PENSIONS EUROPE

APRIL 2025

DECUMULATION IN FOCUS

UNDERSTANDING THE PAYOUT PHASE

www.pensionseurope.eu

A Foreword by the Eversheds Sutherland DC Team

We are delighted to continue our work with Pensions Europe on this latest publication in its DC series, which examines ***Decumulation in Focus: Understanding the Payout Phase***.

The transition from DB to DC pensions taking place in countries across Europe is shifting the risks - and many of the key decisions associated with pension savings - from employers to individuals. During the accumulation phase, individuals need to decide how much to save. They may also have a choice over how their funds are invested. However, many of the most important and complex decisions will come when an individual enters the so-called "decumulation" phase of their journey. These key considerations/ aspects include:

- when to start accessing their retirement savings (and when to stop working)
- how long their money needs to last
- whether they can or must use some or all of their savings to secure a guaranteed income in retirement
- how much flexibility is available to participants in how their savings are invested and over the timing and value of any withdrawals
- to what extent they need or want to provide for their spouse, partner, or other dependants should they outlive them, and
- how much, if any, of their funds they would like to have available to pass on when they die.

In this publication, we explore the benefits and risks associated with the different options that may be made available to individuals during the decumulation phase. We consider how decumulation is being shaped by the various legal, regulatory, and tax regimes currently in place in different countries across Europe, and the options open to policymakers and regulators as their pension systems evolve. We also examine the support that can be provided to help individuals make informed choices about how to use their retirement savings and other ways in which the risk of poor outcomes for individuals (including the risk of running out of money) can be mitigated or avoided.

The first generation of DC-only retirees - those with no underpin from DB pension provision - will soon be upon us. So now is the time for policymakers and regulators throughout Europe to consider the legal, regulatory, and tax frameworks that need to be in place to ensure that individuals are able to make the most of their pension savings.

It is essential that individuals have the right decumulation solutions available to them and the right support in place to ensure they (and, where necessary, their surviving spouse or partner) can cover their living expenses and other costs for the rest of their lives. Without this, many individuals could face poverty in retirement, placing even more strain on already overextended national welfare systems.

We hope this publication offers some helpful insights and potential solutions as the transition across many European countries from DB to DC pensions gathers pace.

Francois Barker
Partner, Pensions
Eversheds Sutherland
(International) LLP

Michael Jones
Partner, Pensions and Head of DC
Eversheds Sutherland
(International) LLP

A Foreword by Klaus Stiefermann, Chairperson of PensionsEurope

In my capacity as Chairperson of PensionsEurope, I am pleased to present ***Decumulation in Focus: Understanding the Payout Phase***, our latest publication. This paper provides a comprehensive analysis of how the decumulation phase is structured in occupational DC and hybrid pension plans across Europe. Using case studies from different EU Member States and beyond, it explores the key challenges, risks, and strategies associated with designing the payout phase.

As many pension systems in Europe transition from DB to DC and hybrid arrangements, more risks are transferred to individuals. These shifts require careful consideration from policymakers, employers, and those responsible for running pension schemes to ensure that members and beneficiaries receive adequate retirement income and protection against the risks transferred to them.

As is often with pension matters, there is no one-size-fits-all approach. Some countries have opted for structured, standardised payout options that prioritise stability and simplicity, while others offer more flexible frameworks that grant retirees greater responsibilities. This paper examines the advantages and drawbacks of different payout methods—including annuities, drawdown options, and lump sum —while considering broader factors such as taxation, regulatory frameworks, and support to members and beneficiaries. A key theme throughout is the need to strike a balance between security, flexibility, and cost efficiency.

While there is no universal solution, we provide several key principles that can guide the design of decumulation strategies. These include clearly defining adequacy levels for pension systems and understanding to what extent DC and hybrid pensions contribute to achieving this adequacy, providing stable income to cover longevity risks, offering flexibility where possible, and considering default options. Key considerations also include designing effective tax incentives to nudge participants towards optimal payout options, providing them with clear communication, and facilitating access to guidance and advice.

This publication was prepared by the Standing Committee Future of Pensions, PensionsEurope's strategic body dedicated to shaping policy on the future of pensions. PensionsEurope has been actively engaged in discussions on DC and hybrid pensions and strives to be a thought leader in Europe and beyond on supplementary pensions. This paper builds on our previous work on the development of DC pension plans in Europe.

I would like to extend our gratitude to the members of the Standing Committee Future of Pensions, including representatives from our Member Associations and Corporate and Supporter members, for their valuable insights and contributions. We hope this report will contribute to the discussion on how to develop well-structured, effective decumulation strategies that strengthen financial security for retirees across Europe.

EXECUTIVE SUMMARY

The report starts by providing an overview of the different pension structures, defining both DB and DC plans, and highlighting the growing presence of hybrid models that combine elements of both.

It analyses how national pension systems structure the decumulation phase, with social-oriented systems tending to offer standardised, less flexible options that prioritise financial security and provide stable options such as annuities. In contrast, more liberal systems provide retirees with greater flexibility in managing their pension savings, placing the responsibility for financial decisions on individuals, and requiring them to navigate risks by themselves.

The payout phase must ensure that retirees can cover essential expenses such as housing, food, and healthcare, while also recognising the importance of discretionary spending, including leisure or family support, contributing to their well-being. Unexpected costs, particularly in old age, e.g., healthcare and long-term care, should also be taken into account.

Depending on the extent to which state pensions and other income sources cover essential expenses, the need for annuities varies. In systems where state pensions provide a strong baseline income, retirees may be granted greater flexibility in withdrawing their workplace pension savings. When state pensions are less generous, occupational pensions may need to play a larger role in providing a lifelong income stream.

The report analyses different payout options, assessing their respective benefits and drawbacks:

- **Fixed/guaranteed annuities** provide stability and mitigate lifelong risks but lack flexibility.
- **Variable annuities** offer lifelong payments tied to investment performance but with some variability.
- **Lump sum withdrawals** offer flexibility but expose retirees to the risk of outliving their savings and do not cover inflation risks.
- **Drawdown options, including programmed withdrawals,** provide a balance between flexibility and long-term security but require ongoing management.

