IOPS Working Papers on Effective Pensions Supervision, No.21

Supervising the Distribution of Annuities and other Forms of Pension Pay-Out

Dariusz Stańko and Nina Paklina
December 2014

IOPS WORKING PAPERS ON EFFECTIVE PENSIONS SUPERVISION

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SUPERVISING THE DISTRIBUTION OF ANNUITIES AND OTHER FORMS OF PENSION PAY-OUT

ABSTRACT

This paper provides an overview of the main types of pension products on offer in different IOPS Member jurisdictions and ways they are distributed. It presents how IOPS Members supervise the entities providing and advising on these products and identifies main challenges pension supervisors face with respect to supervising these products and proposes some possible responses to these challenges.

The paper provides detailed case studies of the automated system of pension bids (SCOMP, Sistema de Consultas y Ofertas de Montos de Pensión) operating in Chile and the Open Market Option (OMO) system used in the UK.

Keywords: annuities; decumulation phase; supervision; retirement products, consumer protection

JEL codes: G-23, G-28, D-18

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SUPERVISING THE DISTRIBUTION OF ANNUITIES AND OTHER FORMS OF PENSION PAY-OUT

Project background

This report focuses on those pension services providers that are selling or advising on annuities and other forms of pension pay-out to individual members of pension plans[1]. The private pension plans covered by the report are defined contribution in nature as in most cases (though not all) members of defined benefit plans receive a pension automatically and do not have to make such choices.[2] Particular attention also is given to situations where individuals have a choice of pay-out form or of provider, rather than on cases where the employer chooses the form or provider on their behalf or where there is a centrally managed provider (as in Singapore's CPF or Sweden's premium pension system).

As with Working Paper No. 17 on intermediaries, this paper provides an overview of the main types of pension pay-out on offer in different IOPS Member jurisdictions and how they are distributed. Some of the main challenges around how individuals choose which pension product is right for them are outlined. How IOPS Members supervise the entities providing and advising on these products, and examples of how these challenges are being dealt with in IOPS Member countries is then provided – including via more detailed country case studies. The annex of this paper includes the updated descriptions of the SCOMP (Sistema de Consultas y Ofertas de Montos de Pensión) system in Chile and the OMO (The Open Market Option) system in the UK, which were previously discussed in IOPS Working Paper No. 7 '*Transparency and competition in the choice of pension products: The Chilean and UK experience*.'

For clarity and consistency purposes, definitions and meanings of the following general terms[3] used within the report are listed below.

Terminology:

- **Actuarial consulting firms**: an entity that provides actuarial advice, which may include customised online annuity services developed for the trustees or administrators of an occupational pension plan and directly accessible to plan members.

- **Advisors and software suppliers:** an entity that provides **products and services** to insurance companies and brokers (sometimes also providing customised surveys to the media). Remunerated by fees and subscriptions.

- **Agents**: a person or a company that usually has a legal relationship with the product provider:

  - 'Tied' agents are defined as being a person or a company selling products and services from one provider;

[1] The paper benefited from numerous valuable input and comments by the IOPS Members as well as from the IOPS Referee, Mr Ross Jones. We kindly acknowledge substantial assistance of the Chilean and UK Members who prepared material used in the Annex. We would like to thank Ms Bianca Garwood from the Financial Conduct Authority, UK for her helpful comments on the UK case.

[2] The USA is, for example, an exception where members of some DB plans can receive their benefits as a lump sum. How they then invest this is a separate individual decision. Also, there might be a case where members do have to choose due to subsequent outsourcing of the pension to an annuity provider such as an insurance company, which is common in South Africa. Australia is another example where DB plans' members may opt to receive their benefits as a lump sum.

[3] The meanings and definitions of general terms are sourced from the paper (Antolín et al. 2008).

- Independent agents are defined as being a person or company selling a variety of insurance and financial products and services and typically representing a number of providers.

- **Broker**: a person or a company that usually has a contractual relationship with the customer rather than the provider; licensed and regulated (as life insurance agents or brokers) by the industry, the relevant professional body, the insurance industry regulator, etc. Customarily remunerated by commissions payable on the single-premium life annuity purchase; brokers provide clients with quotes on all or a broad range of providers and execute the sale. "Pure" brokers do not provide financial advice.

- **Financial adviser directly attached to the plan**: under this category, there would typically be only one broker or financial adviser for the plan. The employee approaching retirement would be forced or encouraged to use this third party. This approach is more likely to result in group annuity rates being available to the retiree. This financial adviser would be licensed and regulated as any other equivalent financial adviser.

- **Independent financial adviser** a person or company which offers financial services (whole market), including independent advice on which form of retirement pay-out to choose and has no link to any financial institution providing retirement products.

- **Life annuity** means a stream of payments for as long as the retiree lives.

- **Lump sum is** a single payment made when claim conditions are met.
- **Pension services provider**: an entity providing private pension products or services.
- **Private pension fund**[4]: a pension fund that is regulated under private-sector law.
- **Private pension plan**[5]: a pension plan administrated by an institution other than general government. Private pension plans may be administrated directly by a private-sector employer acting as the plan sponsor, a private pension fund or a private-sector provider. Private pension plans may complement or substitute for public pension plans. In some countries, these may include plans for public-sector workers.
- **Programmed withdrawal (PW)** means a series of fixed or variable payments generally calculated by dividing the accumulated assets by a fixed number or by the life expectancy in each period.

- **Supervised entities***:* private pension funds, plans, schemes, service providers and arrangements that have been at any time overseen by a pension supervisory authority.

This report provides stocktaking of the responses collected through the questionnaire process and identifies a number of issues and challenges around the distribution and supervision of pension pay-out products for further analysis.

I. Introduction

IOPS Working Paper No. 7 *"Transparency and competition in the choice of pension products: The Chilean and UK experience"* (2008), which discussed the annuity distribution systems in Chile and the UK, highlighted how the growing maturity of defined contribution (DC) pension plans is focusing attention

[4] Private Pensions, OECD Classification and Glossary: http://www.oecd.org/finance/private-pensions/38356329.pdf.

[5] Ibidem.

on the decumulation or pay-out phase of pension systems. Over time, DC plans are moving gradually from the accumulation towards the pay-out phase. Yet a framework for how to transition between the accumulation and decumulation phases has yet to be outlined in detail, or even put in place at all, in several countries.

Pension supervisors need to be satisfied that fund managers and/or trustees handle the transition to the decumulation phase carefully to avoid beneficiaries making choices which could lock them into a sub-optimal pension pay-out. Where annuitisation is encouraged or mandatory, the key is how to ensure that individuals get the most appropriate annuity at the best price for that product. The complicated nature of these systems means that the purchasers are highly dependent on the information and advice provided by the sellers of these products. This can be a problem where annuity purchasers are already locked in and are not able to shop around to find a better annuity price from alternative providers. However, making such comparisons is difficult and time-consuming. The annuity purchase decision, which is the most common mechanism members use in many jurisdictions to convert accumulated retirement savings in a DC fund into an income stream in retirement, needs to be handled carefully. This type of pension pay-out is highly complicated and individuals often do not understand the advantages of life annuities in hedging their longevity risk. The experience of the voluntary market shows that few members decide to annuitise their pension savings. This phenomenon has been labelled the "annuity puzzle"[6]. Rusconi (2008) remarks that prolonged price differences suggest that the low price-sensitivity of customers should be a subject of concern for policymakers. Rusconi suggests that supervisors should gather some information on pay-out product prices to understand the market dynamics as a necessary precondition for making informed regulatory interventions.

As IOPS Working Paper No. 17 *"Supervision of Pension Intermediaries"* (2012) points out, problems with decision-making in the decumulation phase include the following:

- Individuals often have a choice between forms of retirement income (e.g. between lump sum, programmed withdrawals and annuities). Incentives for intermediaries to sell these products may differ. This may result in intermediaries providing improper advice that ultimately leads to individuals making sub-optimal choices.

- In some systems the purchase of an annuity is compulsory. Yet these are complex forms of pay-out and individuals therefore may well require the help of intermediaries to understand what choices are available and to decide what type of annuity product to choose (e.g. do individuals have an impaired life or could they qualify for some kind of enhanced rate? Do they need coverage for their spouse or dependants?). As discussed in Antolín et al. (2008), when it comes to the pay-out phase, there are concerns that retirees do not always have the necessary understanding, information or expertise to select the best retirement product to suit their best interests and needs.

- In addition, individuals often do not realise that they can purchase an annuity from someone other than the provider who managed the accumulation stage of their pension (or even if they do realise it, they often do not "shop around"). Therefore, individuals should be encouraged to compare products, despite such comparisons often being difficult and time-consuming.

- As well as locking into a sub-optimal provider or product, individuals also risk locking into an annuity at an inappropriate time, when annuity rates are low. This means that two individuals with the same accumulation balance could potentially face the prospects of living on very different retirement incomes – see for instance Antolín (2008). This timing risk is also present –

[6] A concise summary of the reasons for the annuity puzzle can be found in Warshawsky (2012: 13-16).

and might even be more substantial – in systems with mandatory annuities, where the decision when to annuitise is not up to the individual.

- Specific protection for members is required to prevent them acquiring sub-optimal retirement income for rest of their lives. Targeted assistance, advice and information (including on alternative providers to the one used in the accumulation stage) when choosing a retirement product may be required, and specific oversight of how such assistance is provided and incentivised may be needed.

II. Distribution and Supervision of Annuities and Other Forms of Pension Pay-out in IOPS Member Jurisdictions

II.1. Pension pay-out options and default options

i. Main types of pay-out options

Antolín et al. (2008) review the different types of pension benefit which are allowed to be taken in a selection of OECD and non-OECD countries. There is generally a choice between a lump sum (a single payment), programmed withdrawals (a series of fixed or variable payments generally calculated by dividing the accumulated assets by a fixed number or by the life expectancy in each period) or life annuities (a stream of payments for as long as the retiree lives).

The responses by IOPS Members to questionnaires demonstrated a wide variety of pay-out options available in their jurisdictions.

Table 1 summarises the diverse types of retirement pay-out options and the combination of these available in those IOPS jurisdictions that participated in the project. The summary comprises 40 jurisdictions with 56 pension schemes/systems.

Table 1 shows that 32 jurisdictions allow members reaching retirement age to take all or part of their accumulated funds as a lump sum. Whilst this approach may be common amongst the IOPS members, it is recognised that the major disadvantage of this approach is the risk for retirees of completely exhausting completely their retirement savings while alive. This might undermine the very purpose of the pension programme, which aims to provide regular income for individuals until death and to prevent old-age poverty. In two other systems (the Hong Kong Mandatory Provident Fund, and the Mauritian mandatory National Savings Fund), members have no option other than a lump sum[7]. In 20 jurisdictions (and 24 systems) it is possible for members to choose, with no constraints, to take all of their accumulated funds as a lump sum, as one of a number of possible retirement options. Of these 24 systems, most are voluntary systems. However, the mandatory schemes of Australia, Hungary, Iceland, Korea, and Panama also allow members to take all their accumulated funds as a lump sum.

It should be noted that in jurisdictions where lump sums are taken, there may be products or strategies available outside of the pension fund which members can use to subsequently convert the lump sum into an

[7] Under the Mandatory Provident Fund ("MPF") system in Hong Kong, a scheme member may choose to defer withdrawal to a time beyond his 65th birthday, but when withdrawing, the member must take the entire amount of benefits as a lump sum. At the time of writing this paper, legislation allowing phased withdrawal was being debated.

income stream (retail annuities for example). This paper does not explore such arrangements but focuses on the form of pay-outs at the point where accrued benefits are first transferred, or available to members.

In the remaining jurisdictions that allow some lump sum options, there is a range of restrictions on what can be taken as lump sums. In some countries, lump sums are allowed only for those who have accumulated too little savings for annuities or programmed withdrawals to be viable. In Colombia, for example, lump sums are available to individuals who have had a short contributing history. In a number of other countries (for example, Armenia, Austria, Bulgaria, Costa Rica, Dominican Republic, and Italy) lump sums are allowed where accumulated funds are insufficient to finance some basic level of ongoing pension. The rules vary from country to country.

Chile is unusual in that its constraint on taking lump sums works from the opposite direction despite having the same policy objective. In Chile, those who accumulate a sufficient amount above a stipulated level can take the excess as a lump sum. In both Israel and Armenia it is possible for members to take part of their funds as a lump sum after they have accumulated balances sufficient to maintain a particular ongoing benefit (life annuity).

Some countries impose maximum limits on the amounts or percentage (such as one-third or one-quarter) of funds accumulated that can be taken as a lump sum. Malta, Mauritius, Portugal, Slovakia and India's National Pension System impose these types of restrictions.

Only one system (Bulgaria, mandatory professional funds) mandates programmed withdrawal as an early retirement benefit for certain categories of workers. That benefit is paid until the beneficiary becomes entitled to an old-age pension. Programmed withdrawal as a single product is allowed in 11 jurisdictions (13 systems), while in 18 jurisdictions (20 systems) they are available as a single choice or part of a range ("package") of options. In another two countries (Colombia, Jamaica), restrictions on programmed withdrawals require partial annuitisation.

Eight jurisdictions mandated some form of life annuity[8], while in 33 jurisdictions, life annuities may be chosen from a number of options.

In half (28 out of 56) of all pension schemes presented in Table 1, members may choose a combination of pay-out products. This package generally includes lump sums, programmed withdrawals and annuities in various combinations[9]. Where a range of options is available, lump sums and partial withdrawals are the most popular retirement options.

Only in six jurisdictions can individuals select between programmed withdrawals or annuities or a combination of both.

[8] In Armenia, life annuity is an obligatory product in the mandatory system, whereas in the voluntary system, it is optional.

[9] In Chile, members can also choose a package but restrictions apply for life annuities (pension must be higher than the basic solidarity pension) and for lump sums (pension must be higher than 100% of the maximum pension with solidarity payment and higher than 70% of the average earnings of the last 10 years).

Table 1: Possible forms of pay-out and default options in selected IOPS jurisdictions (numbers in boxes refer to Table footnotes)

Jurisdiction	Single mandated product only			Choice possible:					
	LS	PW	LA	LS	PW	LA	Other	Possible to combine?	Default product
Albania (voluntary personal)									
Armenia (mandatory personal)			1						
Armenia (voluntary personal)								2	
Australia (mandatory, voluntary, occupational, personal)								3	
Austria (voluntary occupational)			4						
Bulgaria (mandatory personal universal funds)			5						
Bulgaria (mandatory professional funds)									
Bulgaria (voluntary personal funds)									
Chile (mandatory personal)				6		7	8	7	
Colombia				9	10		11		
Costa Rica (mandatory occupational)				12			13	12	13
Costa Rica (voluntary personal)							14	15	
Czech Republic (2nd pillar personal voluntary retirement savings)									
Czech Republic (3rd pillar voluntary supplementary pension savings)									
Czech Republic (supplementary personal voluntary pension insurance; system closed for new participants)									LA
Dominican Republic (mandatory occupational)				16					PW
Hungary (mandatory personal)									LA
Hungary (voluntary)									
Hong Kong, China (Mandatory Provident Fund)									
Iceland (mandatory occupational)									
Iceland (mandatory personal)									
India (National Pension System, NPS)				17		18			LA
Israel (mandatory personal)			19						
Italy (voluntary, occupational and personal)				20					
Jamaica (voluntary occupational)					21			21	22
Jurisdiction	Single mandated product only			Choice possible:					
	LS	PW	LA	LS	PW	LA	Other	Possible to combine?	Default product

Abbreviations: **LS** – lump sum; **PW** – programmed withdrawal; **LA** – life annuity. **Lighter shading** indicates some (quota or combination) constraints imposed on a particular product.

