formula.

4.14. Entities that can provide retirement income

Entities that can provide retirement income include insurance undertakings, IORPs, pension funds, special purpose entities or public authorities.

4.14.1. IORPs

The answers received reveal that in 11 of the MS (BG, CY, DE, DK, FI, GR, HR, LV, MT, PL, SE) only the IORPs provide the retirement income.

IORPs in BE, ES, FR, HU, LI, LU, NO, NL, PT, SI and UK provide retirement income but life insurance companies can also provide the income. Typically this would be where the IORP purchases an annuity, on behalf of the member, from a life insurance company who would provide the retirement income thereafter.

In LT only life insurance companies can provide retirement income in circumstances where an annuity must be purchased. Similarly in EE and SK the IORP can pay the lump sum or programmed withdrawals but the member must enter into a contract with a life insurance company to pay an annuity.

In IT, new IORPs may provide for retirement income if authorised by Covip. In IE, the IORP, a life insurance company or a public authority may provide the retirement income.

Apparent from the answers received is that IORPs predominantly provide the retirement income.

4.14.2. Non-IORPs

Life insurance companies and pension funds predominantly provide retirement income in the MS that provided answers for non-IORPs on a voluntary basis. There is no similar pattern between MS. The MS where other providers are in place are FR (paritarian institutions and mutual companies), HR, NO (special purpose entities) and PL (e.g. investment funds, social security institution[40], banks, brokerage firms). In each of these MS, other providers include pension funds and life insurance companies.

[40] PL: ZUS (Social Insurance Institution, responsible for first pillar pensions) in case of open pension funds (1st pillar bis).

5. Types of annuities

5.1. General remarks

In designing the pension systems MS can choose between features. In some MSs the annuity is the primary goal. Whilst in others the entire or partial cash lump sum is entitled as well as alternative option to draw down an income from the fund with restrictions on minimum or maximum drawdown. Nevertheless, when MSs decide on the pension system as a whole they should not forget about the social protection of the members.

A pension system as whole should protect members from spending their resources, that is, a system should ensure protection from longevity risk. This means that member – retiree will not become dependent from the family and/or the state. Lifetime annuity is the only pay out option that provides protection against longevity risk.

Annuity by definition is any continuing payment with a fixed/variable total annual amount that means that annuity provides a guaranteed distribution of income over time, such as via fixed payments until the death of the member (or some other person named in the agreement) or until a final date.

However, as it was already described in the previous chapter, where different options available to the members at retirement were explored, the annuity is not the only option offered to members and is just one of many. There are different types of annuities, which have different flexibility level, and can allow also for heritage and protect against longevity risk. They can be lifetime annuity, time-limited annuity, temporary annuity, lifetime annuity with inheritance, joint-life annuity (where also life of spouse of the member is involved) and many other forms of annuities.

In some MS annuities are "not available" due to either MS do not have a legislation regarding decumulation phase in place yet (HU, RO) or the pay-out phase is for now not regulated (SK[41]) or they perceive decumulation phase as an element of SLL (PL[42]) or annuities in general are not allowed (LV). Those four countries are not analysed in this chapter any more.

In LV (for DC IORPs), the only possibilities for the pay out phase are lump sum and programmed withdrawal.

In EE funds where IORP and LAD Directives are applicable (IORP and funds regulated by LAD) can pay out lump sum and the pensioners must step into contractual relations with life insurance companies for annuity payments. Estonian product types Voluntary pension fund and Mandatory pension fund, with applicable regulation NEL and SSR respectively, provide annuities to their members.

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[41] SK: Type (5.1) and level of annuities (5.3) is left up to the providers, it's not regulated by law and we do not collect this type of information from providers. Therefore, the cells were left blank. New legislation on annuities is currently before the parliament and it provides for much more detailed rules on pay-out phase.