While no single approach will be optimal for all retirees, a well-designed system should ensure that individuals have access to a stable income stream and, if possible, to some degree of flexibility enabling them to meet their specific needs.

Due to the complexity of the payout phase, individuals must have access to clear, timely, and accessible information. The degree of engagement and information required also varies on whether participants must actively choose a payout method or if a default or mandatory option is available.

Some general principles can help guide the design of the payout phase for DC and hybrid plans. However, these principles must be tailored to national contexts, and some solutions may not be applicable to all systems:

- **Clearly defining pension adequacy:** Policymakers should assess how occupational DC and hybrid pensions contribute to overall retirement adequacy to develop suitable policies. Benchmarks can help savers evaluate whether their pension savings will cover their expenses.
- **Providing stable retirement income:** Retirees should have access to a stable income until death. Depending on the generosity of state pensions and/or the availability of other income sources, as well as the size of an individual's pension pot, DC and hybrid pensions may need to provide a lifelong income.
- **Providing flexibility if possible:** As retirees' consumption needs evolve, flexible payout options can help manage financial changes. However, safeguards must be in place to prevent individuals from depleting their savings too early.
- **Considering providing a default payout option:** In systems where retirees must make active decisions, default options can help minimise risks related to choice overload and information bias.
- **Leveraging tax incentives:** Well-structured tax policies can encourage retirees to select payout options that ensure a predictable and secure income stream. Member States play a crucial role in designing these policies.
- **Improving communication with retirees:** Providing relevant information is essential for helping pension plan participants manage their retirement funds effectively.
- **Allowing access to financial guidance and advice:** Governments should explore ways to make financial advice more accessible, particularly for individuals with smaller pensions, where cost may be a barrier. Guidance should also be leveraged, and digital tools can help to do so. The legal distinction between advice and guidance should be clarified when necessary to incentivise more providers to offer guidance.

INTRODUCTION

Population ageing poses significant challenges for societal institutions, including pension systems. For society, the pressing question is how to ensure retirees receive an adequate, stable, and predictable income to maintain a reasonable standard of living throughout their retirement. At the individual level, this raises the question of whether retirement income will meet one's expectations and personal needs.

Over the past few decades, supplementary pensions have become increasingly important due to systemic reforms in state pensions. As a consequence, individuals tend to rely more heavily on second and third-pillar arrangements, although the degree to which this extends varies from country to country. Historically, occupational pension systems in developed economies — both state and occupational — offered Defined Benefit (DB) arrangements, which in most cases provided a guaranteed income for life, often adjusted for inflation.

However, as pension systems shift towards Defined Contribution (DC) and hybrid (i.e. with combined elements from DB and DC) plans, which may offer limited or no guarantees, decumulation strategies — how retirees draw down their DC assets — have become increasingly important. In many systems, this ongoing shift sometimes places new responsibilities on individuals, requiring them to make complex decisions about managing their savings – often at an age where decision-making may be more difficult.

The process of accessing pensions is evolving from a one-time event to a more flexible, gradual approach, driven by longer retirement periods and more diverse options with less reliance on annuities. This, however, is also subject to individual states' legal requirements — it is entirely possible for DC and hybrid plans to provide mandatory annuities. The right decumulation strategy must take account of regulatory requirements, the structure of the pension plan, and broader economic and national tax frameworks.

This paper provides an in-depth analysis of the key challenges and opportunities in ensuring that decumulation options for occupational DC and hybrid plans provide participants with adequate options tailored to their needs. It focuses specifically on second-pillar work-based pension arrangements.

The paper analyses the advantages and disadvantages of various decumulation options, considering both scenarios where members have little to no choice at retirement and cases where they can (or are required to) decide how to access their pension assets. In the latter context, it also explores strategies to inform and support members in making decisions that align with their needs and circumstances.

The paper focuses exclusively on the decumulation phase for retirement benefits and does not address other types of pensions, such as widow/dependants' pensions, which may begin earlier than the initially intended retirement decumulation phase.

It builds on our previous publication, *Good Decumulation of Defined Contribution Pension Plans throughout Europe*, which we believe is timely to update. The shift towards DC and hybrid plans is accelerating across Europe, as seen in the Netherlands' transition from DB to DC, as well as in Ireland, with the scheduled introduction of automatic enrolment and the move to Master Trusts. The communication on the Savings and Investments Union by the European Commission published on 19 March 2025 has announced an ambitious agenda to develop supplementary pensions across the EU. This could further incentivise the growth of DC pensions across Europe. We acknowledge, of course, the broader political and economic sensitivity of introducing additional costs of employment which could apply downward pressure on consumer spending. The political drive towards consolidating supplementary pensions in some Member States, driven, in part, by challenges in state pension systems, is another factor that highlights the need to reassess our understanding of the payout phase for DC and hybrid plans.

The paper continues the series of PensionsEurope's publications on DC and hybrid plans, which include *Road to DC: Understanding the Shift, Principles for Securing Good Outcomes for Members of Defined Contribution Pension Plans throughout Europe, Pension Design Principles applied to Modern Defined Contribution solutions,* and *Key Principles of Good Governance for Workplace Defined Contribution Pension Plans throughout Europe.* These publications aim to benefit not only regulators and policymakers across the EU, but also researchers, employers, and those responsible for pension plans.

The report starts by defining decumulation options and examining the impact of national frameworks on decumulation choices (Chapter 1). It then explores the retirement needs and goals of individuals (Chapter 2). Next, the paper addresses the risks associated with the payout phase with an evaluation of the strengths and weaknesses of each decumulation option (Chapter 3). Following this, it looks at the retirement journey and identifies the support and information individuals require concerning the payout phase (Chapter 4). Finally, the report concludes with key recommendations and principles for designing the payout phase for DC and hybrid plans (Chapter 5).

01 Overview of the payout phase for DC and hybrid pensions

Occupational pension plans sometimes referred to as workplace pension plans, are those linked to an employment relationship between the plan member (usually an employee) and the entity that generally establishes the plan (the plan sponsor). They may be established by single employers, corporate groups, or groups of non-connected employers (e.g., industry associations), sometimes in conjunction with labour associations (e.g., a trade union). While the plan sponsor is responsible for making contributions to occupational pension plans, employees may also be required to contribute or allowed to pay additional voluntary contributions (AVCs). Sponsors may have administrative or oversight responsibilities for these plans, or there can be a separate governance structure.