Jurisdiction	Single mandated product only			Choice possible:					
	LS	PW	LA	LS	PW	LA	Other	Possible to combine?	Default product
Kenya (mandatory occupational)									PW
Kenya (voluntary occupational)									
Korea (mandatory occupational)				23					
Luxembourg (voluntary occupational)									
Macedonia (mandatory personal)									PW 24
Macedonia (voluntary personal)									PW 25
Malta (voluntary occupational)				26					
Mauritius (mandatory National Savings Fund DC)									
Mauritius (mandatory National Pensions Fund DB)									
Mauritius (voluntary occupational)				27					LA
Mexico (voluntary occupational)								28	
Namibia									
Netherlands (mandatory and voluntary, occupational)									
Nigeria (mandatory occupational)				29					PW
Pakistan (voluntary personal)				29					
Panama (mandatory occupational public sector)						30			
Peru (mandatory personal)									
Poland (mandatory personal)			31						
Portugal (voluntary occupational)				32					LA
Portugal (voluntary personal – retirement saving schemes)									
Portugal (voluntary personal – individual membership in open pension funds)									
Romania*									
Slovak Republic (voluntary personal)									
Slovak Republic (voluntary occupational)				33					
South Africa (voluntary personal)				29					
South Africa (voluntary occupational)									
Spain (voluntary, occupational and personal)									
Tanzania (mandatory)				34					
Thailand (voluntary provident fund)									LS
Turkey (voluntary, occupational and personal)								35	
UK (voluntary occupational)				27				36	LA
Total jurisdictions 40	**2**	**1**	**8**	**32**	**29**	**33**	**4**	**24**	**13**
Total schemes 56	**2**	**1**	**8**	**39**	**35**	**43**	**5**	**28**	**14**
Jurisdiction	**Single mandated product only**			**Choice possible:**					
	LS	**PW**	**LA**	**LS**	**PW**	**LA**	**Other**	**Possible to combine?**	**Default product**

Abbreviations: **LS** – lump sum; **PW** – programmed withdrawal; **LA** – life annuity. **Lighter shading** indicates some (quota or combination) constraints imposed on a particular product.

Notes:

* There is no pay-out product legislation yet in Romania, but it is soon to be finalised in order to provide members with a full range of choice between various retirement products. The existing legislation gives the right to pension fund members to receive at retirement their accumulated assets either as a LS or as a PW for a maximum period of 5 years.

(1) In the mandatory system in Armenia, it is possible to have LS, PW, LA or combination of these if the benefit is lower than 75% of basic pension. Also, for benefits higher than 500% of the basic pension it is possible to take an excess over 100% in the form of LS, PW or combination of these.

(2) Only LA in case of personal voluntary DB schemes. All options are possible in case of personal voluntary DC schemes.

(3) Including term annuities and any other product that is offered in the market.

(4) LS only if the value of assets is below EUR 9 300 (euros).

(5) LS if mandatory universal pension fund savings are not able to finance 20% of the social old-age pension.

(6) LS possible only for the surplus above assets high enough to finance a pension higher than 100% of the Maximum Pension with Solidarity Payment and at the same time higher than 70% of their last 10 years' average covered earnings.

(7) LA if assets can finance a pension higher than the Basic Solidarity Payment. LA can be combined with PW (and vice versa).

(8) Deferred LA (conditions as in 7) and *temporary income* (see point 14) during the deferral period.

(9) LS as a single product possible only if a member does not meet requirements (minimum number of contribution years) for obtaining a pension.

(10) The remaining accumulated capital in the individual account must be enough to finance a LA at least equal to the minimum monthly national salary.

(11) There are seven products available in Colombia – see their description in the text.

(12) LS can be chosen only if DC pension (expressed as PW) is lower than 10% of DB pension. Same condition applies for combining any of pay-out products.

(13) So-called *permanent rent* – i.e. receiving investment gains from pension account. It is possible to convert it into any other pay-out products any moment after retirement.

(14) So-called *temporary rent* – being a kind of PW.

(15) Unless LS is chosen, a worker has to pay income tax.

(16) LS as a single product for members 45 years old or older at the time of joining the system only if their accumulated savings will not be sufficient to obtain the minimum pension established by law.

(17) At least 40% must be taken as LA; the rest can be taken as LS any moment until beneficiary reaches age of 70.

(18) Joint spouse life annuity with 100% of main annuitant's benefit paid to a spouse upon the death of main annuitant.

(19) Excess of funds above the level needed to finance LA equal to one-half of average salary can be taken as LS.

(20) Full LS only if savings are below a certain threshold. Currently this situation applies to almost all members that retired.

(21) Possible single LA or LS or combination. If PW is chosen, it must be combined with LA or with LS and LA.

(22) LA in most cases, with 5 years benefit payment guarantee.

(23) Currently 97.4% individuals choose LS in mandatory occupational schemes in Korea.

(24) If no choice is taken at retirement age + 3 years. It is possible to convert it into LA later on.

(25) If no choice taken until age of 70. It is possible to convert it into any other product.

(26) LS maximum one-third of initially accumulated funds and up to 50% of the excess value over assets needed to finance sufficient benefit.

(27) LS normally maximum one-quarter of accumulated funds as a tax-free payment. In case of the UK, from April 2015, the proposed removal of these constraints will enable savers to choose between LS, PW, LA or any combination of those.

(28) PW and LA cannot be combined simultaneously, but they can be chosen sequentially – first PW, then LA.

(29) LS only in combination with PW or LA.

(30) LA practically non-existent. Currently 98% individuals choose LS and 2% PW in mandatory complementary savings system for public-sector employees in Panama.

(31) Currently the payment for people aged between 60 and the target retirement age (to reach gradually 67 for women in 2040 and men in 2020) is done as PW. Upon reaching the retirement age, all savings will be annuitised.

(32) Employee contributions can be taken as LS, LA or combination of both. Employer contributions can be taken as LS up to one-third of accumulated funds or full LS when the benefit is lower than 10% of the statutory monthly minimum wage.

(33) LS only in combination with PW or LA - up to 25% with PW and 50% with LA.

(34) LS only in combination with LA.

(35) Only LS + PW combination is possible.

(36) In some schemes LS can be combined with PW. From April 2015, it is proposed that savers will be able to choose between LS, PW, LA or any combination of those without any constraint.

Perhaps the widest range of option is available in Colombia where a retiree can choose single product out of seven options:

- life annuity with a life insurance company (decision irrevocable);
- programmed withdrawal (with restrictions described under the table 1, note 10);
- programmed withdrawal with deferred life annuity (the deferred annuity must not be lower than the minimum benefit);
- defined temporary income with deferred life annuity (the beneficiary arranges the payment with a life insurance company of a specific income and a deferred life annuity, which will begin at the moment the defined temporary income period ends);
- variable temporary income with deferred life annuity (the member can elect to receive a higher benefit payment during the variable temporary income period and lower during the deferred life annuity, or vice versa, depending on the member's needs);
- programmed withdrawal without negotiating the recognition bond (member begins to receive the benefit before redemption of the recognition bond issued);
- variable temporary income with immediate life annuity (an insurance company pays the member an immediate life annuity at the moment of retirement, holding in the individual account the necessary resources for the AFP to pay simultaneously a variable temporary income during the period agreed with the AFP).

In the UK, access to DC pension savings will substantially change in the near term[10]. As of 27 March 2014[11], savers have greater freedom of choice over accessing their defined contribution pension savings. The limits on the maximum amount that can be withdrawn as a programmed withdrawal will be considerably increased. Next, from April 2015, these limits will be eliminated so that savers aged 55 or more will have an unconstrained choice how to access the rest of their pension savings[12] (PPI, 2014). The savers will also be offered free and impartial guidance on their options[13].

ii. Default options

In those 11 jurisdictions with a single pay-out option, that form naturally operates as the default. Amongst countries allowing multiple pay-out options, only 13 of respondent authorities confirmed that default forms of pension pay-out were available in their jurisdictions. While the design of the default option varies considerably among authorities, two main types of default arrangements could be identified: programmed withdrawals and annuities. Lump sums appear to be quite rare as a designated default option. Table 2 below summarises the responses from the IOPS Members that reported the availability of default forms of pension pay-out in their respective jurisdictions.

[10] More details follow in the Annex describing the UK Open Market Option (AII.3).

[11] Budget 2014: support for savers announced, https://www.gov.uk/government/news/budget-2014-support-for-savers-announced, published 19 March 2014.

[12] Subject to pension scheme rules. Under the new system, individuals will be able to access their DC savings from age 55 in all circumstances. However, this age will rise to 57 in 2028 (HM Treasury, 2013: 26).

[13] The details are still to be decided.

Table 2: Default forms of pension pay-out amongst countries allowing multiple options

Type of default product	Countries
Lump sum	Thailand (voluntary, provident fund)
Programmed withdrawal	Dominican Republic (mandatory occupational) Kenya (mandatory occupational) Macedonia (mandatory personal and voluntary personal) Nigeria (mandatory occupational)
Life annuity	Czech Republic (supplementary personal voluntary pension insurance, system closed to new participants) Hungary (mandatory personal) India (National Pension System, NPS) Jamaica (voluntary occupational) Mauritius (voluntary occupational) Portugal (voluntary occupational) United Kingdom
Other	Costa Rica (mandatory occupational) – permanent rent

Notes:

1. Costa Rica: Permanent rent is a product where member keep their pension assets in their pension fund accounts and receive investment gains from investments managed by pension fund administrators. Assets can always be converted into any other pension product or inherited by beneficiaries upon a death of member.

2. Dominican Republic: Lump sum is a default pay-out for the category of members who were 45 years old or older at the time of affiliation and have not accumulated sufficient funds to obtain minimum pension level. If the amount accumulated is sufficient to obtain the minimum pension level, by default, the pay-out is a programmed withdrawal, in which amount accumulated is divided by life expectancy and is recalculated annually.

3. India: In the National Pension System, the default option is life annuity. However the member has a right to take up to 60% of her savings in the form of lump sum.

4. Jamaica: The default option provided by the vast majority of private pension plans in Jamaica is an annuity paid for a guarantee period of 5 years and life thereafter.

5. Kenya: The National Social Security Fund Act No. 45 of 2013 which came into effect on 1st June 2014 changed the default payment structure for the mandatory schemes from lump sum to programmed withdrawal. Voluntary occupational schemes have options of choosing either a programmed withdrawal or lump sum payment.

6. Macedonia: In the mandatory system: in case a retiree does not make a choice of a preferred method for benefit payments in the 3-year period following retirement, the default option is the programmed withdrawal with possibility to convert it later on into annuity. In the voluntary system, if a retiree does not take such a decision until the age of 70, the default option is also the programmed withdrawal with possibility to convert it later on into lump sum, programmed withdrawal, life annuity, annuity certain (temporary annuity) or any combination of these.

7: Nigeria: The pension legislation provides two main pay-out options - programmed withdrawal through a pension fund administrator or annuity with a life insurance company. Considering that the employees hold their retirement saving accounts (RSA) with a pension fund administrator from contribution phase to retirement, there is an implicit tendency to provide the retiring employee with a programmed withdrawal unless a request for annuity option is specifically made.

8. Portugal: For occupational pension schemes, life annuities are the usual form of retirement benefit payment in what concerns employer contributions, unless the retiree chooses to receive up to one-third of the retirement capital as a lump sum, if the plan rules so permit.

9. Thailand: Retiring members have to receive benefits in the form of a lump sum, unless they decide to keep the accumulated assets in the fund or receive a programmed withdrawal.

10. United Kingdom: in case the individual does not exercise a choice, the pension fund/management firm/insurance company may purchase an annuity based on the terms previously communicated to the individuals.

iii. Providers of retirement products

Antolín et al. (2008) look at national practices regarding the providers of benefit payments. Lump sums are provided by pension funds; and the same is generally true for programmed withdrawals, whereas life annuities are provided by insurance companies. In some countries this role may be undertaken by pension funds, financial intermediaries or a centralised annuity fund.

With all of respondent authorities, the lump sums are provided by pension funds or another management entity (such as a pension plan/scheme operator, or a life insurance company in the case of pension plans run in the form of insurance contracts) as the method usually simply involves encashment of accrued rights.

In some cases there is a close link between DC pension funds and life insurance companies. For example, in Italy, each pension fund can offer annuities directly, although this is quite rare due to the solvency requirements that would have to be met by the fund. The vast majority of funds organise a pay-out phase by selecting, on behalf of members, an insurance company that will provide a specific annuity product and selecting the type of annuity. However, pension fund members have a choice to opt out in favour of another insurance company.

In a large majority of respondent jurisdictions, programmed withdrawals are also offered by pension funds/management entity. In a number of countries (Jamaica, Luxembourg, Namibia, and Czech Republic third pillar personal voluntary pension plans in supplementary pension savings) programmed withdrawals could be taken both from pension funds/management entities or insurance companies. Only in the UK (occupational pension plans) and the Czech Republic (second pillar personal voluntary pension plans in retirement savings) should programmed withdrawals be taken from insurance companies (either with tied or independent agents).

Table 3 summarises the ways in which annuities are provided in selected IOPS jurisdictions. In the majority of jurisdictions, annuities are provided by insurance companies, whereas pension funds or management entities act as annuity providers in only 17 jurisdictions.

It is obvious that all benefits are derived from the pension fund. With regard to lump sums, pension funds will almost always manage the pay-out payment themselves (which is simply a transfer or cheque). Programmed withdrawals do not involve financial risks and therefore are relatively easy to administer by pension funds. In contrast, life annuities involve financial and longevity risks which pension funds would usually avoid by outsourcing this method of payments to insurers who are in the business of risk management.

For the Czech Republic's voluntary personal second-pillar retirement savings, retirement benefits in the form of programmed withdrawal and life annuity are always paid by insurance companies. In Mexico, the pension fund in which the member enrolled before retirement is the entity in charge of paying the lump sum. In Jamaica, programmed withdrawals are offered by management entities that possess a securities dealer's licence while annuities are offered by insurance companies. The management entity for a pension plan may also be an insurance company. In addition, some plans allow for a lifetime payment, paid directly from the plan. In Portugal, managing entities can be a pension fund managing company or a life insurance company. In the latter case, the insurance company that provides the annuity can be already involved in the accumulation phase. In case the pension fund is managed by a pension fund managing company, this company can directly pay the annuity to the retiree or a single premium life annuity can be purchased from an insurance company[14]. For DC plans in Portugal, when the annuity obligation is retained in the pension fund, it is guaranteed

[14] In 2011, 96.4% of the total amount of benefits from Portuguese occupational pension funds (closed pension funds and collective membership of open pension funds) was paid in the form of annuities directly by the funds. Only 2.4% was paid by funds as a lump sum and 1.1% in the form of a single premium life annuity purchased from an insurance company.

by the employer. In the UK, DC pension schemes can provide a scheme pension, which is like an annuity but provided via scheme funds rather than an insurance company. This option is not common in the UK but it is available.