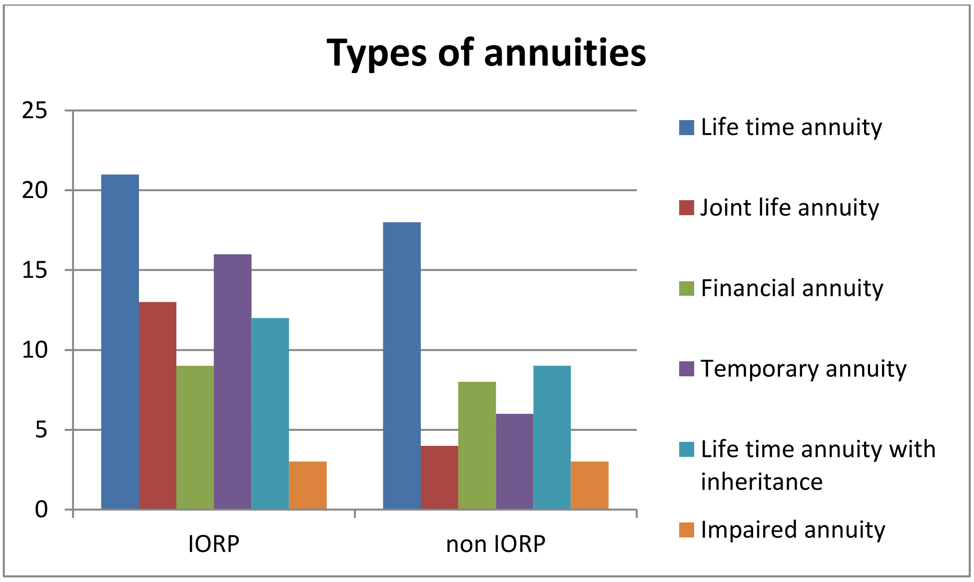
[42] PL: We perceive decumulation phase as the element of SLL.

In MT there is nothing in the legislation which prohibits members to buy annuities. However, these products are currently not sold.

5.2. Types of annuities offered to members

The chart below presents an overview of the main annuity types that are available in different MSs where data for IORPs and non-IORPs should not be directly compared, because data for non-IORPs was provided only on voluntary basis. The same data, shown in a different way, is presented in the Annex 2, which includes a detailed overview of the main annuity types that are available in different MS.

Chart 7: Types of annuities – high level overview



5.2.1. Single life annuity

Single life annuity is an annuity that covers one person during the lifetime of that same person.

In most of the MS (24 out of 30 responding MS) single life annuity is possible. IORPs that are regulated by IORP Directive may provide single life annuity in 21 MSs (BE, CY[43], DE, DK, EE, ES, FI, FR, GR, HR, IE, IT, LI, LU, MT, NL, NO, PT, SE, SI, UK). In BG lifetime annuity is not allowed, in AT it is not offered to members while this option is the most popular in DE, HR and SE.

Lifetime annuity is offered also in 18 MS (AT, BE, DK, EE, ES, FR, HR, IE, IS, IT, LI, LT, MT, NL, NO, PT, SE, SI) in case of non-IORP products.

[43] CY: Single lifetime annuity is offered only to members of pension funds.

5.2.2. Joint life annuity

Joint life annuity is an annuity that covers two persons, most usually a married couple, with the aim of providing both income during retirement. A joint life annuity makes payments to the designated party as long as both persons are alive. It is also possible that payments are made as long as one of the persons remains alive. Depending on the nature of the agreement, the amount of payments may decrease when the first person passes away. It is also called a joint or survivor annuity.

Joint life annuity is allowed/offered in 13 MS (AT, BE, CY[44], DE, EE[45], GR, HR, IE, MT, NL, PT, SE, UK), in the case of IORPs.

In NL joint life annuities are for retirees with a partner, the (by far) most popular choice while for single retirees, the (by far) most popular choice is a single life annuity. In GR and IE this type of annuities are the most popular. On contrary joint life annuities are not common or are unusual in SE.

In case of non-IORPs, joint life annuities are offered just in BE, EE, IS and PT.