The pension benefits within these plans can either be DB or DC – (or a blend of the two) depending on the applicable national legislation and how sponsors have chosen to set up the arrangements. According to the OECD taxonomy, a DB pension plan is ***"any pension plan in which the financial or longevity risk is borne by the plan sponsor. Benefits to members are typically based on a formula linked to members' wages or salaries and length of employment***."

DC pension plans are ***"pension plans in which benefits to members are based solely on the amount contributed to the plan by the sponsor or member plus the investment return thereon. This does not include plans in which the employer that sponsors the plan guarantees a rate of return***." As there is usually no guaranteed rate of return, any costs incurred from the fund within the DC plan will critically impact the level of benefits.

The OECD definition combines two elements: the legal nature of the accrual (a benefit or capital) and who bears the risks (either the sponsor, the employee, an external party, or shared between two or more parties). The distinction between DB and DC plans is not always straightforward. For instance, Belgium introduced a legal minimum guaranteed return on its DC plans. This risk is carried by the employer, which technically means the plans are DB as set out under the OECD definition. However, in the national context, they are still called DC. Other plans – for example, the Hellenic Auxiliary Pensions Defined Contributions Fund (TEKA), introduced in Greece in 2022 – are DC in the accumulation phase, but internally annuitised in the payout phase, which means that the sponsors carry the longevity risk at that point.

In many European countries, and for a variety of reasons, there is a growing importance of DC and hybrid plans at the expense of traditional DB plans. Although the pace of this shift varies, the 2024 EIOPA IORPs in Focus Report notes that most active members of IORPs are in DC plans.[1] This trend will continue with the new legislation in the Netherlands, which requires all DB plans to close for new accruals by 1st January 2028. Indeed, the Netherlands represents the largest share of the IORP sector accounting for 59% of the total Asset under Management (AuM) of IORPs in the EEA.

However, in some Member States, DB plans continue to be important. In Germany, the only available collective DC arrangement – introduced in 2018 – has seen implementations in few sectors such as chemicals and banking. Shortly before the publication of this report, however, a new Social Partner Model was established by a collective agreement in the transportation sector (regional). Thanks to this collective agreement, around 10,000 employees that previously did not have an occupational pension are now covered.

Pension plans comprise two key phases: the pre-retirement accumulation phase and the post-retirement decumulation phase. During accumulation, individuals save and invest to build their retirement funds. The decumulation phase starts at retirement[2] when these savings are converted into income to meet living expenses – either in one go or more gradually. In some countries, access before retirement is allowed. This stage typically involves regular (or frequent) cash outflows, with the remaining funds invested to balance withdrawals and preserve wealth.

1 The EIOPA report focuses exclusively on the IORP sector and not on all occupational pension plans in the EU
2 Retirement is usually more varied and flexible than might historically have been the case with many individuals gradually phasing in retirement; in many instances, it is not necessary to stop working in order to access retirement benefits.

In DC and hybrid plans, the decumulation phase is particularly important, as individuals usually bear more responsibility for their pension provision and more risks than in traditional DB[3] pension plans. Decisions in the payout phase directly impact retirees' financial security and the income they will receive throughout retirement.

Different options are available for the payout phase of DC and hybrid pensions: annuities, lump sum payments, and drawdown solutions including programmed withdrawals. Chapter 3 elaborates further on the features of each of these options and their underlying opportunities and risks.

- **Annuities: Fixed or guaranteed annuities** provide guaranteed, regular payments for life, and offer a stable income for those seeking security. **Variable annuities,** on the other hand, provide payments that fluctuate based on the performance of underlying investments with the potential for higher returns but carrying the risk of reduced payments during market downturns. **Increasing annuities** are a form of fixed or guaranteed annuity where guaranteed regular payments for life are increasing broadly in line with inflation. **Deferred annuities** postpone payouts to start at a future date. They are suitable for individuals who wish to secure a known level of income later in retirement – perhaps after a period of drawdown

- **Lump sum withdrawals** are the most flexible decumulation option. Members receive part or all of their accumulated assets as a single payment, which can be used freely for various purposes, such as purchasing an annuity, paying off debt, covering unexpected expenses, or discretionary spending.

- **Drawdown solutions** allow retirees to withdraw a percentage of their pension savings each year in the form of a series of fixed or variable payments while keeping the remaining funds invested. **Programmed withdrawals** consist of a series of fixed or variable payments calculated by dividing the accumulated assets by a fixed number or the individual's life expectancy for each period.

Combinations of the above can also be allowed. What can or cannot be done depends on tax and regulatory rules and often varies from Member State to Member State. In addition, some country-specific payout options can also exist. However, this report does not intend to look at all national specificities and takes a more general approach to assess the risks and opportunities behind each payout option.

3 Generally, members of DB plans have no or limited choice about the form and timing of their retirement income stream unless, where permitted, they exercise an option to transfer out the capital equivalent of their benefit to an arrangement that might allow greater flexibility.

REGULATORY FRAMEWORKS AND DECUMULATION POLICIES

Different national systems may adopt a more social approach to decumulation (such as a protective state system that offers a robust safety net, i.e., a high replacement ratio compared with individuals' earnings or that country's average earnings) or a more liberal approach (such as a less protective system that expects individuals to take greater responsibility for their own financial well-being).

A liberal approach offers beneficiaries a range of choices, enabling individuals to customise their decumulation strategies to meet their specific needs. National laws may also allow individuals to combine different options. In such a system, retirees can consider various factors, such as supplementary retirement income and savings to support their retirement, housing needs, health considerations, and the desire to support family members and pass on wealth to the next generation.