Table 3: Types of providers for annuities in selected IOPS jurisdictions

Jurisdiction (type of pension scheme)	By pension fund/ Management entity itself	By insurance company with tied agents	By insurance company with independent agents
Armenia		x	x
Australia	x	x	x
Bulgaria (universal pension plans and voluntary pension plans)	x		
Chile		x	x
Czech Republic (second-pillar personal voluntary retirement savings)		x	x
Czech Republic (third-pillar voluntary personal supplementary pension savings)		x	x
Czech Republic (supplementary personal voluntary pension insurance; closed to new entrants)	x		
Costa Rica		x	
Dominican Republic		x	
Hungary (mandatory)		x	x
Hungary (voluntary)	x		
Iceland (mandatory occupational)	x		
India (NPS)*		x	x
Israel	x		
Italy		x	
Jamaica		x	
Luxembourg	x	x	x
Korea	x		
Macedonia		x	
Malta		x	x
Mauritius	x	x	
Namibia	x	x	
Netherlands	x	x	x
Nigeria		x	
Panama			x
Pakistan		x	
Peru		x	
Portugal	x	x	x
Slovak Republic			x
South Africa	x	x	x
Spain	x	x	
Tanzania	x		
Turkey	x	x	
UK (occupational)	x		
UK		x	x
Total jurisdictions	**17**	**24**	**14**
Total schemes	**17**	**25**	**15**

* In Indian National Pension System (NPS) life annuities are sold to the subscribers directly, i.e. there are no intermediaries.

In the jurisdictions where a choice between different pay-out options is available, the large majority of respondents (23 jurisdictions) acknowledged the possibility for individuals to select annuity products from insurance companies operating in the market. In five jurisdictions (Chile, Czech Republic (voluntary personal supplementary pension savings), Mexico, Turkey and UK) individuals can select a (different) provider to withdraw accumulated funds both in the form of programmed withdrawals and/or as annuity payments.

Only in a limited number of countries, pension scheme members can choose a different provider for all types of pay-out products[15]. In 14 jurisdictions members of all or of a particular type of pension scheme cannot exercise a choice of provider and are entitled to only receive retirement payments from the same pension provider that manages benefits during the accumulation phase[16].

II.2. Provision and regulation of intermediary and financial advisory services in respect of retirement pay-out products

In most respondent jurisdictions advice and sales can be provided by the same intermediary. In some countries intermediation is banned in relation to pension products while in some there is no regulation at all.

i. Intermediaries/ Sales activities

Intermediary sales activities are prohibited in relation to specific pension products (in Colombia or the Czech Republic: voluntary personal second pillar retirement savings. In Mexico insurance companies are prohibited to deploy agents to offer retirement annuities). It was also noted that in Korea, Luxembourg and Tanzania, there are no intermediation services provided in relation to private pensions; both sales and advice are offered by pension fund/management companies themselves. There are no intermediaries involved also in Bulgaria and Hungary. In India’s National Pension System, which is a mandatory DC scheme covering government employees and all other citizens, no intermediation is involved in the purchase of annuities (and the entire decumulation phase); annuity providers deal directly with subscribers, thereby reducing the cost.

In the large majority of respondent countries, when intermediation services are allowed in relation to the decumulation phase, intermediaries can assist individuals in deciding on: 1) timing of retirement - in 21 jurisdictions; 2) type of pay-out option to choose the available options - in 23 jurisdictions; or 3) specifically about type of annuity - in 22 jurisdictions. In about one-quarter of jurisdictions[17] intermediaries may also offer advice on the type of investment to choose when benefits are withdrawn as lump sum payments.

ii. Remuneration of intermediaries

The compensation for intermediary services may consist of either commission-only and/or flat fees, or other type of reward or remuneration. The following charging structure applies in respondent authorities:

- commission only – in Chile, Israel, Mexico Namibia, Nigeria, Pakistan, Peru and Slovak Republic;
- flat fee only – in Israel, Netherlands; and both flat fees and commissions could be paid in Australia, Austria, Italy, Malta, South Africa and UK;
- other – in Costa Rica, the fees paid to intermediaries selling pension pay-out products are based on pension fund performance or on member’s accumulated assets.

[15] As in Chile, Costa Rica, Israel, Korea, Macedonia, Namibia, Nigeria and Pakistan.

[16] As in Austria, Bulgaria, Czech Republic (supplementary pension insurance), Hong Kong, Hungary (voluntary DC), Iceland, Luxembourg, Malta, Panama, Romania, South Africa, Spain, Tanzania and Thailand.

[17] As in Australia, Israel, Malta, Namibia, Pakistan, Portugal, South Africa, Spain, and UK.

iii. Independent financial advisers

More than half of respondent jurisdictions reported that individuals may seek advice and consultation from an independent financial adviser[18] (19 countries). Statistical information on the percentage of members who receive advice from financial advisers was not available in most respondent authorities (apart from Chile, who reported that 21% of requests during 2012 in the SCOMP system were intermediated by pension advisers).

Seventeen jurisdictions[19] indicated that while it is possible for pension plan members to turn to independent financial advisers for advice, it was not a common practice.

iv. Remuneration of independent financial advisers

Independent financial advisers are generally compensated through fees, commissions, or a combination of both. Both flat fees and commission can be charged for the services provided by financial advisers in Armenia, Australia, Hong Kong (China), Malta, Mauritius[20], South Africa and the UK[21]; whereas in Chile, Israel and Namibia financial advisers are paid on commission. The Netherlands reported that the financial advice in relation to pension products was compensated by a flat fee: commission for this type of services was banned as of 1 January 2013 as a result of enforcement of new financial regulations[22]. In Mexico, financial advisers are paid directly by members from sources other than accumulated balance in the individual pension account ("pocket fee"). A number of authorities stated that due to the fact that financial advisers were not regulated (or required to be registered), they were not able to provide information on ways that financial advisers are compensated[23].

v. Regulation of fees and commissions in relation to different pay-out pension products

Sixteen of the respondent authorities indicated that fees and commissions charged on different pay-out products are subject to regulatory requirements. The nature of these regulatory requirements varies considerably between jurisdictions, and may involve regulations such as fee caps on commissions, regulation of investment fees, regulations and/or caps on fees based on account balances.

II.3. Information provision on forms of pension pay-out and services

i. Central quotation systems to compare between pay-out products

Consumer understanding of annuities is very low and people do not fully comprehend the risks of the decisions they are taking. To address lack of knowledge and understanding about annuitisation

[18] As in the case of Armenia, Australia, Chile, Czech Republic, Hong Kong, Hungary, Iceland (mandatory personal), Israel, Italy, Malta, Mauritius, Mexico, Namibia, Netherlands, Nigeria, Portugal (voluntary personal), Slovak Republic, South Africa and Thailand.

[19] As in the case of Armenia, Czech Republic, Hong Kong, Hungary, Iceland (mandatory personal), Israel, Italy, Malta, Mauritius, Mexico, Namibia, Netherlands, Nigeria, Portugal (voluntary personal), Slovak Republic, South Africa and Thailand.

[20] In Mauritius, the actuary of a pension scheme may give advice freely to members of the scheme where he/she is appointed to provide actuarial services to the scheme. The actuary is remunerated by the pension scheme and not individual members.

[21] From 1 January 2013 advisers charging clients directly replaced the commission-based system in the UK: see http://www.fca.org.uk/firms/being-regulated/meeting-your-obligations/firm-guides/guide-financial-advisers/rdr-adviser-charging

[22] See Financial Markets Amendment Bill 2013, Financial Markets Amendment Decree 2013.

[23] As in Bulgaria, Czech Republic, Hungary, Italy, Pakistan, Thailand.

and other pay-out products, the governments or regulatory authorities are involved, or becoming involved, in providing or supporting centralised, comparative information on annuities and other retirement products. The goal is to provide trusted, impartial advice to the broad population and to help them to make efficient choices at the time of retirement (as a survey from the UK revealed[24]).

Such a centralized system can help to increase knowledge and understanding, particularly when coupled with some product explanation or advice, in addition to comparative quotations between standardised products. Furthermore, such systems may deliver cost savings and efficiencies (via potentially lower marketing and distribution costs for providers), which might in turn lead to more competitive annuity pricing.

Providing competitive quotations cannot assist with the timing of annuity purchases because they do not indicate whether the time of purchasing an annuity is good or bad. It is simply a measure of comparing quotes at a given point in time. Competitiveness helps in the process of price discovery and shows the dispersion of current prices. However, it does not guide members as to whether they would be better off waiting a year or having bought a year previously. In addition to locking into a suboptimal provider or product, individuals therefore also face a risk of purchasing an annuity at a poor time, when annuity rates are low (meaning that two individuals with the same accumulation balance could potentially face the prospects of living on very different retirement incomes simply from having chosen to annuitise at slightly different times). Standardised, centralised quotations may help individuals to assess whether it is a good time to make an annuity purchase but only if individuals have access to historical data and can therefore deduce whether the current quotations are high or low compared to other points in time.

Among respondent jurisdictions, only eight: Chile, Costa Rica (mandatory occupational pension funds), India, Korea[25], Macedonia, Mexico, Peru and the UK reported that central quotation systems or similar arrangements are either in place or in development by the supervisory authority or at the industry level. Nigeria is planning to introduce such a system in the future. In the large majority of respondent countries, there are no such central quotation systems that allow individuals to compare the pay-out products offered by different providers.

However, despite the apparent advantages, recent experience from the UK shows that potential benefits of central website comparison can be limited. While members' awareness of the open market option in the United Kingdom is high[26] (due to recent initiatives aimed at improving the disclosure), many participants do not "shop around". Instead, they purchase an annuity from their existing pension provider without reviewing other options available on the open market. In 2012 about 60% of members of contract-based pensions purchased an annuity from their existing pension provider, even though 80% of them could have obtained better conditions on the open market (FCA, 2014a). According to the FCA study, there are some significant behavioural and/or supply barriers to UK consumers properly exploring the annuities market and the traditional method of disclosure might not be sufficient to change customer behaviour (FCA, 2014a: 11). Some of the researched members were not aware they are entitled to so-called enhanced annuities (that offer better rates for individuals with worse health conditions) whereas another group characterised by very low pension savings (less than GBP 5 000) had practically no real choice on the open market due to very limited offerings. Due to the high fixed costs associated with setting up an annuity contract, they were not well served in this market.

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[24] ABI (2005).

[25] Information about central quotation system in Korea is available (in Korean only) on: http://pension.fss.or.kr/-fss/psn/pubannounce/announcement.jsp.

[26] Nine out of ten members of contract-based pensions claimed to know of this right (FCA, 2014a: 7).

ii. Other sources of comparable information on pay-out products

In most countries, comparative annuity quotations can be obtained via third parties, notably financial advisers or brokers. Their number can be huge[27]. The services come in several forms, with various levels of responsibility being assumed by the third party, and with various remuneration structures. However, such third parties are normally paid by commissions, may be tied to one provider, and may only be licensed to provide quotations rather than advice. In addition, advice may be prohibitively costly for individuals with small accumulated balances.

In the majority of jurisdictions, legal requirements are in place to ensure that individuals can make an informed decision on the form and provider of retirement benefits. In most cases[28] pension fund managers or administrators or in certain cases insurance companies (as in Italy and the UK) or financial intermediaries (in the case of South Africa) are required to provide individuals with information on the pay-out product before they exercise their choice. In a few respondent countries[29], employers are also required to provide documentation to support individual choice(s), in addition to the information offered by pension funds/management companies. In Nigeria, the pension supervisory authority also provides information for individuals with respect to pay-out products and providers.

In pension schemes in half of the jurisdictions[30], it is possible for members to receive quotes for different pay-out products on request from providers other than the one managing their pension savings during the accumulation phase.

[27] In Chile, according to the website of the Superintendence of Insurance and Securities (http://www.svs.cl/portal/estadisticas/606/w3-propertyvalue-20209.html), in 2012 there existed 2 251 insurance brokers and 541 pension advisers. Insurance brokers are tied to a specific insurance company and intermediate annuities only. Pension advisers are independent from insurance companies and pension fund managing companies (AFPs) and intermediate both programmed withdrawals and annuities.

[28] As in Austria, Albania, Australia, Bulgaria (voluntary occupational pension schemes), Colombia, Chile, Costa Rica, Czech Republic, Dominican Republic, Hungary, India, Israel, Jamaica, Korea, Macedonia, Mauritius, Namibia, Netherlands, Pakistan, Portugal, South Africa, Spain, Turkey and the UK.

[29] As in Italy, Malta, Mauritius and Nigeria.

[30] As in Australia, Bulgaria, Chile, Czech Republic (voluntary second pillar retirement savings), Italy, Jamaica, Korea, Malta, Mauritius, Namibia, Netherlands, Nigeria, Portugal, South Africa and the UK.

II.4. Structure of supervisory control over pension products providers, intermediaries and financial advisers

Table 4: Supervisory authorities overseeing providers of pension pay-out products

<table>
<tr><th rowspan="3">Jurisdiction</th><th>Pension Supervisory Authority</th><th colspan="3">Insurance Supervisory Authority</th><th colspan="3">Pension and Insurance Supervisory Authority</th><th colspan="3">Other or Integrated Supervisory Authority</th></tr>
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<tr><td>Thailand</td><td>x</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Turkey</td><td></td><td></td><td></td><td></td><td colspan="3">x</td><td></td><td></td><td></td></tr>
<tr><td>UK</td><td>x</td><td></td><td colspan="2">x</td><td>x</td><td></td><td></td><td></td><td></td><td></td></tr>
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Table 4 presents an overview of the supervisory framework of pension funds and insurance companies that provide pension products. Eleven jurisdictions have integrated supervisory systems that monitor pension funds and/or managing companies as well as insurance companies. In the other jurisdictions the supervision of pension providers is split either between specialised institutions (supervising pension or insurance) or supervisory authorities that oversee both pensions and insurance.

In the case of Israel, its supervisory authority (Ministry of Finance) supervises pension funds, provident funds and insurance companies. It also supervises insurance agents. In the UK, some types of DC pension funds administered by insurance companies (Group Personal Pension, GPPs) are supervised by both the pension and insurance supervisors.

Table 5: Supervisory authorities overseeing intermediaries of pension pay-out products

Jurisdiction	Pension Supervisory Authority	Insurance Supervisory Authority	Pension and Insurance Supervisory Authority	Other or Integrated Supervisory Authority	None
Armenia				x	
Australia			x		
Austria				x	
Chile	x	x			
Czech Republic				x	
Costa Rica	x	x			
Hungary				x	
Hong Kong, China (MPF)	x	x		x	
Iceland					x
Israel			x		
Italy		x		x	
Jamaica		x		x	
Luxembourg	x	x			
Korea				x	
Macedonia			x		
Malta			x		
Mauritius			x		
Mexico	x	x			
Namibia			x		
Netherlands			x		
Nigeria		x			
Panama		x			
Pakistan			x		
Peru					x
Portugal			x	x	
Slovak Republic			x		
South Africa				x	
Spain			x		
Thailand	x				
Turkey			x		
UK		x			
Total jurisdictions	**6**	**10**	**12**	**10**	**2**

Table 5 provides a summary of the supervisory framework intermediaries acting in the pay-out market. In many jurisdictions, intermediaries are overseen by more than one supervisory authority, depending on the type of intermediary. For example, in Chile and Nigeria, the pension supervisory authority oversees employees of pension funds selling programmed withdrawals and the insurance supervisory authority oversees sales agents offering life annuities. It is interesting to note that two countries (Iceland[31] and Peru) reported that this activity is not supervised and that ten other jurisdictions have a separate institution dedicated to overseeing intermediaries. In several jurisdictions (e.g. Indian NPS, Tanzania) there are no intermediaries in the pension provision. In Mexico, insurance agents are supervised by insurance supervisory authority. However, as annuities are distributed via electronic system, there are no agents involved in selling this type of product.