5.2.3. Time–limited annuity

Time-limited annuity (financial annuity) is an annuity where the number of payments is known in advance, irrespective of the life of the person and annuity ceases after specified period of time.

Financial annuity is not very common among Member States since only 9 MS (DE, DK, EE[46], ES, HR, LI, MT, SE, UK) allow this type of annuity for IORPs. Details are in Annex 2

In AT in case of death of retiree, orphans can get time-limited annuity.

In SE, pension foundations[47] and book reserves[48] do not provide financial annuity.

5.2.4. Temporary annuity

Temporary annuity is an annuity that ceases upon the death of the annuitant or upon the expiration of a period of time, whichever occurs first.

This annuity type is the only possible annuity in BG, very popular in NO, also in combination with lifetime annuity, depends on product type, and second most popular in SE.

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[44] CY: Joint lifetime annuity is offered only to members of pension funds.
[45] EE: There are no IORPs in Estonia and no practical experiences in this area. Theoretically in EE are allowed all kinds of annuity.
[46] EE: see 45
[47] product SE-4 where IORP Directive is applicable
[48] products SE-5 where NEL is applicable

In 14 MSs (BE, BG, DE, DK, EE[49], ES, FI, LI, LU, MT, NL, NO, SE, UK) pension schemes provided by IORPs may offer temporary annuity. In BE, such annuity is however exceptional and not common market practice.

Only orphans and widow(er)s can get a temporary annuity for IORP products in AT and PT, while non-IORP provides members a temporary annuity.

This annuity type is not allowed or not available in FR, HR, GR, IE, IS, IT, LT and SI in addition to HU, PL, RO, SK and LV, where special cases were described at the beginning of this chapter.

5.2.5. Lifetime annuity with inheritance

Lifetime annuity with inheritance is a single life annuity which is paid out for at least the time specified in the contract. In case of the retiree's (annuitant's) death before the end of the period specified in the contract, the annuity continues to be paid for the remaining period (in some cases this may be settled by paying a lump sum). If the retiree is alive after the time specified in the contract, then the annuity is paid out until the death of the annuitant. This type of annuity is a combination of financial annuity for the first part and a lifetime annuity after the time specified in the contract. It is often called a lifetime annuity with a guaranteed period.

This annuity is the most popular in SI, second most popular in HR and very popular in LT for non-IORP products/plans.

Life time annuity with inheritance in case of IORPs is possible in 12 MS (DE, ES, EE[50], FI, FR, HR, IT, LI, MT, PT, SI, UK).

In HR the usual name is a single pension with a guaranteed period and one version of it is single pension with 50% higher amount of pension within guaranteed period that is the third most popular annuity type in this Member State.

5.2.6. Enhanced or impaired annuity

Enhanced or impaired annuity is an annuity contract that pays a higher income to the member with medical conditions, which may reduce his/her life expectancy. For instance, those who are overweight, have high blood pressure or high cholesterol could get more income than from a good health annuity.

This annuity type is not very common among European countries, as only 4 MSs (AT, IE, MT, UK) offer this annuity type and in case of AT, this is only in case of product that fall under LAD.

[49] EE. same as 45
[50] EE. same as 45

5.3. What is the level of annuities during the decumulation period?

Annuities are long term products, even more, they can be life-time products. So it is important for retirees to know if the amount of annuity specified at the beginning of the decumulation will remain the same or if it will somehow change. This means that the annuity contract should specify what the pension adjustment will be and under what conditions it will happen. It is also possible that there will be no change in the amount paid out to the retiree (level annuity).

Data for IORPs and non-IORPs should not be directly compared, because data for non-IORPs was provided only on a voluntary base.

Level annuity is an annuity where income remains constant in nominal terms during the term of the annuity. This is possible in 16 MS (AT, BE, DE, DK, ES, FI, GR, HR, IE, LI, LU, NL, NO, PT, SE, UK) in case of IORPs and in 12 MSs in case of non-IORPs (AT, BE, HR, DK, EE, ES, IE, LI, NL, NO, PT, SE).