However, this system places significant responsibility on individuals. In the United Kingdom, the ***"Pension Freedoms"*** were introduced in 2015 and apply to anyone having a DC workplace pension. They replaced the general requirement to opt for a fixed/guaranteed annuity and gave individuals the freedom to access their retirement savings from age 55 in a more flexible way. It should be noted, however, that drawdown solutions were already possible since 1995, although this was comparatively less used than annuities. With the Pension Freedoms, individuals were allowed to use their funds in a wider range of ways, and more options have been implemented over time. Currently, individuals can withdraw from their DC pension pots in several ways:

- **(Typically) annuities:** Individuals can convert their pension savings into a guaranteed income for life, after taking (if they wish) the first 25% of the available funds as a tax-free lump sum although there has now been a monetary cap, which could bite individuals with particularly large funds.
- **Flexible retirement income (pension drawdown):** Retirees take money from their pension pot while leaving the remainder invested for potential growth – again after taking (if they wish) the first 25% of the available funds as a fund tax-free lump sum. The drawdown payments are subject to taxation at the individual's marginal rate as they are withdrawn.
- **A series of uncrystallised funds pension lump sum (UFPLS):** Members can use their account to generate a variable income stream, where typically 25% of each payment is tax-free.
- **Lump sum withdrawals:** Where a member withdraws all the accumulated assets as a single lump sum, with the first 25% being tax-free and the balance being taxed at the individual's marginal rate.

Moreover, legislation to make provision for **Collective Defined Contribution (CDC)** plans was formally introduced in the UK in the Pension Schemes Act 2021. CDC plans aim to improve retirement outcomes while addressing concerns that an overload of choices may not always lead to the desired results.

In these arrangements, benefits are DC in nature since the targeted benefit levels are not guaranteed. However, unlike individual DC plans, participants do not have separate individual accounts. Instead, their contributions are pooled collectively within the plan, with investments and payouts managed together on an expected, though not guaranteed, basis by those running the fund. The UK's first CDC workplace plan was launched in October 2024 by the Royal Mail. The Department for Work and Pensions (DWP) has now proposed legislation to develop more CDC decumulation options. This would allow the selection of an annuity at a variable rate. The primary advantage of CDC plans lies in pooling longevity and investment risks. This approach is expected to deliver better outcomes through longer-term investment horizons, the smoothing of returns, and risk-sharing, similar to the mechanisms of DB plans.

In France, the ***"PACTE"* law**, implemented in 2019, introduced significant flexibility in the payout phase of second (and third) pillar pension plans. Savers now have the freedom to choose between several options: capital payments (including instalments), annuities, or a combination of these solutions, depending on the terms of their pension options. There is an exception for mandatory occupational DC plans, where payouts accrued from sponsor contributions must be disbursed through annuities. The opportunity to benefit from a capital payment mainly depends on whether the rights accrued correspond to mandatory payments. This restriction is expected to be removed, allowing for more flexibility in these plans. This newfound freedom of choice has been positively received by pension savers, enabling them to tailor their retirement income according to their personal circumstances and preferences, such as whether they prefer lump sums or regular instalments.

Overall, many pension plans provide standardised options for all participants, which helps keep costs low and reduce individual risks. In such models, key parameters—such as the earliest withdrawal age and the payout type—are predefined. While this limits or removes flexibility for individuals to customise payments to their specific needs, it simplifies decision-making by sparing retirees from complex financial choices. This approach ensures individuals receive an income until death and provides them with a reasonable degree of financial security. However, this comes at the expense of removing choice from those who are capable or want to choose.

It is important to acknowledge that these models present fewer risks from an individual perspective, particularly because beneficiaries are not required to make their own investment or withdrawal decisions. By removing the responsibility of choice, these systems prevent individuals from making potentially detrimental financial decisions, particularly for those with low levels of financial literacy.

Policymakers play a critical role in establishing the legal framework for these plans, including regulations related to tax, labour, prudential oversight, and social policy. Occupational pension plans are mainly established by sponsoring companies or social partners who also influence the structure of decumulation options. The absence or restrictions in flexibility can be an issue if the group covered by the rules is very diverse. That makes it more likely, though not certain, that the framework will not be suitable for all the beneficiaries.

Overall, any recommendations regarding the optimal design of the payout phase must carefully consider the advantages and limitations of this approach. The implications of a highly structured pension system are different from those of granting individuals more autonomy over their payout options. Striking the right balance between security, cost efficiency, and flexibility is necessary to ensure that pension systems effectively support retirees.

The Dutch pension system is recognised for its stability and reliance on annuities. Retirees typically receive a combination of state and occupational pensions, with the latter exclusively distributed through annuities. This provides an almost fully guaranteed income for life, mitigating risks related to longevity and market fluctuations. Currently, occupational plans are DB, but they must be closed to new accruals by 2028. This shift will introduce two types of contracts: the solidarity contract, which mandates a variable annuity for most members, and the flexible contract, which allows members to choose between a variable annuity from the pension fund or a fixed/guaranteed annuity from an insurance company.

In practice, there is a clear trend toward providing one-time capital payments from the outset or reserving the employer's right to transition from ongoing pension payments to a one-time payment. Conversely, some tax-advantaged rules, such as "*Riesterförderung*," require plans to provide lifelong benefits (annuity or a partial withdrawal plan with a mandatory annuity at the latest from age 85 onwards). In 2018, Germany introduced the possibility of offering occupational DC pensions through the "*Sozialpartnermodell*" (Social partner model). Under this model, the plans are legally mandated to provide annuities, excluding other decumulation options.

In Ireland, retirees traditionally receive a mix of state and occupational pensions. The state pension is not linked to earnings, so it provides a basic level of income only, but at a level that avoids poverty. 53% of Irish employees do not have an occupational pension plan from their employer, but this will change with the introduction of auto-enrolment in September 2025. Occupational plans have the option to draw an initial lump sum from the accrued benefits in the occupational plan at the time of retirement. The maximum lump sum that may be withdrawn from DC plans is calculated by reference to an employee's length of service and final remuneration with the relevant employer for trust-based DC plans, and as 25% of total assets for a Personal Retirement Savings Account (PRSA), which is a contract-based DC plan. If a partial lump sum is withdrawn, the remaining balance can be applied to (a) select an annuity or (b) invest it in a post-retirement decumulation (savings and drawdown) vehicle, either an Approved Retirement Fund or a PRSA. A PRSA can now be used as both the employee's accumulation and decumulation vehicle, without the need to change it at retirement. In this regard, the Irish system is more liberal than social.