[31] In the case of Iceland, pension funds offer lifetime pension benefits directly to their members. In result, members cannot "shop around" or transfer their rights to another pension fund when retiring.

Table 6: Supervisory authorities overseeing financial advisors related to pension pay-out products

Jurisdiction	Pension Supervisory Authority	Insurance Supervisory Authority	Pension and Insurance Supervisory Authority	Other or Integrated Supervisory Authority	None
Armenia				x	
Australia				x	
Austria					x
Bulgaria					x
Chile	x	x			
Czech Republic				x	
Hungary				x	
Hong Kong, China (MPF)	x	x		x	
Iceland					x
Israel			x		
Italy				x	
Jamaica				x	
Korea					x
Macedonia					x
Malta			x		
Mauritius			x		
Mexico					x
Namibia			x		
Netherlands			x		
Nigeria					x
Panama				x	
Pakistan			x		
Portugal				x	
Slovak Republic			x		
Spain				x	
Tanzania					x
Thailand			x		
Turkey					x
UK		x			
Total jurisdictions	**2**	**3**	**8**	**10**	**9**

Financial advisers are overseen either by business-related authorities (eleven jurisdictions; c.f. columns two, three and four in Table 6) or by other special institutions (ten jurisdictions). In nine other jurisdictions (last column), the activity of financial advisers is not supervised. Elsewhere, financial advisers might be supervised by more than one authority. This is, for example, the case in Chile, where independent pension advisers are jointly supervised by the Pension Supervisory Authority and by the Insurance Supervisory Authority, which collaborate on such matters as establishing examination questions or caps on commissions.

III. Problems and challenges in the pay-out stage and supervisory responses

III.1. Identified challenges

The respondent authorities reported specific issues/problems encountered in their respective jurisdictions with respect to pension pay-outs. The identified areas can be summarised as follows:

(1) financial literacy of pension scheme members;

(2) information quality;

(3) intermediation;

(4) government policy;

(5) pay-out market development.

Financial literacy of pension schemes' members. Individuals tend to have a low level of financial literacy, and their knowledge and understanding of annuities and other pay-out products is very limited. In many countries the pay-out market is still undeveloped. Consumer knowledge and awareness of the products is generally low, making them reliant on third parties such as pension managing companies, agents, and advisers. It can be expected that the increases in members' accrued savings will have some positive effect on their activity and information level. Members cannot, however, rely on life experience when taking decisions about which type of product to choose. Pension products are complicated and depend on many variables; the decision of which product to choose is made under a high degree of uncertainty.

Very often, members do not make a deliberate decision but accept conditions offered by the pension provider they stayed with during the accumulation phase. Thus, many jurisdictions pointed out the related obstacle to getting better value (best rate) of the inertia of members, and their reluctance to search for more suitable pay-out products, including annuities, from offers available in the market. The UK regulator (TPR) indicated the problem of "no shopping around" and the low take-up of the Open Market Option. In its very recent Annuity Thematic Review (FCA, 2014a), the UK Financial Market Conduct Authority found that despite 90% individuals being aware they could shop around, only two-thirds of individuals say they do[32]. Also, a problem with the determination of the interest rate on an annuity and the payment period when annuity payment is selected was raised (Bulgaria).

Information quality. Proper information is another crucial element needed for taking rational decisions. Responding authorities indicated that a main challenge is the need to make sure the information is clear and understandable, that the information delivered to members is that required by law, useful for members and not misleading. Preferably, the language should be free of technical jargon.

A challenge related to financial literacy is the need to better communicate to members the advantages of the guaranteed (or certain) income stream provided by life annuity. Lack of proper information, combined with low financial literacy, leads to another problem referred to by several regulators/supervisors, i.e. inappropriate members' choices of product to use at retirement. For example, the Kenyan supervisory office reported the issue of low uptake of new pension products, especially of income drawdown. It also observed a preference for a lump sum payment as opposed to a pension. As already mentioned, choosing a lump sum may leave members with insufficient income for the remainder of their life if they overspend in the early years of retirement. In countries such as Kenya where there is no state welfare or pension for the elderly, this may be a particularly serious problem.

Intermediation. This is the area where responding authorities indicated serious challenges. They stressed the need to monitor the potential unintended effects of fee incentives, as well as the skills and knowledge of sales agents/advisers and their professional conduct. The behaviour of intermediaries may be influenced by their "own product bias" or by a tilt toward products that offer greatest commission. Commissions paid by insurance firms to intermediaries have ultimately led in Australia to cases of misadvising retiring members to purchase annuity products rather than other related pay-out products. This has also contributed to the low uptake of income drawdown products (Kenya). Several jurisdictions mentioned the challenges of disinformation and misadvice about retirement options and products, which can lead to sub-optimal product choices (Chile, Colombia, Costa Rica, Kenya, and Spain). This can result either from bad training or/and from perverse incentives that motivate financial advisers to propose products that maximise their fees or commissions.

[32] See also Annex A.II, point 1.

Government policy. Various government policies related, for example, to entitlements to social security benefits or different taxation of pay-out products, may result in members making decisions based on welfare or taxation impacts that, in the end, are not optimal choices for their retirement needs.

Pay-out market development. In many jurisdictions the pay-out systems are very young or pension systems are still in the stage of accumulation[33]. That means that although no current challenges can be identified right now, market participants' knowledge as well as regulators' experience is limited. As pay-out markets are, or are projected to be, relatively small; some action aimed at assuring a proper level of competition should be considered.

III.2. Possible remedies

The following supervisory actions were identified through the jurisdictions' responses to the questionnaire.

Financial literacy. This issue can be partly offset by wide policy actions aimed at increasing public awareness of the pay-out system and the products offered. Campaigns should improve understanding, awareness and education of the public on retirement options, including annuities, and expectations with regard to different pension pay-out providers (in line with legal requirements) as well as regulatory measures designed to protect retirees. Co-operation in this area should be an issue for all non-integrated supervisory authorities.

Public campaigns in this area have already been run in several jurisdictions. The Central Bank of Armenia initiated the general awareness campaign on pension reform, including the pay-out benefits. The Australian Securities and Investments Commission (ASIC), which is Australia's corporate, markets and financial services regulator, has recently completed two significant engagement programs with the Australian financial services (AFS) licensees who advise retail clients[34]. These programs are part of ASIC's gatekeeper monitoring and ensure these gatekeepers are adequately informed and resourced for the functions they undertake.

In Colombia pension fund managers are obliged by law to address education campaigns to their members. Those campaigns must be made by accredited professionals who are ready to give the best information about pay-out products, annuities, asset allocation information and anything the members must know to be well informed and ready to take the next step when choosing a pay-out product. Hungarian information campaigns on financial products, organised by the Hungarian Financial Supervisory Authority (HFSA)[35], publish detailed information on annuities[36] and comparative tables for annuities provided by insurance companies[37].

[33] For example, in Albania, the Act on voluntary funds entered into force in December 2009, which means that it is still in the accumulation phase. In Bulgaria the mandatory universal funds that cover 80% of the insured are expected to enter into the pay-out phase in 2023. Armenia, Costa Rica, Macedonia are in a similar situation.

[34] Report 362 ''*Review of financial advice industry practice*'' summarises the findings of ASIC's recent review of the business and risk practices of the top 21 to 50 AFS licensees that provide personal financial advice. ASIC's findings on the top 20 licensees are discussed in Report 251 ''*Review of financial advice industry practice*'' http://www.asic.gov.au/asic/ASIC.NSF/byHeadline/Media%20and%20-information%20releases%20Home%20Page#2013.

[35] As of 1 October, 2013 the Hungarian Financial Supervisory Authority (HFSA) has been merged into the Central Bank of Hungary.

[36] In Hungarian: http://www.pszaf.hu/data/cms65553/pszafhu_sajto_jaradek.pdf.

[37] In Hungarian: http://www.pszaf.hu/fogyasztoknak/biztositasok/eletbiztositasok2/eletbizt_jaradek.html.

The Bank of Spain and Spanish National Securities Commission (Comisión Nacional del Mercado de Valores), in collaboration with Directorate General of Insurance and Pension Funds, have launched a financial education project in schools (more than 415 last year). Moreover, webpages were set up where one can obtain information and advice about different products in the market[38] or about planning for retirement age[39]. Finally, agreements with insurance companies have been established to improve people's knowledge of finance (with a focus on insurance). In the UK, the Money Advice Service (MAS) offers a free guide for members at retirement entitled "Your pension: it's time to choose", which contains information and guidance on options at retirement. The Pensions Advisory Service (TPAS) also provides free information and guidance for members on retirement issues[40].

Information quality. Simplifying the disclosure contents and imposing legal requirements on managing entities and/or product providers to deliver to members accurate and clear information presented on a consistent basis may help to ameliorate the problem of consumer choice at the point of retiring. Good provider disclosure can be supplemented by the introduction of a central quotation system, which would collect objective information on available products, provide some guidance for members (via interactive calculators and webpages) and stimulate higher competition between pension product providers. A central quotation or comparison system can be an effective tool to enhance transparency and facilitate.

Another measure that can help is supervisory authority conducting joint workshops with the industry on the issues of misleading marketing and disinformation, with the objective of halting these practices. In the absence of regulatory requirements, industry itself should consider developing an industry code of conduct to improve providers' consumer communication practices.

Defaults. Mandated retirement products for all, or default retirement products for those who cannot choose, can be seen as another means of aiding people without the necessary financial skills to make an appropriate choice. Of course, such an approach has its own drawbacks – the compulsory purchase of a particular product (usually an annuity) may not be the best option for all, while the design of default products may be extremely difficult. For example, a default life-annuity product in the case of members with very limited savings may prove to be expensive and may not solve the problem of old-age poverty. Therefore, a default selection of a structured pay-out option, preferably including a life annuity may be preferred. Annuitisation should not be too restrictive as this would harm savers approaching retirement age in poor health; it may also expose them to excessive interest rate risk related to the one-time purchase of an annuity (c.f. Warshawsky, 2012: 28).

Intermediation. Some measures such as the licensing of agents or financial advisers and their training and periodical examination would alleviate the issue of information asymmetry between the intermediary and the product provider and – indirectly – between the buyer (member) and the product provider. One can consider setting up rules that require financial advisers to be better qualified. In some jurisdictions intermediaries are either not involved in the pay-out distribution process (Bulgaria, Hungary and India) or even banned (Colombia). Fees may also be are regulated[41]. Quality of services can be monitored by "mystery shopping" (c.f. Reyes and Stewart, 2008) and the institution of a market conduct regulator/ombudsman.

Regulators/supervisors also need to be vigilant in conducting investigations into allegations of misinformation, misadvice and mis-selling practices; taking enforcement actions such as removal or cancellation of the licence of the culpable financial organisation if necessary. Provision of

[38] www.finanzasparatodos.es.

[39] www.finanzasparatodos.es/es/economiavida/planificandojubilacion/despuesjubilarse.html.

[40] http://www.pensionsadvisoryservice.org.uk.

[41] For example, in Spain management and depositary entities can charge as a commission at most 2% and 0.5% of members' vested rights, respectively.

compensation directly from the mis-seller for any financial loss suffered can be another tool to ameliorate the impact of intermediary misconduct.

However, it is recognised that in markets where there are a huge numbers of products and providers, the above measures may be challenging to implement effectively. Regulations that re-align inappropriate incentives can be considered. By way of example, problems caused by commission-based sales practices may be reduced or eliminated by the introduction of a new model based on independent advice and fees for service. This is the case in Australia where some behavioural improvements in the market are expected.

Government policy. Regulators/supervisors might try to trigger the necessary policy adjustments by providing government with an analysis indicating social welfare losses that result from sub-optimal product choices made by retirees. One of the instruments that may help identify elements of good design and public policy to strengthen retirement income adequacy is the OECD Road Map on Good DC Pension Design[42].

Pay-out market development. The growth of the market should be constantly monitored and researched so that negative effects can be addressed swiftly. Exchange of information between pension supervisory authorities would be helpful.

IV. Conclusions

IOPS Working Paper No. 7 by Reyes and Stewart (2008) concluded that buying an annuity is not like purchasing other consumer or financial products. Individuals may have only one opportunity to do so and therefore cannot learn from experience or correct any mistakes made. Yet the decision is also one of the most important that individuals make in their lives – determining what may be their income for many decades. Hence pension supervisory authorities are increasingly concerned that individuals are given the necessary information and assistance to make better decisions relating to their retirement income.

This paper has shown the variety of pay-out systems and wide range of choices that are faced by members of pension schemes. The report covers 56 types of pension schemes across 40 jurisdictions. Most jurisdictions impose some constraints on the pay-out method such as lump sum and/or programmed withdrawal products and encourage, or mandate, retirees to convert their assets into life annuities. However, this type of product is highly complicated and individuals do not often understand the advantages of life annuities in managing their longevity risk. The experience of the voluntary market shows that few members decide to annuitise their pension savings. Even when a retiree wants to purchase an annuity, the selection of provider and proper characteristics of the contract (e.g. whether it should be single life or joint life, fixed or variable, with guarantee or other options?) can be a daunting task. A similar set of challenges occurs when a retiree can choose from among a 'package' of pension products that may include lump sum, programmed withdrawal, life annuities and/or other options.

The responses of the supervisory authorities to questionnaires as summarised in this paper, provide valuable insights into the essential difficulties faced by these institutions. Supervisors need to constantly work on improving the financial literacy of pension scheme members. They need to make sure that the information provided to members is accurate and understandable via proper disclosure regulations and ongoing supervision. They also must ensure that the intermediation process (if relevant in a particular system) is conducted properly, with no market mis-selling or misconduct. The methods of addressing this particular issue include having clear conduct requirements, training, licensing and disciplining of intermediaries (sales agents, financial advisers) where necessary. Supervisory bodies need also to monitor the growth of the pay-out market and be ready to intervene if undesired tendencies are spotted.

[42] http://www.oecd.org/finance/private-pensions/50582753.pdf.

A number of jurisdictions try to solve the problem of choice by mandating a particular retirement product (usually life annuities). Some other jurisdictions make these products quasi mandatory by assigning a particular type of pay-out product as the default for those who do not or cannot make a decision (default options such as life annuities or programmed withdrawals). Finally, some jurisdictions limit the scope of choice for those retirees who do not meet some necessary conditions. For example, a lump sum can only be taken if insufficient savings have been accumulated; or only for the excess over and above a statutory level of savings.

The provision of independent, comparable quotations and comparative information on annuity products may be particularly important in countries where the market for these products is concentrated. Examples discussed by Rusconi (2008) include the UK (where the number of providers has declined from around 100 providers in the 1970s to closer to 20 currently); Australia (where the top three providers have market shares respectively of 20%, 18% and 13%) and in markets such as South Africa where there are only a handful of active players. Aside from the number of providers, the spread between the best and worst contract terms offered in some countries remains high (see also Rocha and Thorburn, 2007).

Among respondent jurisdictions, only eight have already introduced or designed their central quotation systems or similar arrangements. Two case studies (Chile and UK) are set out in the annex to this paper. Some other countries are still planning to introduce such schemes. Central quotation or comparative systems help members to choose products (by facilitating the flow of information) and lower the cost of price discovery. They cannot, however, be assumed as a perfect tool to solve the problem of proper timing of annuitisation decision-making.

It is expected that as pay-out markets develop, some more regulatory experiences and proven solutions to new challenges will become apparent. This also emphasises the need for an ongoing exchange of information between supervisory authorities in this area.