Index linked annuity is an annuity where income is increased in line with agreed (specified) index (it can be price index, stock index,…) during the term of the annuity. It is possible to have such a contract in 16 MS (AT, BE, CY[51], DE, DK, ES, FI, HR, IE, LI, LU, NL, NO, PT, SE, UK) in case of IORPs, while 10 MS (AT, BE, HR, DK, ES, IS, IE, NL, NO, PT) allow this in case of non-IORPs.

Annuity with conditional indexation is an annuity where income is increased in line with agreed (specified) index or other variables, but only when certain conditions are verified. In UK it is not normal for DC schemes, but many DB schemes offer benefits with increase at discretion of trustees. Annuity with conditional indexation in case of IORPs is possible in 14 MS (AT, BE, BG, DE, ES, FI, FR, IE, LI, LU, NL, PT, SE, UK), while this is the only possibility in BG. From replies received conditional indexation of an annuity is possible in 9 MS (AT, BE, ES, FR, IE, NL, PT, SI, SE) in case of non-IORPs.

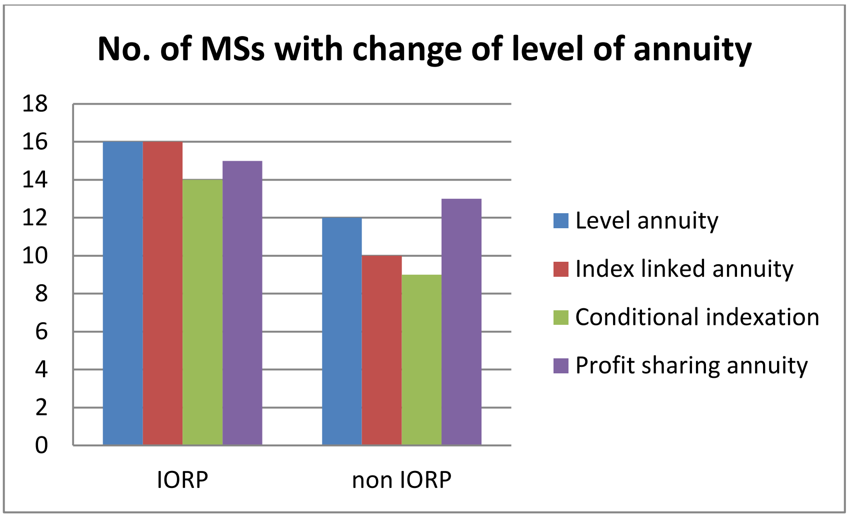
Profit sharing annuity or an annuity where income is increased in line with profit sharing mechanisms is a possibility that is popular among MS as 18 MS allow for this mechanism. In case of IORPs 15 MS (AT, BE, DE, DK, ES, FI, FR, HR, IT, NL, NO, PT, SE, SI, UK) and in case of non-IORPs 13 MS (AT, BE, ES, FR, DK, HR, IS, IT, NL, NO, PT, SE, UK) allow for profit sharing mechanism. Even more, this mechanism for increasing annuities is the only one allowed in HR and SI.

In IT there are no legal requirements about level of annuities but pension funds typically offer profit sharing annuities.

In HR the profit sharing mechanism is mandatory for 1st pillar bis schemes and there is detailed regulation regarding when and how much of the profit should be allocated to pension beneficiaries. For other products, profit sharing mechanism is discretionary to the pension provider.

[51] CY: index linked annuity is offered only to members of pension funds

Chart 8: Change in level of annuities – high level overview



6. Conclusions

Findings of this report could be used in further EIOPA work on information provision to members and beneficiaries of various pension arrangements. The report could also serve as a source of existing decumulation practices in a number of Member States; especially in terms of pay-out phase options available to members. For Central European countries, where those practices are not fully developed yet, this could be particularly beneficial.