TAXATION POLICIES

The Exempt-Exempt-Taxed (EET), Taxed-Exempt-Exempt (TEE), and Taxed-Taxed-Exempt (TTE) models are different approaches to pension plan taxation. These models are named to indicate when taxes are applied during the three key stages of a pension plan: contributions, investment returns, and withdrawals/payouts. The primary distinction among these models lies in when retirement savings are taxed: EET defers taxes until retirement and encourages contributions by providing upfront tax relief; TEE taxes contributions but exempts investment earnings and withdrawals; and TTE taxes both contributions and investment returns while exempting withdrawals.

Many countries offer tax advantages and other financial incentives, such as subsidies, to encourage retirement savings in occupational pensions. This approach aims to motivate citizens to save for retirement while discouraging the immediate withdrawal of accumulated capital. Policymakers also have an interest in ensuring that pension plans provide positive outcomes and support long-term economic stability.

One important priority has been to focus on achieving value for money in pension plans, while ensuring that regulations are proportionate and do not negatively impact member outcomes unnecessarily. Finding the right balance between encouraging retirement savings through tax incentives and managing state expenditures can be challenging, as tax incentives can be costly for governments and may reduce their budgets elsewhere. Governments' economic outlooks often also influence these decision. Tax policies play an important role in defining decumulation decisions and can be used to steer participants toward specific options. For instance, in Belgium, for lump sum capital payments, the portion accrued from employer contributions is taxed at 16.5% (plus municipal tax), unless the pension is taken at or after the statutory retirement age (which is gradually increasing from 65 to 67) or after a 45-

year career with continuous employment until retirement. In such cases, the tax rate drops to 10% (plus municipal tax).

Other countries also grant tax-free lump sums, further encouraging participants to select this option. In the UK, pension savers can typically take 25% of their benefits tax-free[4], and in Ireland, individuals can take a tax-free lump sum of up to 1.5 times their salary or 25% of the value of their savings, capped at EUR 200,000. The label “tax-free lump sum” can distort behaviour. For example, in the UK, funds that remain (unspent) in a registered DC plan continue to accumulate investment returns that are generally untaxed and can (currently) be paid out at death without being counted as part of the individual’s estate. Furthermore, another issue is that for those who not need the immediate “cash” when taking out a lump sum, they deposit it in a savings account (where earnings are taxed and likely to be lower than if the sum had remained invested), and the entire fund becomes part of their estate upon death, undermining the original tax advantage.

4 Scheduled to change from April 2027

02 Retirement needs and goals

Retirement income should cover basic essential needs such as housing, food, and healthcare. A guaranteed income can help meet these basic needs by offering a steady and reliable source of funds, ensuring financial stability throughout retirement. Beyond these essentials, individuals also require a financial safety net to address unforeseen events and emergencies, ensuring they are fully protected in their retirement years. Finally, retirees may also require some income for discretionary spending like leisure activities and holidays.

For the majority of the population, the amount of guaranteed income required from workplace pensions often depends on the generosity of state pensions and house ownership (often referred to as the fourth pension pillar). Individual circumstances then overlay the relative importance of provision. For this report, we assume that most citizens will rely on pension provisions – both state and supplementary.

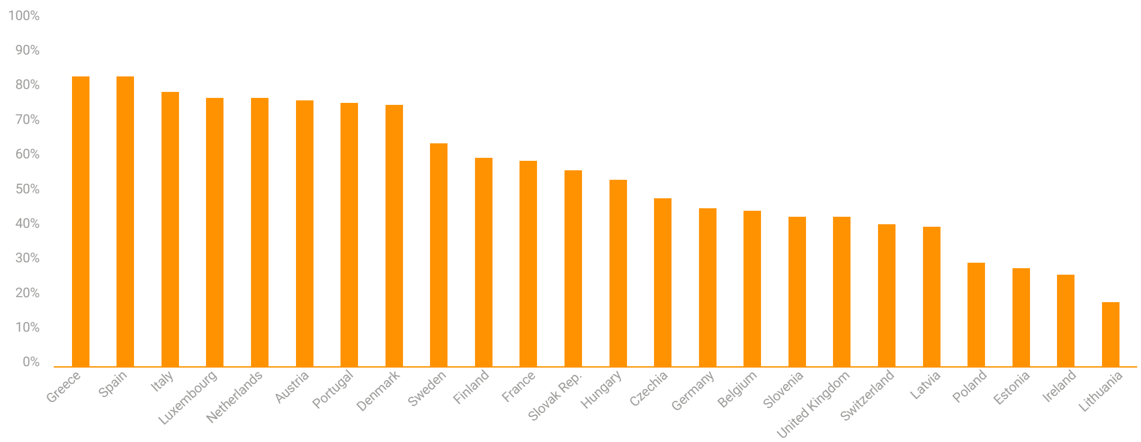
In countries where the replacement rate from public pensions is high, DC and hybrid plans are less likely to provide as much guaranteed income as in those countries with lower replacement rates. In such contexts, these plans may instead offer more flexible payout options. The figure below assumes average earnings and a full career from age 22 for male workers for mandatory plans (first and second pillars). In this scenatio, future gross replacement rates from mandatory plans are below 30% of the average wage in Estonia, Ireland, and Lithuania, while they are at 70% or more in Austria, Denmark, Greece, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

DC and hybrid plans may need to offer annuities to help ensure retirees do not outlive their savings when state pension does not provide enough retirement income. However, in countries where state pension already provides a substantial portion of retirement income, more flexibility in the second pillar could be considered. Anecdotally, in the UK, there is a significant cohort of individuals who accessed their entire DC savings under the Pension Freedoms (often incurring penal tax treatment) and then were reliant on state pensions alone. This, of course, is an undesirable outcome.

The timing of when individuals can claim public pension benefits significantly impacts their retirement income from occupational pensions. Delaying the withdrawal of pension benefits will usually lead to increased benefits. Many retirees also choose to work part-time or may have other sources of income after reaching their retirement age, which reduces their reliance on occupational pensions. This trend can be supported by national reforms encouraging later

Gross pension replacemnt rates

men, % of pre – retirement earnings, 2022



Source: OECD, 2022

retirement, such as bonuses for remaining in work or allowing part-time employment in retirement. For instance, since 1st January, 2025, in the UK, the possibility to pause supplementary pension benefits (occupational and personal) was introduced. Thereby, retirees wishing to return to work after retirement can "pause" their pension payments. This type of policy may contribute to improving retirees' replacement rates.