Future work should also encompass the action of supervisory authorities related to financial education and consumer protection in the area of retirement products. Apart from educational campaigns, regulators/supervisors may consider some closer co-operation with various governmental and non-governmental[43] entities involved in financial education, communication strategies and consumer protection. Future research may therefore deal with identifying the best structures for consumer protection in pension supervision, as well as solutions resulting from behavioural finance that are aimed at educating pension schemes' members and motivating them to take informed decisions when purchasing retirement products.

[43] For instance with such organisations as International Network on Financial Education (INFE).

ANNEX: COUNTRY CASE STUDIES

A.I. The Chilean automated system of pension bids (SCOMP, Sistema de Consultas y Ofertas de Montos de Pensión)[44]

1. Introduction

Individuals who have accumulated a significant amount of savings for old age are often interested in purchasing financial products to transform their pension wealth into a stream of income for retirement, such as an annuity. This process is usually not an easy one: retirement products are often mystifying for the individual of average education and price comparison is not readily available[45].

In the Chilean pension system, this is a particularly important issue, as most future pensioners will have to face that decision at retirement. Chile replaced in 1980 the traditional PAYG system with a unique national defined contribution scheme in which salaried workers transfer their social security contributions to private pension fund managers (the AFPs). At retirement, individuals can use their lifetime savings to receive a programmed withdrawal (PW) stream from an AFP or, if they can finance a pension above a minimum threshold, they also have the option to buy an annuity-type product from a life insurance company.

Originally, the retiree could freely choose where to buy an annuity and the result was the emergence of a network of life insurance salesmen. Individuals consequently ended up transferring a large fraction of their savings to intermediaries in the form of commissions. To make the process more transparent and competitive, a law was passed in 2004 that introduced an electronic system of offers by which all annuity purchases had to be processed: the pension offers and quotation system (known as SCOMP by its Spanish acronym).

This document presents a description of the system, historic statistics since its creation and some preliminary evaluations of its performance in helping individuals make informed decisions and establish an efficient competitive market. In the final section we present some of the challenges of the system and lessons learned from its implementation.

2. Description of the system

i. Retirement in the Chilean system

In the Chilean pension system there are three types of pension benefits: old age, early retirement and disability, and survivorship pensions. In order to retire, members or their beneficiaries must fulfil the requirements for each type of pension.

During the period December 1981-December 2012, the number of various types of retirement benefits has increased significantly, reaching 976 619 by 2012. From the beginning of the system and until 2004, the early retirement pension grew at a fast pace, averaging an annual growth rate of 30% from 1990. A law enacted in 2004 introduced stringent requirements to be eligible for early retirement, which resulted in a decrease of the growth rate of this type of pension.

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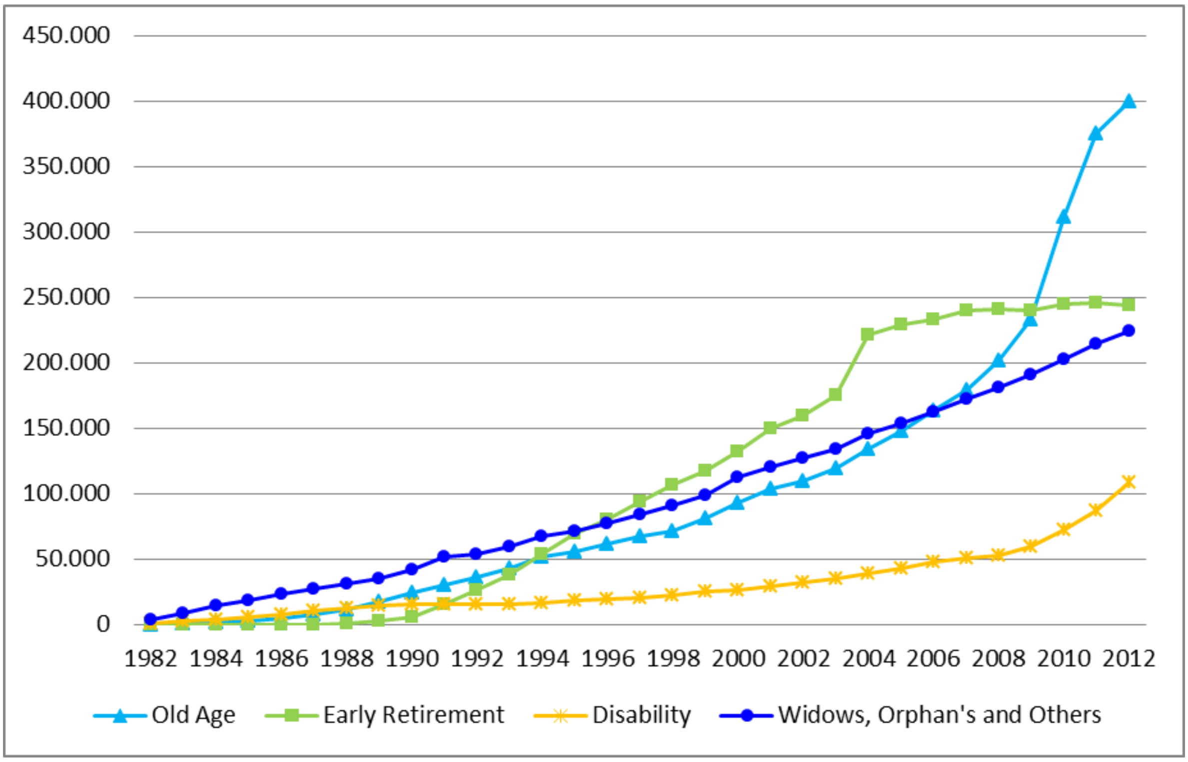
[44] This section of the paper was drafted by the Chilean Superintendence of Pensions. We acknowledge the useful contributions made by Eduardo Fajnzylber, Isabel Poblete, and Eugenio Salvo while developing this document.

[45] Although internet price comparison sites have facilitated that process, especially for products like car or life insurance.

Figure 1: Number of Pensions

(As of December of each year)



Source: Chilean Superintendence of Pensions (SP).

Members or their beneficiaries must select a pension pay-out. In Chile, members can choose between four pay-outs: Programmed Withdrawal (PW), immediate life annuity, temporary income with deferred life annuity, Programmed Withdrawal with immediate life annuity[46]. The main characteristics that differentiate each pay-out are: which party bears the longevity risk, the financial risk, the possibility of leaving bequests and which type of institution manages the resources. Lump-sum payments are restricted and they are only allowed if the remaining balance is enough to finance a pension that is at least 100% of the Maximum Pension with Solidarity Payment (PMAS by its Spanish acronym) and if it is higher than 70% of the member's last ten years' average covered earnings.

Old members can freely switch from a AFP, even when retired and also at the moment they choose their pension pay-out[47]. AFPs pay Programmed Withdrawals and cannot offer annuities. Only life insurance companies are allowed to offer annuities. PWs are calculated with a formula established by law. Since the PW calculation is standard across AFPs, they can only differ in the fee charged (and the expected return a member may obtain from competing administrators).

[46] Under a programmed withdrawal scheme, the AFP keeps investing the individual's savings but pays him or her a monthly pension, which is recalculated every year, taking into account the following: the current balance, the forecasted interest rate for programmed withdrawals, the number of beneficiaries and gender-specific life expectancy.

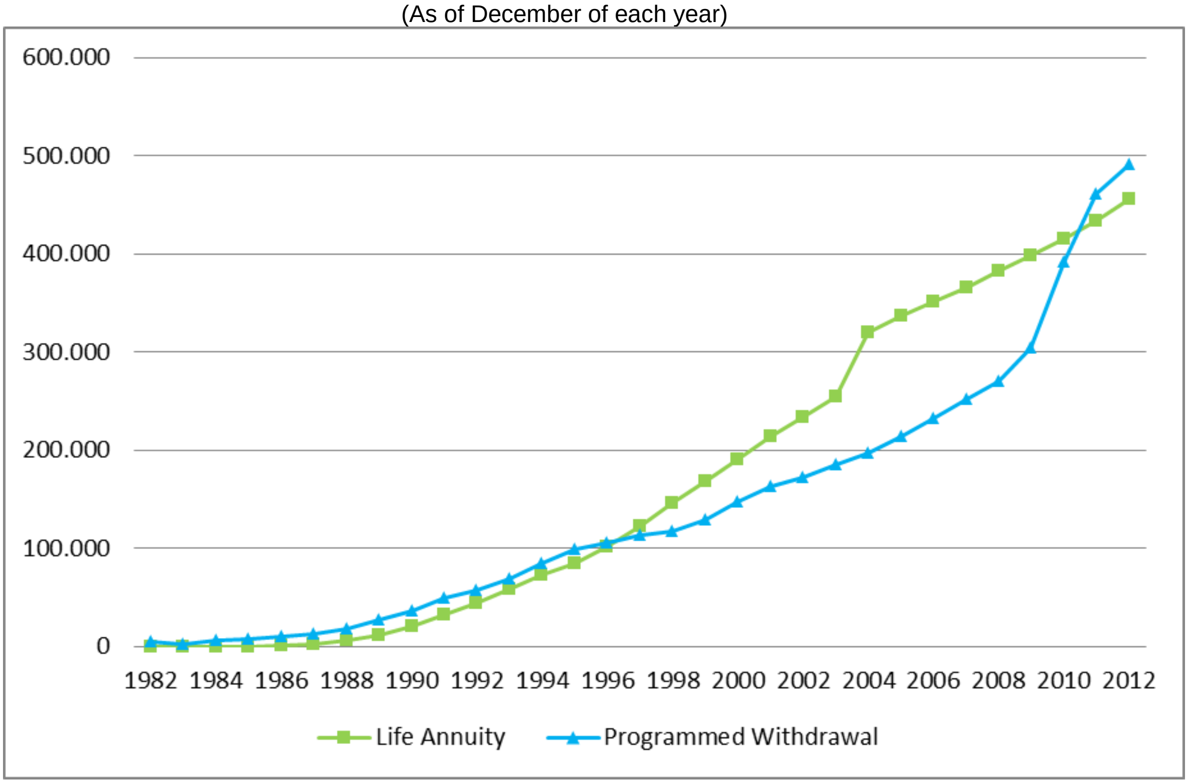
[47] New members are automatically enrolled to the AFP which charges the lowest fee. This was set by the 2008 Law which introduced an auction mechanism for new members, based on fees.

Some members are not allowed to select a life annuity. If the accumulated balance in the individual capitalisation account is not enough to finance a pension higher than the Basic Solidarity Pension (PBS by its Spanish acronym) at the date of the pension request, the member will not have right to choose any form of life annuity. In this case, the AFP manages the pension claim and calculates the corresponding Programmed Withdrawal. In all other cases, if the member can choose a life annuity, the AFP will have to start the pension selection process by emitting a certificate of balance and transmitting it to the SCOMP system.

The following graph shows the evolution of the two main pension pay-outs, life annuity and PW. Life annuities have experienced accelerated growth since 1988, partly driven by the significant increase in early retirement benefits[48].

Figure 2: Number of Pensions by Pay-out choice

(As of December of each year)



Source: Chilean Superintendence of Pensions (SP).

ii. Description of the industry of pension offers

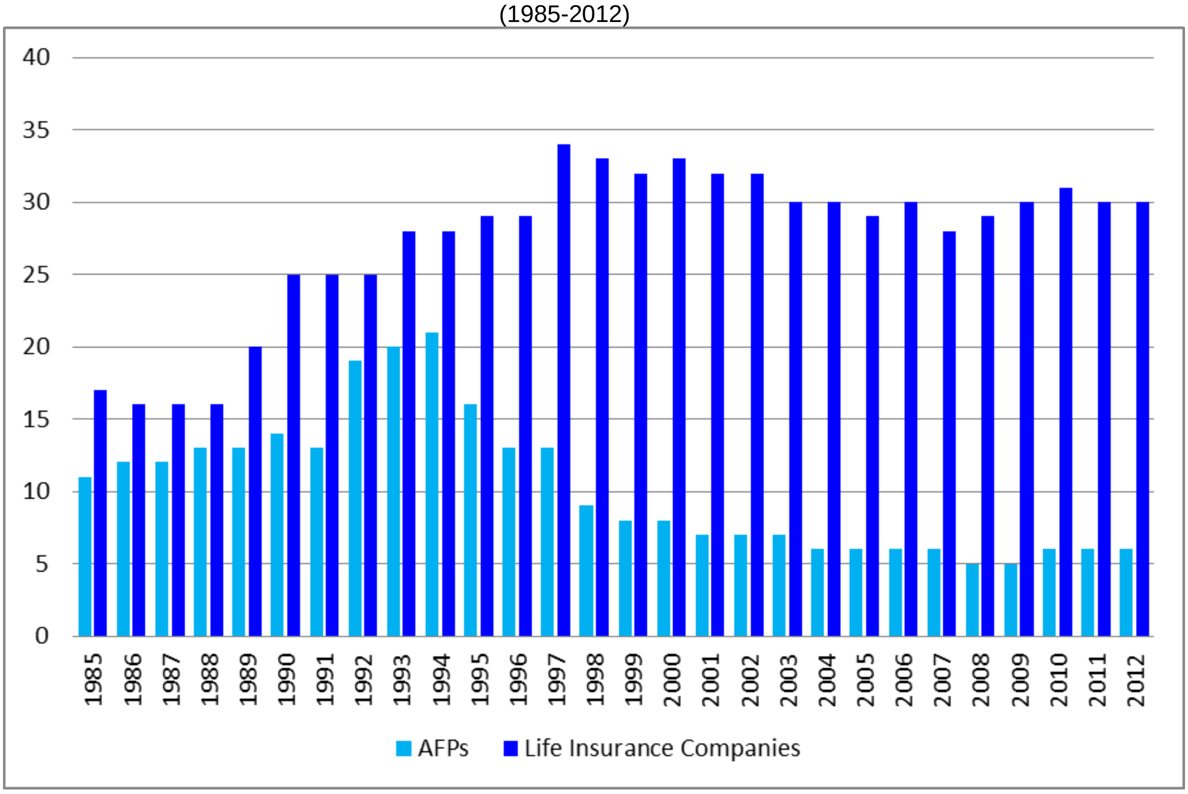
Retirement products are offered by different institutions – PWs are provided by AFPs while annuities are provided by insurance companies. Both Programmed Withdrawals and annuities can either be sold

[48] On the demand side, early retirees may value the longevity insurance provided by an annuity more highly than those retiring later. On the supply side, providers also have an advantage in providing annuities to early retirees and were therefore keen to sell these products to them. James et al (2006) provide an analysis of the link between early retirement and annuitization in the Chilean pension system.

directly through an AFP/Life insurance company or through a pension adviser[49]. The market for retirement products has evolved in different ways in the last 30 years. As shown in figure 3, the number of AFPs has declined in that period from approximately 20 to only 6 currently. By contrast, the increase in the number of annuities contracted in the 1990s is in accordance with an increase in the number of companies operating in the life insurance market, with a maximum of 34 companies in 1997. By 2012, there were 30 life insurance companies operating in the market.

Figure 3: Number of Life Insurance Companies and AFPs

(1985-2012)



Source: Chilean Superintendence of Pensions (SP). Chilean Superintendence of Insurance and Securities (SVS).

In practice, AFPs do not put much effort into selling PW. Instead, their focus is on the accumulation phase. The reason is that a high percentage of the population that take out PW are retirees of low income whose small accumulated balances do not make them eligible to buy annuities.

On the other hand, for life insurance companies the sale of annuities is a big part of their business, hence they are very interested in the commercialisation of this product.