6.1. Start of the decumulation phase

The (possible) ages of retirement appear to differ more or less among MSs and in many cases they depend on the specific rules of the pension scheme provided by IORPs. Nevertheless, the general age when decumulation starts is mostly within the boundaries of age 50 to age 70. A 'normal' age is mostly within the span of ages 60 to 65; however, policy measures in a rising number of MSs are heading for a raise of this age towards 67 (or more).

Starting decumulation earlier is mostly possible; this is prohibited only in 6 out of the 30 countries in the survey. The majority of the MS (about 60%) allow for the possibility of early retirement due to disability. In case of early death before the start of the decumulation phase, in most MSs and in most cases, usually the beneficiaries would receive a benefit, either by way of payment in the form of a lump sum, an annuity or the conveyance of the accumulated assets. Arrangements may differ according to specific agreements in the pension contracts or scheme rules.

In view of the gradual rise of the target retirement age the possibilities for delaying decumulation increase as well. With the exception of only three MS, members may generally delay decumulation in far most of the pension schemes available. Such a delay usually implies: more years of accumulation would generally imply fewer years of (expected) decumulation, resulting in higher yearly retirement benefits. In most of the MS it is also possible to receive pension benefits and still be working with the same or with an alternative employer. In that case however, working longer will in most MS not lead to extra accumulation of future retirement claims. Finally, in only 3 MS some schemes allow a transformation of part of the accumulated capital into an annuity, while at the same time continue paying contributions to the same arrangement in order to buy additional (separate) annuities from it later.

6.2. Information disclosure rules

The mandatory and conditional information requirements for IORPs in respect of decumulation differ among MS and largely depend on the specificities of the second pillar regime in each country. Where comparison tools are provided, these are also designed to meet the needs of individual countries' pension systems.

However, although information requirements vary between MS, there are some common themes that emerged from the answers to the questionnaire. In many cases the information provided to members of IORPs in advance of decumulation is similar or identical to the information that is provided during the accumulation phase. Where additional information is required, this commonly relates to the level of benefits and the form in which a retirement income may be drawn.

6.3. Costs and charges

The main conclusion to be drawn from this overview is that the types of costs and charges applicable to pension benefit payment differ significantly among MS, as well as the rules applicable to them. The different regimes can be partially explained by the type of providers and/or schemes that prevail in each MS (IORPs vs. non-IORPs, DC vs. DB schemes).

In a significant number of MS costs and charges are not regulated during the decumulation phase. Only a few MS apply some kind of limit or restriction to such costs and charges.

Regarding disclosure rules on costs and charges levied during the decumulation phase, if relevant for members and beneficiaries, the legal frameworks of the majority of MS for which this topic is relevant mainly refer to principles.

6.4. Options available to members at retirement

Annuities and lump sum payments are the most prevalent pay-out options. Less common are programmed withdrawals and then income drawdown respectively. Only five MS indicated other available decumulation alternatives. An income drawdown alternative is the least common among countries and is present in only 6 MS.

The most common combination is a pattern of annuity and lump sum for both IORPs and non-IORPs types of arrangements.

Lump sums seem to be quite popular option among members of IORPs. However, annuities are still a relatively common alternative and in some instances are offered on a mandatory basis.

One may assume that popularity of lump sums is triggered not only by an immediate desire to access cash but also by other circumstances e.g.: ambiguity regarding the level of 1st pillar pension provision, member's need for a cash influx due to his/her financial situation, little experience of some MS (CEE) due to relatively "young" pension systems and for now, unsubstantial number of beneficiaries.

On average about 50% of MS allow IORPs to offer members the option to choose their own pension product and/or provider. Where such an option is available very few IORPs offer advice from an annuity specialist. Options are more regularly available in DC schemes than in DB schemes. In most MS, IORPs can provide lump sums and other retirement income options. In some MS, IORPs may not pay out annuities, but instead annuities are paid out by life insurance companies.

For the most part, little difference could be ascertained from the voluntary answers, where received, regarding non-IORP schemes. The same options are available and the voluntary pension fund usually provides the same function as an IORP. For non-IORPs only 3 MS have default options in place.