The size of a member's accumulated assets in DC and hybrid pensions (as well as other pensions or assets they may have elsewhere) also plays a role in determining the best approach for income withdrawals in retirement in systems where payout choices are available.

Homeownership is another factor that can reduce an individual's income needs during retirement – shifting the balance between essential and discretionary spending. Owning a home outright removes rent or mortgage payments, which often correspond to a significant part of a retiree's budget. Homeownership offers financial security by protecting retirees from rising rental and mortgage costs. However, it does not eliminate energy/utility bills, which have significantly increased in the past few years.

The health of retirees is an important factor when choosing a decumulation option. Retirees in poor health may not benefit as much from using an annuity, especially if the funds cannot be passed on to heirs.

The overall economic environment, including factors like low interest rates, taxation, and market volatility, can significantly influence retirees' choices. For example, those retiring in a low-interest-rate environment may need to save more to have the same level of guaranteed income. Similarly, individuals retiring after a market downturn might need to delay their access to their occupational pensions, hoping to secure better terms in the future. Moreover, the higher the tax burden, the greater the gross income an individual will need to generate a decent standard of living after taxes in retirement.

UNEXPECTED EXPENSES

Retirees should ideally have some financial resources set aside to cover unexpected expenses or emergencies not covered by their regular income.

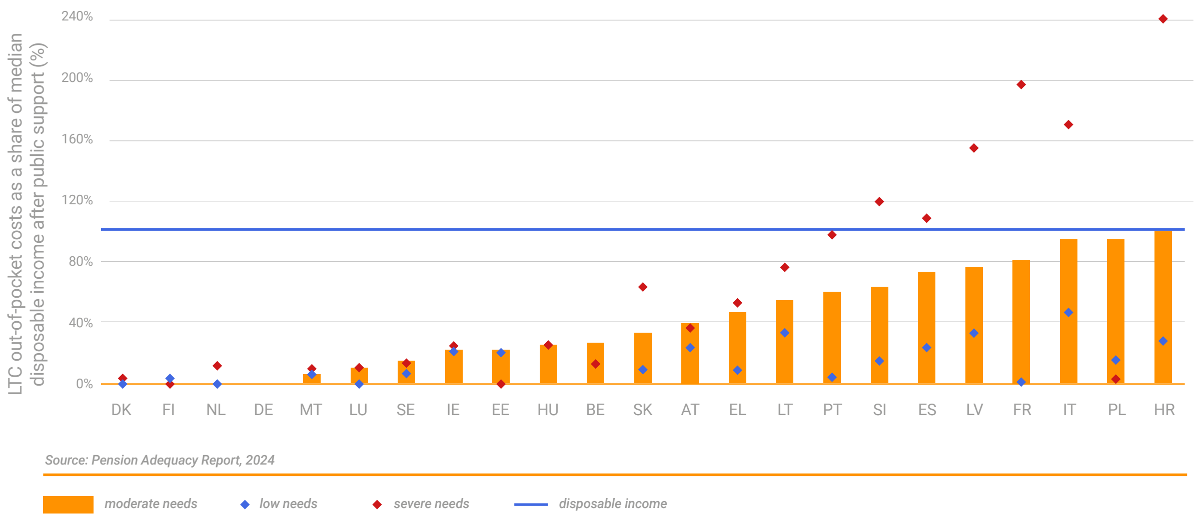
As individuals age, healthcare expenses typically increase, making them a significant factor in retirement planning. While many countries provide healthcare support for retirees, especially through public healthcare systems, out-of-pocket costs can still be considerable. Long-term care has also become a significant issue, particularly as people live longer and the likelihood of requiring support in old age increases. Long-term care can vary widely, from assistance with daily activities at home to full-time care in specialised facilities, and the associated costs can be substantial. In many instances, family members step in to provide care, alleviating some financial pressure. Without adequate public social protection, long-term care costs can become too expensive for older individuals.

The *Pension Adequacy Report 2024* illustrates this challenge, noting that for older adults with severe care needs, long-term care expenses could range between 1 to 6 times the median disposable income by 2050. Even individuals with low-level care needs and limited income may find it difficult to afford necessary services. While public financial assistance will help to cover out-of-pocket costs in many countries, significant gaps remain. For instance, the report finds that in Czechia, even with public support, the costs of long-term care for low and moderate needs will exceed the median disposable income, making it unaffordable for most people. Similarly, institutional care for severe needs will become financially unviable in five countries, and home care for moderate needs will be out of reach in seven countries.

Occupational pensions can play an important role in helping retirees cover long-term care costs, especially when public support is insufficient. Flexibility within DC and hybrid plans can be useful considering that more retirees will need to rely on these funds to ad-

Long-term care out-of-pocket costs as a share of median desposable income after public support, by estimated severity of needs homecare

EU-27 Member States and subnational areas



Source: Pension Adequacy Report, 2024

Notes: The share is averaged across repondents. Estimates are computed using typical cases matched to survey data. Low, moderate and severe needs correspond to around 6.5, 22.5 and 41.25 hours of care per week, respectively. values of out-of-pocket costs for low (84%), moderate (280%) and severe needs at home (477%) in CZ are very high compared with other estimates, and thus they are not shown to facilitate comparison of other estimates. The following data relate to sub-national areas: BE (Flanders), EE (Tallinn), IT (South Tyrol) and AT (Vienna).
Source: OECD analysis based on the OECD long-term care social protection questionnaire, SHARE (wave 8, 2019, except PT, which refers to wave 6, 2015) and TILDA (wave 3, 2015)

dress growing long-term care expenses, driven by higher life expectancy and reduced reliance on family care. However, without a significant increase in contributions to build larger DC accounts, these pensions may struggle to provide sufficient income. Currently, the average DC pension in some countries may not be able to cover long-term care costs effectively. In fact, long-term care expenses could derail DC retirement planning entirely.