[49] The 2008 pension reform introduced pension advisers which are independent agents, whose only role is to give advice to members regarding the pension system, including pension products. Pension advisers can either be individuals or legal entities. They replaced the former figure of insurance brokers. Once the reform was put into place, insurance brokers were no longer allowed to participate as intermediaries in the SCOMP system. In order to keep practising they had to be certified as pension advisers.

iii. The SCOMP

The SCOMP is an electronic system of interconnection between AFPs and insurance companies that commercialise life annuities. The system is mandatory for all members who decide to retire, with the exception of individuals who have not accumulated enough funds in their accounts to buy a life annuity and whose only choice is to retire getting a PW stream of payments from an AFP. The transmission of information about members and their beneficiaries to all participants, as well as the resulting pension quotations, takes place through this system. Only the necessary information is made available to participants, protecting the confidentiality of the member and his/her beneficiaries.

The SCOMP was designed to improve competition and transparency in the commercialisation process. The simultaneous access to the system of all agents involved in the pension process (insurance companies, pension advisors and AFPs), not only delivers comparable information on the different offers of life annuities and amounts of PW, but also increases the amount of information available to consumers and eases the comparison.

Intermediation fees are applicable depending on the channel used by the member to request a quote from the system. If the member "enters" the system through an AFP, no intermediation fee is charged. If the member enters the system through an insurance company, an intermediation fee applies only in the case the member chooses an offer made by that company. If the member uses a pension adviser to consult the system, an intermediation fee set by the parties applies, with a maximum level of 2.0% of the individual's balance if the member chooses a life annuity and a maximum level of 1.2% of the balance when a PW is chosen[50]. The overall payment to sales agents and pension advisors cannot exceed 60 UF[51] if an annuity is selected and 36 UF if a programmed withdrawal is chosen.

Consulting the system is mandatory for any member who complies with the legal requirements to opt for a life annuity and wishes to retire, and also for those pensioners receiving a PW who decide to change their pension pay-out. However, consultation is merely informative; in other words, the system provides the member with information about the offers made by insurance companies and the amounts of PW to which he/she is entitled in each of the existing AFPs. There are no restrictions in relation to the offers that the member may choose or the obligation to accept any of them. The system operates in the following form:

1. The member approaches the AFP either directly or via Internet if available and starts the procedure to retire, either by old age, early retirement or disability. The AFP sends the member's balance certificate[52] with personal information to the SCOMP system;

2. The member selects a participant in the SCOMP system to request quotes. Participants include AFPs, pension advisers and life insurance companies[53];

[50] If a member chooses a PW, he/she could later switch to an annuity. Therefore, it was felt necessary to differentiate the fees charged in case the member needed advice later on. The maximum fee in case the member chooses to switch to an annuity is 0.8% of the remaining funds.

[51] The UF is an inflation-indexed unit of account. As of 30 January 2013, 1 UF equals 22 808 Chilean pesos, or 48.3 US dollars.

[52] This document is necessary to start any retirement process in the system.

[53] The form of entrance to the system determines the existence or not of intermediation fees. In particular, if the member accesses the system through an AFP, no intermediation fees or charges are allowed.

3. The member sends a request for annuity quotes, with or without the assistance of pension advisers or sales agents. Members can request up to three quotes for each certificate issued by the AFP[54].

4. A central information system validates the members' personal information (e.g. age, sex, eligibility, balance), assigns a code and sends the information with the request to all life insurance companies;

5. Life insurance companies send their annuity quotes, and AFPs send information about PW payments;

6. SCOMP sends the PW and annuity quotes to the member. The quotes are valid for 15 days;

7. The member has five alternatives: to accept one of the offers; to consult the SCOMP system again; to request an external offer; to submit an auction within the system; or to give up the idea of retiring or changing pension pay-out.

As regards to external offers, i.e. offers made by life insurance companies outside the SCOMP system, these must be higher than the ones offered in the system by the same insurance company for life annuities with the same characteristics.

In order for an auction to take place in the SCOMP system, members must do the following:

- choose the terms of the life annuity (immediate/ deferred, guaranteed period);
- indicate at least three life insurance companies to participate in the auction mechanism, and;
- establish a minimum bid which has to be related to the offers received in the system.

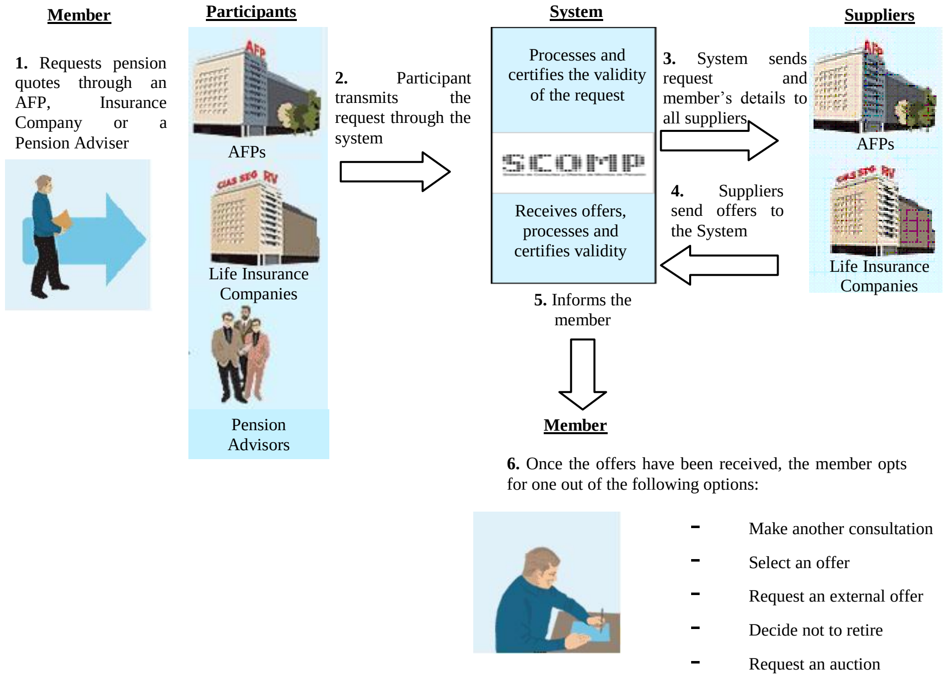
In the auction, as long as there is more than one bid, the member is obliged to sign for a pension with the company that makes the highest bid.

The diagram below illustrates the operation of the SCOMP system established by the law[55].

[54] An individual can request quotes for a number of different products at the same time: immediate life annuity, temporary income with deferred life annuity, programmed withdrawal with immediate life annuity and programmed withdrawal.

[55] See: Berstein (ed., 2010).

Figure 4: How the SCOMP system operates



3. Performance of the system

i. Utilisation

Since its creation in August 2004, the SCOMP has been performing according to expectations. As Table 1 shows, 310 608 retiring members have requested 381 666 quotes through the system, with an average of 1.2 requests per member. Before the introduction of pension advisers in 2009, brokers acted as intermediaries in almost 40% of these requests. Since 2009, pension advisers have submitted nearly 23% of requests. For the overall period, approximately 37% of requests have been directly submitted to the system (i.e. through an AFP) and 31% have been submitted by life insurance companies through tied agents. Of all requests made, 79% were finally accepted by the member or beneficiary.

Almost 44% of participants who enter the system do so directly (a "direct" channel of access to the system includes all of those who enter through an AFP and those who enter through a life insurance company without the intermediation of a tied agent) but nearly 10% of these are contacted by an intermediary during the process and end up paying some commission. This evidence indicates that the new system has facilitated access to information; nevertheless, a large proportion of individuals still need advice to select their pay-out option.

Table1: Evolution of the system

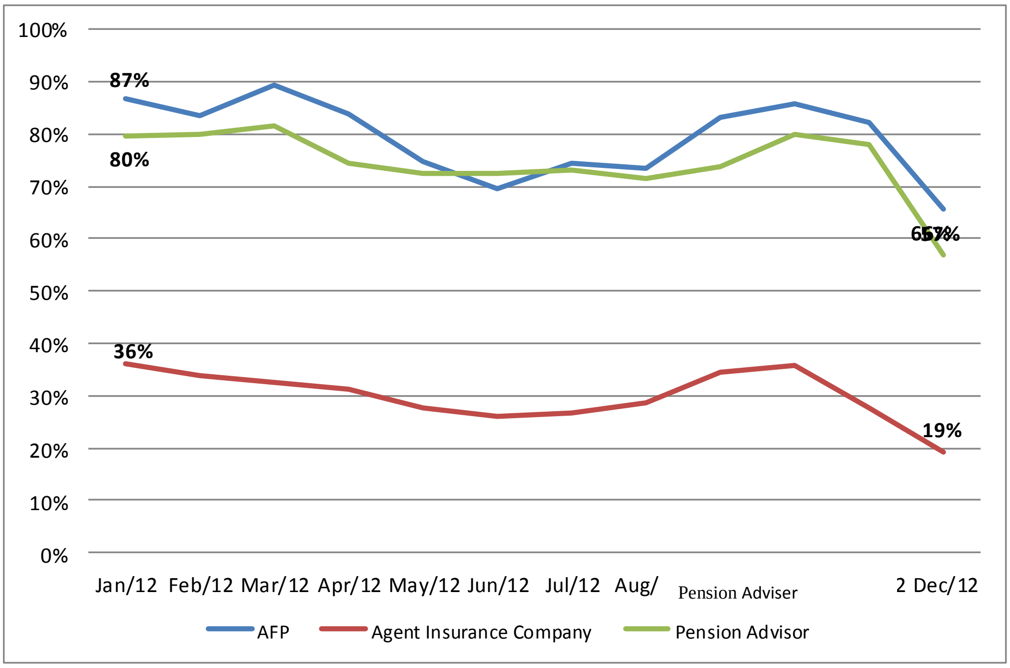
Years	Number of Requests	Number of requesting members	Average Requests	Accepted Requests	Access to the System (% of total)			
					Broker	Pension Adviser	Life Insurance Company	AFP
2004	17 275	15 825	1.09	9 846	40.75%	-	27.91%	31.35%
2005	43 434	39 424	1.10	28 280	36.58%	-	25.19%	38.23%
2006	37 309	33 667	1.11	23 077	38.95%	-	26.66%	34.40%
2007	51 137	46 008	1.11	32 416	40.20%	-	27.79%	32.01%
2008	44 173	39 013	1.13	27 216	33.81%	-	26.95%	39.24%
2009	40 259	36 850	1.09	25 560	5.81%	17.15%	34.10%	42.94%
2010	66 545	61 520	1.08	46 902	-	21.60%	30.02%	48.38%
2011	63 314	58 610	1.08	41 753	-	20.23%	28.31%	51.46%
2012	64 419	59 325	1.09	42 114	-	18.81%	32.63%	48.56%
Total	427 865	390 242	1.10	277 164	17.60%	10.80%	29.09%	42.51%

Source: SCOMP

ii. Intermediation and choice

It is interesting to note that the participation of an intermediary also favours the pension decision-making process. Figure 2 shows that 72% of individuals that enter the system assisted by a pension adviser accepted the best quote, while only 26% do so if they enter via a life insurance company. Thus, the data suggest that the channel of access to the system influences the selection of quotes.

Figure 5: Evolution % Last Year, Members that Accept the Best Quotes, by Access to the System



Source: Chilean Superintendence of Pensions (SP).

As of December 2012, 39.1% of individuals who select a retirement benefit chose a life annuity; 39.3% selected a PW; 21.4% a temporary income with deferred life annuity; and the remaining 0.13% a PW with immediate life annuity. Among those who chose a life annuity, 17.77% selected an offer within the system, while the remaining 82.23% accepted an external offer.

Although a large group of individuals accept annuity offers outside the system, it sets a minimum for the amount of annuities offered, thus allowing for better conditions for the members compared to the situation before the introduction of SCOMP. Indeed, before the new system was introduced, there was little "shopping around" to select annuities and there is some evidence that brokers might have biased the decision of individuals inducing pensioners to buy a product that was not suitable for them. Table 2 shows that in the SCOMP system 54% of contracted annuities correspond to the best quote, and 76% are within the three best ones.

Table 2: Percentage of accepted annuities by quote ranking

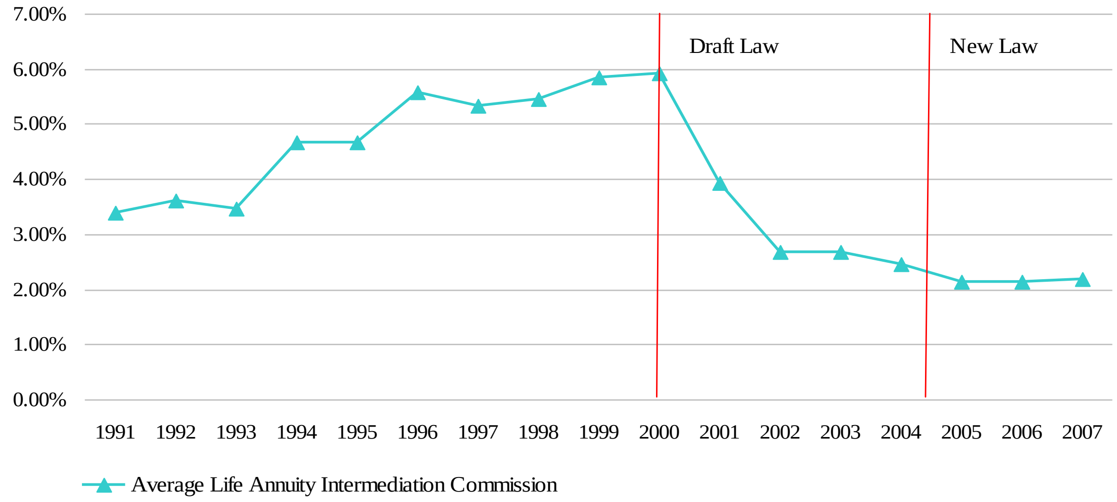
	Years										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total	% accumulated
Best Quote	66%	63%	62%	63%	58%	46%	44%	51%	47%	54%	54%
Second Best Quote	15%	15%	14%	14%	15%	14%	13%	12%	13%	14%	67%
Third Best Quote	8%	7%	7%	7%	8%	10%	10%	9%	9%	9%	76%
Other Quotes	11%	14%	17%	16%	20%	31%	33%	28%	31%	24%	100%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	

Source: Chilean Superintendence of Insurance and Securities (SVS).

iii. Commissions

Alongside the establishment of a maximum commission that pension advisers and sales agents from insurance companies can be paid, the SCOMP system has caused a significant reduction in the fee deducted from the member's balance. The following chart shows the evolution of this fee. At the beginning of the 1990s the average fee reached 3%, increasing constantly to a level of 6% by the end of 1999. In 2000, the government submitted a draft of the pension reform law to the National Congress. Almost immediately, there was a strong reduction in the average fee observed. The new law set a cap on the intermediation fee at 2.5% of the member's balance. Since the law's enactment, the average intermediation fee has remained below that amount. In 2008, this cap fee was lowered to 2%.

Figure 6: Evolution of the average intermediation fee



Source: Chilean Superintendence of Insurance and Securities (SVS).

iv. Money's-worth ratios

Additionally, Rocha and Thorburn (2007) show that after the draft was presented there was a significant reduction in the dispersion of Money`s-Worth Ratios (MWRs)[56]. Table 3 shows the decline in the coefficient of variation and the reduction in the dispersion of MWRs after 1999. While the dispersion of MWRs declines after the submission of the draft law to the National Congress in 2000, the effects of the actual approval and implementation of the law in 2004 are less clear. This may be due to the limited amount of information, based only on one month[57].