6.5. Annuity types

Lifetime annuity is the only pay out option that provides protection against full longevity risk. Different types of annuities have different flexibility level and different protection against longevity risk. Two thirds of MSs offer single life annuity, which is also most common annuity type among MS. Joint life annuity is second most popular in case of IORPs while among non-IORP providers is the least common. Other annuity types are offered in one third of countries.

Changing the level of annuity by some index or profit sharing mechanism can be observed in almost all MS. Only one MS offers just level annuity e.g. annuity where income remains constant.

7. Annexes

7.1. Annex 1 - summary of options that are possible per MS[52]

MS	Annuity		Lump sum		Programmed withdrawal		Income drawdown		Other	
	IORP	non IORP	IORP	non IORP	IORP	non IORP	IORP	non IORP	IORP	non IORP
AT	x	x	x	x						
BE	x	x	x	x						
BG	x		x		x					
CY	x		x							
CZ										
DE	x		x		x		x			
DK	x	x	x	x	x	x		x		
EE	x	x	x	x	x	x				
ES	x	x	x	x			x	x	x	x
FI	x		x		x					
FR		x	x	x						
GR	x		x							
HR	x	x	x	x	x	x				
HU	x	x	x	x					x	
IE	x	x	x	x			x	x		
IS		x		x		x		x		
IT	x	x	x	x						
LI	x	x	x	x	x					
LT	x	x	x	x					x	x
LU	x		x		x					
LV	x		x		x					
MT	x	x	x	x	x	x				
NL	x	x								
NO	x	x				x				
PL			x	x[53]	x	x[54]				x
PT	x	x	x	x		x				
RO			x	x						
SE	x	x								
SI	x	x	x							
SK	x	x	x		x	x				
UK	x		x		x		x		x	

[52] 30 responding MS in case of IORPs and 22 responding MS in case of non-IORPs.
[53] Except for open pension funds – 1st pillar bis institutions.
[54] Except for open pension funds – 1st pillar bis institutions.

To tal	26	20	26	17	13	9	4	4	4	3

7.2. Annex 2 – summary of the annuity types that are possible per MS[55]

MS	Life time annuity		Joint life annuity		Financial annuity		Temporary annuity		Life time annuity with inheritance		Enhanced or impaired annuity	
	IORP	non IORP	IORP	non IORP	IORP	non IORP	IORP	non IORP	IORP	non IORP	IORP	non IORP
AT		x	x			x	x[56]	x				x
BE	x	x	x	x			x					
BG							x					
CY	x		x									
CZ												
DE	x		x		x		x		x			
DK	x	x			x	x	x	x		x		
EE[57]	x	x	x	x	x	x	x		x	x		
ES	x	x			x	x	x	x	x	x		
FI	x						x		x			
FR	x	x							x	x		
GR	x		x									
HR	x	x	x		x	x			x	x		
HU												
IE	x	x	x								x	x
IS		x		x		x						
IT	x	x							x	x		
LI	x	x			x		x		x			
LT[58]		x								x		
LU	x						x					
LV												
MT[59]	x	x	x		x	x	x	x	x	x	x	x
NL	x	x	x				x					
NO	x	x					x	x				
PL												
PT	x	x	x	x		x	x[60]	x	x	x		
RO												
SE	x	x	x		x		x					

55 30 responding MS in case of IORPs and 22 responding MS in case of non-IORPs.
56 AT: Only orphans and widow(er)s can get temporary annuities
57 EE: In Estonia don't have practical experience. Theoretically, all kind of annuities are allowed.
58 LT: Legislation does not regulate possible annuity types.
59 MT: These products are currently not sold in Malta; law is silent on this matter.
60 PT: Only orphans and widow(er)s can get temporary annuities.

SI	**x**	**x**							**x**			
SK												
UK	**x**		**x**		**x**		**x**		**x**		**x**	
Total	**21**	**18**	**13**	**4**	**9**	**8**	**16**	**6**	**12**	**9**	**3**	**3**