The loss of a spouse can be detrimental to an individual's financial well-being. Divorce can also have a large financial effect, particularly during retirement. This income shock can be especially pronounced for those who rely heavily on their partner's earnings or pension. Adequate pension pots can therefore contribute to building a more robust safety net to help individuals maintain their standard of living in later life and absorb the income shock resulting from unpredictable events such as these. We recognise, however, that there is a serious gender pension gap that policymakers need to address.

External economic and geo-political factors, such as inflation and economic crises, can also exacerbate the financial challenges faced by retirees. The COVID-19 pandemic and the subsequent inflation rise illustrate how sudden economic instability can threaten pension systems and retirees' financial security. Many European countries implemented temporary measures during this period, such as exceptional increases or indexations of pension benefits to mitigate the risk of poverty among retirees. This highlights the importance of having additional savings as a financial buffer in times of uncertainty, especially if governments do not intervene to mitigate the impact of economic shocks.

DISCRETIONARY INCOME IN RETIREMENT

Once essential expenses are met, retirees should have the freedom to allocate their remaining resources to discretionary spending supporting their lifestyle. Beyond pressing financial matters, retirees often have non-essential spending that allows for fulfilling twilight years and has an important impact on life expectancy. This may involve travel, pursuing hobbies, or participating in social activities.

Family dynamics also play a significant role in retirement. Some retirees provide financial support to adult children or help care for grandchildren, while others might increasingly rely on family for assistance as they age. These responsibilities often shape financial decisions in retirement. When possible, income solutions enabling retirees to balance their own enjoyment with family obligations should be considered.

STABILITY AND FLEXIBILITY

The main challenge for DC and hybrid pension plans is striking the right balance between offering retirees flexibility and ensuring their long-term financial security. While retirees may value the autonomy to manage their savings in the early years, this flexibility can become unsustainable later in life. At this point, the risk arises that pensioners could outlive their funds or make poor financial decisions, which could undermine their financial stability in later years.

Governments and pension providers are increasingly focusing on developing solutions that seek to combine both flexibility and long-term security and guide people toward good outcomes. Hybrid decumulation models have emerged as a possible solution, merging the freedom of a drawdown with the guaranteed income provided by annuities. This approach allows retirees to exercise some control over their pensions while still benefiting from a safety net of a guaranteed lifetime income.

Regardless of the framework for occupational pensions, savers will only achieve an adequate retirement income if they save enough during their working lives (the accumulation phase).

03 Possible decumulation options and what to consider

When allowed by the jurisdiction, law, and regulation, selecting the right payout option is essential for individual financial security in retirement. Equally important are the decisions made at the fund level, which play a key role in ensuring long-term stability, mitigating key risks, and balancing these risks against desired retirement outcomes.

The payout phase should take into account:

- **Longevity risk** (the possibility of outliving one's savings),
- **Capital protection** (safeguarding the pension pot from (excessive losses),
- **Inflation risk** (maintaining purchasing power over time).

Beyond risk management, several other factors influence the effectiveness and appeal of decumulation options for members and beneficiaries. A key consideration is participants' ability to understand the available payout options and their perceived value.

Tax incentives, as discussed in Chapter 1, can also influence participants' decisions about specific payout options. However, these incentives may unintentionally lead individuals toward suboptimal decisions. For instance, members may be drawn to "tax-free" options without fully considering that converting a lump sum into annuity would better suit their long-term needs. The optimal choice ultimately depends on individual circumstances.

Given these complexities, the availability of different payout options—such as annuities, lump sum withdrawals, or drawdown solutions—has significant implications for members and beneficiaries and each option carries distinct benefits and drawbacks.

RISK COVERAGE

Depending on the design, the decumulation phase can offer protection against various risks:

- **Longevity risk** corresponds to the possibility of running out of money if an individual lives longer than expected.
- **Capital protection** is about the protection of the pension pot against losses, although this does not necessarily always result in losses or unfavourable investment outcomes.
- **Inflation risk** refers to the danger that income levels may not keep pace with rising prices over time. While retirees generally need lifelong income adjustments to maintain their purchasing power, their discretionary spending tends to decrease as they age from 70 onwards.

Other considerations include:

- **Individual decision-making** with members and beneficiaries often facing challenges in making active decisions about their payout options. Factors such as confusion, mental shortcuts, cognitive decline, a reluctance to pay for financial advice, and overconfidence or a lack of confidence can lead to suboptimal decision-making.
- **Death and survivor protection** can ensure financial security for dependents after a pensioner's death.

- **Costs and fees** as operating decumulation arrangements involve governance, administration, reporting, and investment expenses. These costs can be higher for plans offering a wide range of options and can have an impact on total retirement income. Cost structures can make some options more/less appropriate for different categories of members – e.g., those with smaller sums will be disproportionately affected by fees that include a "fixed" (rather than a percentage) charge. It can well be that the accumulation phase may be a collective plan, but that the decumulation phase is more individual with higher costs and charges.

- **Tax incentives**, as seen in Chapter 1, can have a significant influence on decumulation decisions and can guide participants toward specific options (appropriately or otherwise).

- **Solidarity** is particularly relevant, especially in DB and collective DC plans, and allows for sharing financial burdens among a larger group. It helps mitigate uncertainties and risks because the risks are pooled. This type of collective approach can provide more stable and predictable income streams for retirees, particularly in systems where the financial needs of individuals vary significantly. This also mitigates the consequences of individuals making poor/inappropriate choices through a lack of understanding.

Importantly, pension plans cannot protect against all of these risks simultaneously. For instance, in a collective plan, risks for members and beneficiaries are pooled. The early death of some participants is priced in to enable protection from longevity and inflation for those who live longer than expected. There is a fundamental tension between the different risks and the possibility of mitigating them.

FOCUS ON PAYOUT OPTIONS

Fixed/guaranteed annuities

The primary benefit of **annuities** – payable for life at a predetermined level – lies in their ability to provide retirees with predictable, guaranteed income for life ensuring financial stability. This is especially important in countries where funded pensions are a large part of an individual's overall retirement income. In this context, most participants are likely to need a stable and either fixed or increasing by way of inflation-proofing escalating monthly annuity from their occupational pension plan. For instance, in Sweden, occupational pensions typically account for around 25% of an individual's total pension, whereas in the Netherlands, this share is approximately 35%.