Table 3: Mean, Standard Deviation, and Coefficient of Variation of All MWRs in Different Years

	March 1999	March 2002	March 2003	March 2004	March 2005
Mean	0.980	1.080	1.036	1.064	1.062
Std. Dev.	0.049	0.047	0.042	0.045	0.045
Coef. Var.	5.009	4.363	4.074	4.239	4.245

Source: Rocha and Thorburn (2007).

4. Challenges

The new system has worked effectively in the eight years since its launch. Members value the information given by the system and the possibility of accessing the market – a task that was quite troublesome when the SCOMP did not exist, especially for people from rural areas or from regions with limited access to financial institutions.

[56] Money`s Worth Ratios is an index of the value provided to the customer in an annuity product. It is defined as the ratio of the expected value of the benefits to the premium paid. An efficient and transparent annuities market would produce similar MWRs.

[57] It is worth mentioning that since the year 2004, there was an important decrease in the interest rate of government bonds, which resulted in a decrease in the implicit rate of annuities in the market.

Initially, brokers and insurance companies were against the mandatory nature of the system and rejected the maximum fee cap on intermediation services. Nevertheless, since the law was approved they have worked together to ensure the smooth operation of the system.

The initial challenge in the process of implementing the SCOMP system was to achieve the interconnection between all agents involved in the commercialisation process (a technological challenge). A private company is in charge of giving the necessary support for the direct transmission of the information, maintaining the trustworthiness and security of the information that it handles. The system operates so that each participant receives the information that is directed to him in appropriate time and the confidentiality of the data is preserved.

Although the system delivers members or beneficiaries a single document with all possible alternatives of retirement products and quotes, understanding that amount of information still proves to be difficult for the average member. A vast majority of members in the Chilean pension system have low levels of financial education and little involvement with financial products, including their own pension savings, throughout their lives.

As a way to improve the information that members and beneficiaries receive through the system, the Superintendence requested a study to evaluate the degree of understanding about the documentation delivered. The results showed that there is an important lack of understanding, especially among low-income members. Based on this evidence, the Superintendence improved the design and structure of the statements to make them clearer and more understandable. This is one of the main challenges. A typical document may consist of up to ten pages with alternative retirement products, such as different guaranteed periods for life annuities and several combinations of annuities with PW. Although the system was designed so that individuals could directly make their quotations, a large group of individuals still accepts an offer with the intermediation of an agent or pension adviser. This suggests that members still need the aid of an intermediary to make a decision about a retirement product.

This situation could be improved if the outcome of the system were simplified, but it has to be recognised that the system was implemented after more than 20 years of a decentralized market in which intermediaries emerged and established themselves. Countries implementing a centralised quotation system from the beginning may not face this complex interaction between intermediaries and the market for retirement products.

The option of implementing such a system as a complement or as a replacement of other forms of intermediary agents may also depend on the degree of development of the system, the level of knowledge that members have about the system, the level of financial education of participants, the existence of a market for intermediaries of retirement products, the level of competition of such a market, the mandatory nature of the system and the relative importance of pensions obtained from this system in comparison to alternative sources of retirement income available to members.

A.II. The Open Market Option (OMO) mechanism in the United Kingdom

1. OMO Background

Given the relatively modest amounts provided by public pension provisioning in the United Kingdom (UK), many individuals supplement their retirement income via the voluntary private pensions sector, comprising defined benefit (DB) or defined contribution (DC) occupational schemes and personal pension arrangements. With DB schemes and DC schemes (also known as 'money purchase' schemes), up to 25% of accumulated pension wealth could be taken in the form of a lump sum, with the requirement that the balance must be used to secure an income (by purchasing either an annuity or alternatively secured pension) by the age of 75. In 2011 this requirement was removed and so-called 'flexible drawdown" was introduced as an additional retirement income option for individuals who can demonstrate they have a guaranteed minimum retirement income of at least 20 000 British pounds per year (HM Treasury, 2014: 17).

Although individuals have had the right to shop around for an annuity via the so-called Open Market Option (or OMO) since 1978, the majority use their pension provider to also supply their annuity. The FSA[58] has sought to ensure that the annuities market worked competitively from as early as 2002. They ruled that pensioners must be informed that they have this right to purchase their annuities from suppliers other than their current pension provider – i.e. to exercise an open market option (OMO)[59]. This is done via a "wake-up letter" which is sent to individuals 4-6 months before their retirement date, with a second letter (containing more detail and a quote on how much income would be received if an annuity were provided by the current pension provider) sent six weeks before retirement.

A report by the UK insurers' trade association, the ABI, in 2005 showed that around half of consumers simply accepted the annuity offered by their provider without shopping around.

A Treasury report the next year found that knowledge and understanding of annuity issues had increased, as had use of the OMO. Nevertheless, only around one-third of individuals switched to a different annuity provider, despite the fact that the differential income offered by the existing pension

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[58] As of 1 April 2013, the Financial Services Authority in the UK became two separate bodies – the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The FCA retains the remit on annuity distribution issues.

[59] The FCA rules around the disclosure of information to members of personal pension schemes, including self-invested personal pension schemes, stakeholder pension schemes, and free standing additional voluntary contributions. The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SII 2013/2734) also applies to pension schemes and requires scheme trustees to tell the member about the availability of the OMO at least six months before the member's retirement date. The Financial Conduct Authority provides no advice for trustees in this area, as the regulation of workplace pensions in the UK falls to The Pensions Regulator.

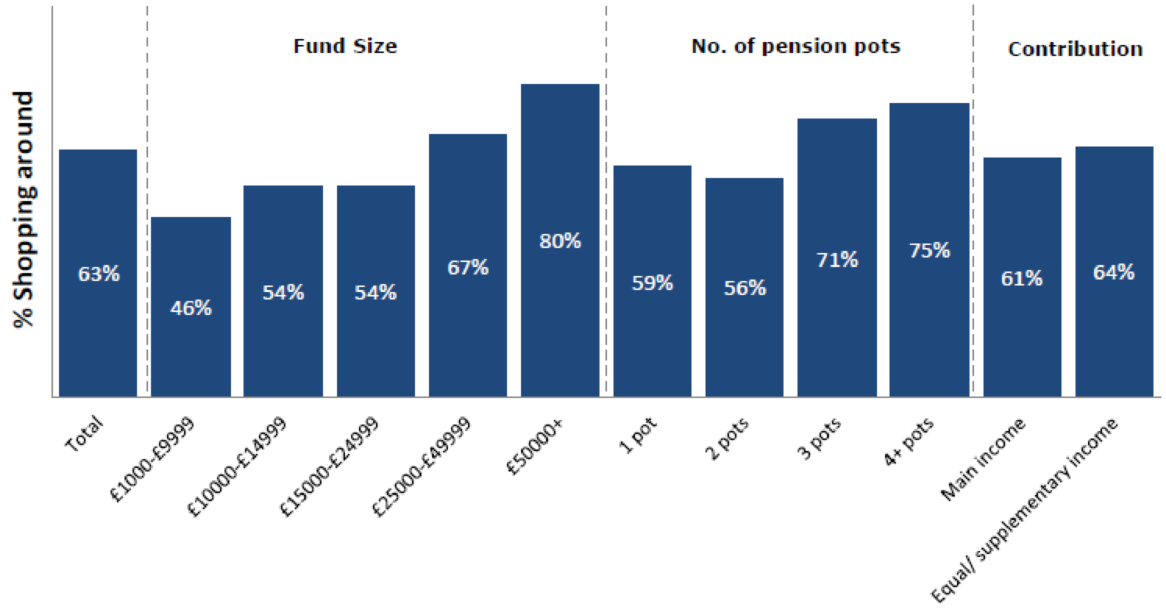
The FCA does not require people to take advice when purchasing a retirement income product. In 2013 a third of annuity sales were advised and 95% of the income drawdown sales were advised (information obtained from the FCA).

The FCA rules only provide protection to the member when advice is obtained from an authorised financial adviser. A member of a personal pension scheme will almost certainly obtain their advice from someone who is authorised and the member will then have the protection offered by the FCA rules. That protection is not available to a member of an occupational pension scheme who gets assistance from scheme trustees or HR professionals, or who chooses to use the two stage web tool from The Pensions Regulator instead of obtaining advice from an authorised adviser. Hence The Pension Regulator promotes, to the community it regulates, the use of financial advice from appropriately authorised advisers.

provider and the top OMO rate can be as much as 30% (Harrison et al., 2006). Problems identified with switching included inertia, lack of awareness, complexity of forms, time delays in making transfers, lack of alternative quotes, the gain "not looking big enough" (i.e. a lack of understanding), or (on a more positive note) wishing to stay with the company with which one has built a good relationship[60]. In addition, reference to the OMO is often included within a broader pack of pre-retirement literature and may therefore not receive the necessary attention. ABI research from May 2013 (ABI, 2013: 4) found 63% of annuitants shopped around and considered switching, with 30% of the total actually switching between pension providers.

The decision of whether to use the OMO or not also appears to be linked to levels of monthly income. Customers with more sizeable savings (especially if higher than GBP 25 000) are more likely to shop around. Also, having three or more pension pots increases the probability of shopping around (Chart 1). This finding is corroborated by a recent 2013 customer research made by the ABI, which concluded that "having a smaller pot is the strongest predictor of whether someone will shop around: only 46% of customer with a pot of less than GBP 10 000 said they shopped around compared to 63% of the total" (ABI, 2014: 3).

Chart 1: Shopping around amongst customers with varying pot sizes and numbers of pots – Annuity purchasers



Note: Sample = All annuity purchasers (1000). Bases will vary by sub-group. Shopping around based on customers' own reporting of whether they shopped around, as outlined previously.

Source: ABI (2013: 38, Figure 11).

The UK Pensions Regulator encourages trustees of DC pension schemes to provide more support to members going through the retirement process, following a review by the regulator which identified

[60] Other valid reasons for not switching providers are commutation on triviality grounds or guaranteed annuity rates from the original provider (which will almost certainly be better than current OMO rates).

examples of both good and bad practices within the pensions market around retirement choices. The findings and key messages of its review state that trustees can add real value to the retirement process beyond that of mere compliance, and its guidance on good practice gives examples of the steps trustees can take to help members with the OMO[61]. Also, the regulator authorises the Money Advice Service leaflet for trustee use.

The most recent study of the annuity market in the UK (FCA, 2014a) was undertaken by the Financial Conduct Authority. The study focused on members of contract-based pensions who purchased an annuity from their existing pension provider or through a third-party arrangement but excluded members of trust-based occupational pension schemes and other similar institutions being supervised by The Pension Regulator. The study found that consumers' awareness of their right to shop around has considerably increased (nine out of ten consumers now claim to know this right, FCA, 2014a: 7).

The high level of awareness can be attributed to previous initiatives that focused on disclosure. Since 2002, insurers have been required by the Financial Services Authority to inform existing pension customers of their right to purchase an annuity on the open market; in March 2013 the ABI introduced its Code of Conduct on Retirement Choices and in August 2013 started publishing annuity rates; in November 2013, The Pensions Regulator published the Regulatory guidance for defined contribution schemes for trustees of occupational schemes (FCA, 2014a: 7).

Nevertheless, the FCA found out that too many consumers (about 60% in 2012) purchased an annuity from their existing pension provider without consulting other options available on the open market. Some of them (63%) might have "shopped around" to review options elsewhere but far fewer actually switched. The research suggests that almost half of all members who bought an annuity did not make an informed decision based on shopping around; understood as comparing quotes available on the open market (FCA, 2014a: 25).

The results of the study also indicate that 80% of consumers who did not shop around (and purchased their annuity from their existing providers) could have obtained better conditions on the open market. On average, those who purchased a standard annuity from their existing pension provider could have increased their income by GBP 67 a year by buying an annuity on the open market. In the context of consumers who bought enhanced annuities, the difference amounts on average to GBP 135 a year (FCA, 2014a: 15).

Two groups of consumers have been identified as being particularly at risk of concluding a sub-optimal contract (FCA, 2014a: 10-11, 18):

- those with small (below GBP 5 000) pension savings are generally offered lower annuity rates than individuals with larger funds. As a result, they have no real choice of providers on the open market;
- those who would be eligible for an enhanced annuity but who do not explore this option as many of them are not even aware they could have applied. This finding calls for improved communication.

According to the study, there are some significant behavioural and/or supply barriers to consumers shopping around the annuities market and the traditional method of disclosure might not be sufficient to change costumer behaviour (FCA, 2014a: 11).

[61] http://www.thepensionsregulator.gov.uk/guidance/dcScheme/retirementOptions/index.aspx.

2. OMO Improvements

i. Comparative Quotations

To support consumers in their choices, comparative annuity prices are provided by the Money Advice Service (MAS)[62] set up by the UK government in April 2010, an independent statutory body with responsibility for improving people's understanding and knowledge of financial matters and their ability to manage their own financial affairs. The Money Advice Service launched in April 2011 with its online, telephone and UK-wide face-to-face advice services and in April 2012 it took on additional responsibility for funding and improving the quality, consistency and availability of advice on debt.

An example of the system follows Chart 2. Individuals are asked a set of standard questions regarding the type of annuity they would like and comparative quotations from the providers are then given. Though providers take part on a voluntary basis (given that if their involvement was mandatory, there would be restrictions in how the data were published), all the main insurance companies active in the annuities market are represented. The site also provides information about new pension rules that came into force on 27 March 2014[63].

Experts have suggested that for the OMO process to operate efficiently, the annuity selection must involve two distinct stages, of which securing a competitive rate is the second. The first is to ensure that individuals select the right type of annuity product and features (see Harrison et al., 2006).

The Money Advice Service offers an online system to help individuals choose what type of annuity is right for them[64]. Individuals are guided through a series of questions which will lead to a tailored answer as to what type of annuity would suit their circumstance. For example, when being asked to identify whether married or single, information will be provided on single vs. joint life annuities. Individuals may also provide additional data on their life style and health status that may serve to obtain annuities that take into account these circumstances. The respondent will then be guided to the comparative tables to find the best price for the product they have selected, or may consult with MAS by phone or choose to contact a financial adviser[65]. The Pension Advisory Service similarly provides a website with wide range of information related to pension and jargon-free description of available choices and retirement products[66].

[62] See https://www.moneyadviceservice.org.uk/en/categories/tools--resources. Previously it was known as the Consumer Financial Education Body. The statutory functions of MAS were set out by the Financial Services Act 2010. Example annuity rates from period surveys are also available on the ABI website: https://www.abi.org.uk/Insurance-and-savings/products/pensions/retirement-and-your-pension/annuity-rates/example-rates.

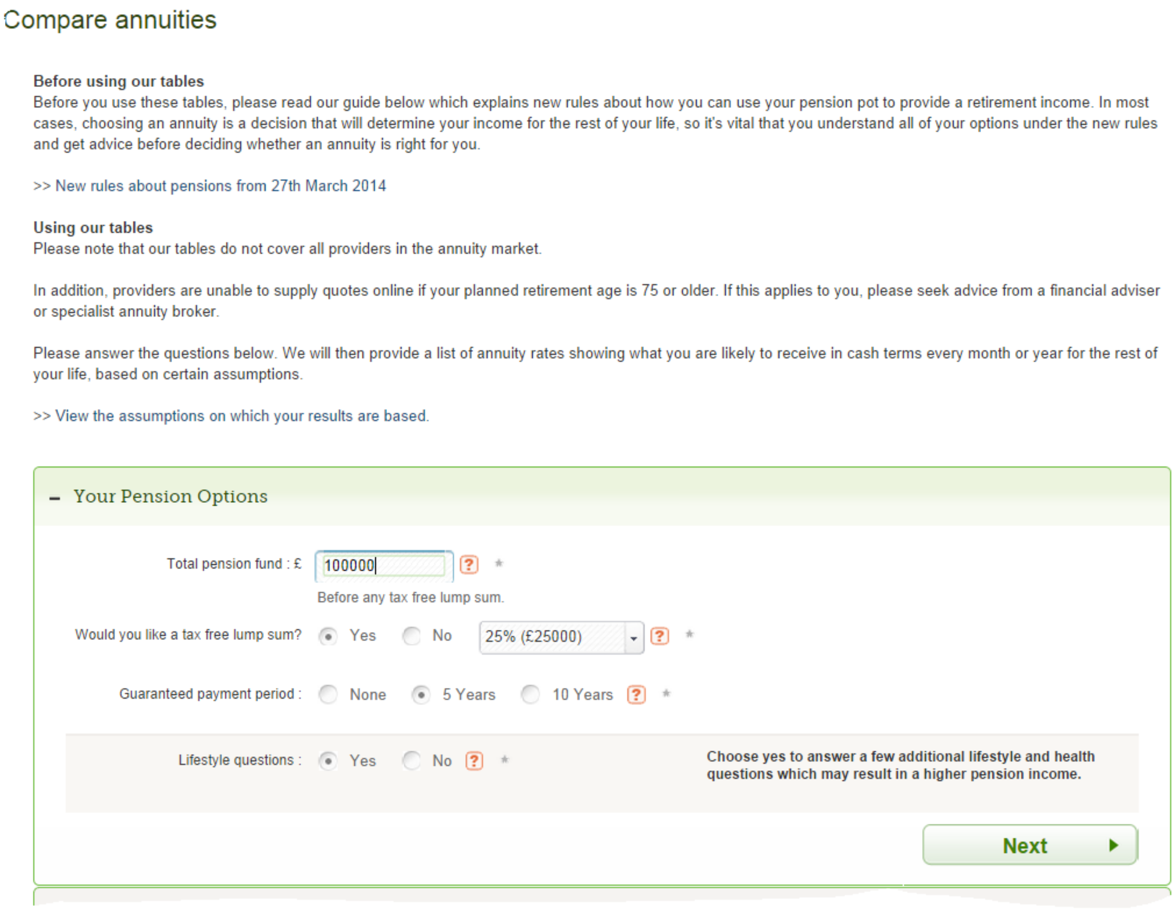
[63] See https://www.moneyadviceservice.org.uk/en/articles/new-rules-about-pensions-from-27-march-2014.

[64] See https://annuities.moneyadviceservice.org.uk/xml/annuitiesMAS/an_form.cfm.

[65] The UK Pensions Regulator also has a role to play in the process – in promoting the use of personal financial advice from appropriately authorised advisers to helping members with the OMO make properly informed retirement choices. The regulator also encourages scheme trustees to facilitate a level of support to members that enables them to make properly informed decisions on their retirement and annuity options. TPR has recently published good practice guidance on member retirement options and the Open Market Option (OMO) which sets out the trustee's responsibilities in providing retirement options.

[66] http://www.pensionsadvisoryservice.org.uk.

Chart 2: The Money Advice Service



Compare annuities

Before using our tables
Before you use these tables, please read our guide below which explains new rules about how you can use your pension pot to provide a retirement income. In most cases, choosing an annuity is a decision that will determine your income for the rest of your life, so it's vital that you understand all of your options under the new rules and get advice before deciding whether an annuity is right for you.

>> New rules about pensions from 27th March 2014

Using our tables
Please note that our tables do not cover all providers in the annuity market.

In addition, providers are unable to supply quotes online if your planned retirement age is 75 or older. If this applies to you, please seek advice from a financial adviser or specialist annuity broker.

Please answer the questions below. We will then provide a list of annuity rates showing what you are likely to receive in cash terms every month or year for the rest of your life, based on certain assumptions.

>> View the assumptions on which your results are based.

– Your Pension Options

Total pension fund : £ 100000 ? *
Before any tax free lump sum.

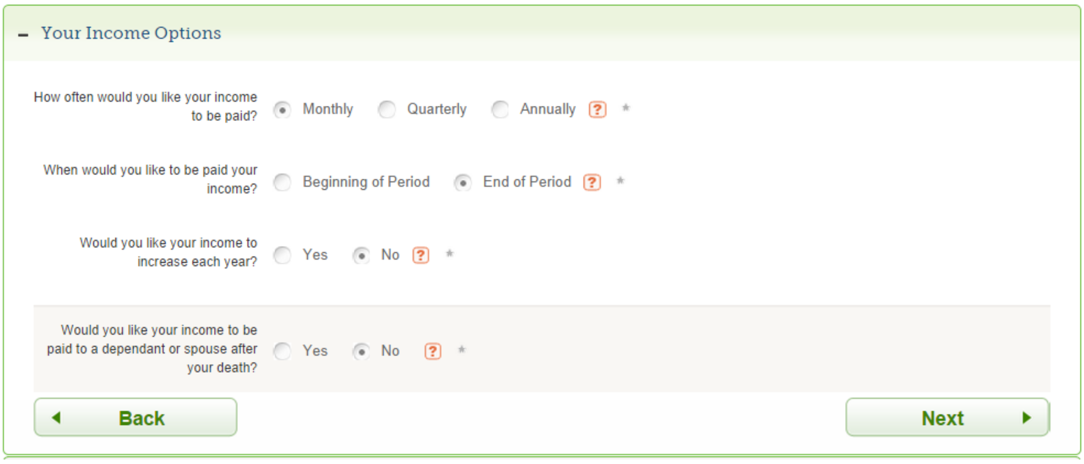
Would you like a tax free lump sum? Yes No 25% (£25000) ? *

Guaranteed payment period : None 5 Years 10 Years ? *

Lifestyle questions : Yes No ? *

Choose yes to answer a few additional lifestyle and health questions which may result in a higher pension income.

Next



– Your Income Options

How often would you like your income to be paid? Monthly Quarterly Annually ? *

When would you like to be paid your income? Beginning of Period End of Period ? *

Would you like your income to increase each year? Yes No ? *

Would you like your income to be paid to a dependant or spouse after your death? Yes No ? *

Back Next

– About You

Title : Mr [?] *

First name : John ✓

Surname : Smith ✓

Postcode : ST2 7LU *

Date of birth : 03 04 1973 ✓

Marital status : Married *

At what age would you like to take your pension annuity? 55 [?] ✓

Have you been a regular smoker for the last 10 years? ○ Yes: smoker ◉ No: non-smoker [?] *

What is your height? 186 cm ○ Imperial (Feet / Inches) ◉ Metric (Centimetres) ✓

What is your weight? 92 kgs ○ Imperial (Stones / Pounds) ◉ Metric (Kg) ✓

Do you have high blood pressure? ○ Yes ◉ No [?] *

Do you have high cholesterol? ○ Yes ◉ No [?] *

Do you have type-II diabetes? ○ Yes ◉ No [?] *

◄ Back

View Results ►

Compare annuities

Pension Type : Individual Personal Pension
Payment Frequency : Monthly
Guaranteed Payment Period : 5 Years

Pension Fund : £100,000.00
Payment In Arrears: Yes
Pension for Spouse/Dependant : 0%

Change Details ▸
Print Results ▸

Tax Free Sum : The rates below assume the tax free lump sum shown will be paid to you by your existing pension provider.

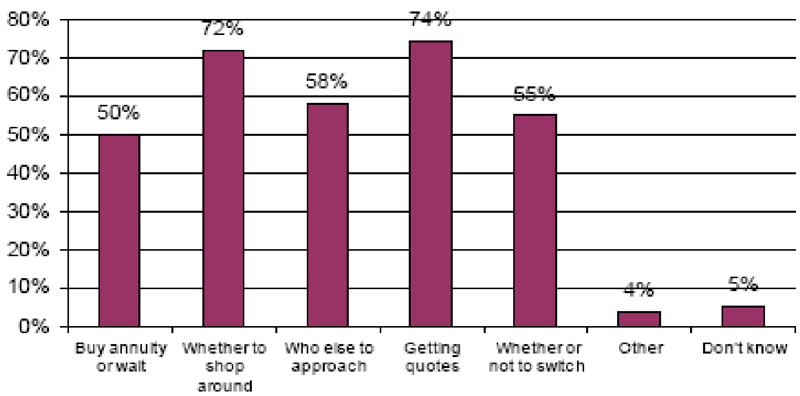
Company	Monthly Pension	Annual Pension	Tax Free Cash	Apply
Canada Life 0845 300 3199	£298.20 per month	£3,578.40 per year	£25,000.00 paid by existing provider	Go To Provider ▸
Hodge Lifetime 0800 731 4076	£292.88 per month	£3,514.53 per year	£25,000.00 paid by existing provider	Go To Provider ▸
Legal & General 0800 072 9944	£288.36 per month	£3,460.32 per year	£25,000.00 paid by existing provider	Go To Provider ▸
Saga 0800 046 2871	£286.92 per month	£3,443.04 per year	£25,000.00 paid by existing provider	Go To Provider ▸
AVIVA 0800 404 7211	£278.39 per month	£3,340.68 per year	£25,000.00 paid by existing provider	Go To Provider ▸
Standard Life 0845 279 8897	£260.40 per month	£3,124.80 per year	£25,000.00 paid by existing provider	Go To Provider ▸
PRUDENTIAL 0800 012 1179	£259.47 per month	£3,113.64 per year	£25,000.00 paid by existing provider	Go To Provider ▸

Disclaimer: The above rates are for information and should only be used as a guide. Annuity rates can change regularly and may go up or down in the future.

Source: https://annuities.moneyadviceservice.org.uk/xml/annuitiesMAS/an_form.cfm.

An ABI (2005) survey showed that individuals became aware that they could shop around for alternative annuity products and pricing and that they knew where to go to get such information (only 7% and 3% of consumers, respectively, claimed not knowing these facts as the reason for why they only got a quote from their existing service provider). They also valued such information and services (Chart 3).

Chart 3: How Advice Helped Consumers



Source: ABI (2005).

More recent research by ABI (2013) indicates that financial advisers had the greatest impact on individuals to make them consider other annuity provider or other type of annuity (Chart 4).

Chart 4: Impact of information sources – Annuity purchasers

	Information sources that made me consider other annuity providers	*Information sources that made me consider other types of annuity*
Unweighted Base	*573*	*573*
Professional Financial Adviser	44%	43%
Information packs sent by your pension provider	34%	31%
Spoke to your pension provider	12%	14%
Retirement specialist / annuity specialist	6%	6%
Newspapers/magazines / articles	6%	6%
Friend / colleague	4%	4%
Spoke to another provider / not your pension provider	5%	4%
Spouse / partner	5%	4%
Another website (unspecified)	4%	4%
Money advice service website / comparison site (MAS)	5%	3%
Bank or Building Society	4%	3%
Financial adviser arranged through employer	2%	2%
Other member of family	2%	2%
The Pension Advisery Service (TPAS) online planner	3%	2%
None	15%	15%

Note: Sample = all annuity purchasers claiming to have sought advice or information. Bases as shown. Prompted question. Information sources <2% not shown.

Source: ABI (2013: 45, Table 18).

3. Other new developments

In terms of information to consumers to enable them to make appropriate annuity choices, the situation was complicated further in late 2012 by the implementation of the Gender Ruling, (ECJ Case C-236/09) under which the insurance industry is no longer allowed to use gender-based tables for the calculation of separate annuity rates for men and women. There is as yet no evidence of any potential impact on the annuity take-up market, and how consumers exercise their open market option. The insurance industry continues to develop its advice to its members so as to support the customer in understanding the different ways to take retirement income, and how to make that choice. Relying on the customer's inertia is clearly stated as unacceptable practice in the latest Code of Practice for trust-based occupational schemes (The ABI Code of Conduct on Retirement Choices 2012). Following the findings of the thematic review, the FCA launched a market study into retirement income to see whether competition in this market is currently working well for consumers. In light of the Budget changes (see below) the market study will also look to understand how consumers, providers, and distributors are likely to behave in the new market landscape in order to assess potential competition risks and vulnerabilities (e.g. complex and opaque product innovation). Interim findings of the market study were due to be published in late 2014.

The Financial Conduct Authority (FCA) has recently conducted a review of 13 annuity comparison websites to assess whether they provide information that is fair, clear and not misleading, in accordance with the FCA rules. The study found some good practices (such as presentation of alternative options to buying an annuity and use of jargon-free language) but also showed scope for improvement in these services. In particular, on all websites that were reviewed, key information and risk warnings were often missing or not sufficiently prominent on the site. Information on 12 of the 13 analysed websites did not satisfy the key requirements to be "fair, clear and not misleading"; for instance, some services were described as "free" even though commission would be received by the firm (FCA, 2014b: 2).

In the 2014 Budget, the Chancellor announced radical changes relating to the way DC pension savings in the UK will be accessed. As of 27 March 2014,[67] savers have greater freedom and choice over accessing their defined contribution pension savings. The changes are as follows (PPI, 2014):

- maximum lump sum limit ("trivial commutation"): before, savers reaching the minimum pension age (55) were allowed to take as a lump sum, without an additional (55%) tax charge, only an amount of up to GBP 18 000 (for one pension pot) and up to GBP 2 000 for each additional two pension pots. Between April 2014 and March 2015, these trivial commutation rules will be liberalised; a single pot limit will increase to GBP 30 000 whereas up to three additional personal pension pots of GBP 10 000 or less could also be taken as a lump sum;
- programmed withdrawal limit ("capped drawdown"): before, savers could draw down in a given year up to 120% of an equivalent annuity unless the individual had a secure retirement income for life of at least GBP 20 000 per year allowing him or her a so-called "flexible drawdown". The change increases the capped drawdown withdrawal limit to 150% and reduces the amount of guaranteed income that allows for flexible drawdown to GBP 12 000.

The rule that all savers in DC pension plans aged 55 (retirement age) can withdraw one-quarter of their pension savings as a tax-free lump sum will not change. However, from April 2015, trivial commutation and capped drawdown limits will be eliminated so that savers will have an unconstrained choice of how to access the rest of their pension savings. They will be able to withdraw them as a lump sum (at a marginal tax rate), life annuity, drawdown/other products or as a combination of all these products.

According to government estimates, the loosening of trivial commutation and capped drawdown criteria will increase flexibility of access to pension savings to some 400 000 more people, whereas the changes coming into force in April 2015, will give complete choice to the 320 000 people who retire each year with defined contribution pensions[68].

Alongside increased flexibility, the changes in the law foresee that pension providers and trust-based pension schemes will have to offer members a "guidance guarantee" (rather than fully regulated financial advice, as initially planned).

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[67] Budget 2014: support for savers announced, https://www.gov.uk/government/news/budget-2014-support-for-savers-announced, published 19 March 2014.

[68] Budget 2014: greater choice in pensions explained, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/301563/Pensions_fact_sheet_v8.pdf,

The changes may have impact on the pension scheme design of default investment strategies and the annuity market itself. Blake (2014: 6, 10) voiced a concern that the changes will ultimately lead to “the effective end of private-sector pensions in the UK” and “increased complexity of the regulatory regime with monitoring the decisions of individuals and collecting the data”. However, this view is not shared by all market participants and it is too early to say for certain what the long-term outcome will be.

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