Annuities with inflation protection may either increase at a fixed percentage annually or in line with a local inflation index. This reliability ensures that individuals can more confidently plan their expenses without concern about market fluctuations or investment performance. Additionally, guaranteed annuities mitigate longevity risk by ensuring payments continue regardless of lifespan. They also protect against behavioural biases like overspending or underspending[5] with predictable payouts and may reduce the need for complex financial decisions in retirement.

5 *In Ireland, underspending/hoarding is a bigger behavioural risk in practice than overspending.*

Cost is an important factor to consider when evaluating annuities. While often perceived as expensive, annuity pricing is influenced by economic conditions, market size, and product design. In smaller markets, such as Portugal or Greece, annuity costs can be prohibitive, discouraging consumers from purchasing these options. However, in countries with more established annuity markets, such as Germany and the Netherlands, annuities generally offer good value for money.

A 2016 European Commission study on the performance and adequacy of pension decumulation practices in four EU countries showed that, at this time, in Germany, participants overwhelmingly preferred guaranteed annuities over drawdown options, which were often perceived as less attractive both economically and in terms of risk coverage. Although these findings are now nine years old, and a trend has emerged in Germany towards offering lump sum payments or drawdown solutions instead of annuities, they underscore the importance of considering local cost dynamics and market conditions. Regulatory measures could address challenges such as adverse selection, limited provider competition, and managing longevity risk. This could contribute to improving annuity performance in some markets.

Some individuals may also underestimate their life expectancy. A study conducted in the United States by Jackson Financial Inc. and Boston College (2023), which aimed to identify and assess retirement-related risks, surveyed 1,000 investors aged 55-84, along with over 400 financial professionals and financial psychologists. The study revealed that a significant portion of participants, over 32%, underestimated their life expectancy. This miscalculation can contribute to reducing the perceived value of annuities for savers, as some participants may believe that they will not fully benefit from their savings. Some may be discouraged from choosing annuities due to the need to commit a large sum of money upfront and the inability to pass on any remaining savings to heirs, unless successor benefits are available in the event of death.

Additionally, from an individual perspective, fixed/guaranteed annuities may not work based on their individual circumstances, where they could require immediate access to their funds for personal reasons. Nevertheless, this may not be possible in collective structures where the participants' risks are pooled. There, this feature is inherent to the system.

To tackle some of these challenges, some pension systems offer flexible annuity options. One approach is to provide a tiered structure where the annuity amount is higher in the initial retirement years and decreases after a certain period. For example, in the Netherlands, members close to retirement can choose to receive a higher annuity in the first five years of retirement, after which they receive a lower annuity. This structure reflects the commonly held belief that retirees in their 60s generally have higher expenses than those in their 70s, although many differences exist, and older retirees often have higher costs related to long-term care. Another approach is to postpone the start date of annuities, which is also a popular choice in the Netherlands. By deferring annuity payments, the number of years between the start date and the expected life expectancy decreases, resulting in higher annual annuity payments.

Collective Defined Contribution plans

In Collective Defined Contribution (CDC) plans, **income for life is provided at a variable rate**. While similar to traditional annuities, the key difference is that the income is not guaranteed. The pooling of longevity risk in CDC plans provides a shared approach to managing the uncertainty of life expectancy, with the possibility for payments to fluctuate based on collective longevity experience. This pooling enables those living longer to be supported by the shared resources. Moreover, the investment risk is transferred from the plan sponsor to participants, with benefits tied to the performance of underlying investments. In favourable market conditions, participants benefit from growth, and their pension benefits may increase to keep pace with inflation. Conversely, during market downturns, benefits may be lower, aligning with reduced returns.

CDC plans offer investment-linked income that can grow with the economy, typically leading to a higher starting pension for beneficiaries. This approach can help protect retirees from inflation, although the extent of such protection depends on how well public pensions in a given country already address inflation risks. Fixed/guaranteed annuities with individual DC plans, as mentioned earlier, can also provide inflation protection.

The Netherlands adopted this model a few years ago, allowing retirees to convert their accrued premiums into variable annuities in the second pillar. This approach offered the possibility to generate potentially higher returns by assuming more investment risk. This shift was enabled by the Improved Defined Contribution Scheme Act ("***Wet Verbeterde Premieregeling***" or WVP), which granted retirees the ability to invest their pension wealth in riskier assets after retirement, potentially leading to higher pensions. This reduced reliance on fluctuating interest rates and potentially offered higher retirement income compared to fixed/guaranteed annuities and drawdown options. Before this law, fixed annuities were mandatory, and flexibility was limited in the Dutch pension system.

As already explained in Chapter 1, under the reformed pension system in the Netherlands (***''Wet toekomst pensioenen"***, transition period 2023-2028), most DB accruals are or will be converted into DC capital. The reform introduces two contract types: the solidarity contract, with variable annuities for most members, and the flexible contract will give pension providers the possibility to offer either a variable annuity by staying in the plan or a fixed/guaranteed annuity to be selected from an insurance company. While variable annuities offer higher growth potential, they also introduce volatility, which may not suit all retirees, especially during economic downturns.

The Netherlands has a well-developed system to prevent the downside of variable annuities while allowing beneficiaries to benefit from returns that can at least keep pace with inflation. As the pension continues to be invested during the decumulation phase, the pension payment is not fixed but fluctuates. Pension payments can increase during good economic conditions and decrease when returns are negative. The risk of these fluctuations (investment risk) lies with the pensioner. The extent of fluctuation is influenced by a combination of choices designed to reduce volatility and spread financial and longevity risks, such as using a collective payout phase instead of full individual payout, projecting returns, and sharing both financial and biometric risks. A solidarity reserve is also used to soften the negative effects of economic downturns. This system is funded through low premiums and/or returns in both the accumulation and decumulation phases.

In Germany, the Social Partner Model (which mandatorily requires a collective bargaining agreement as its legal basis) has adopted a somewhat similar approach. These models do not guarantee a certain payout level but only aim for a specific target annuity rate that may be exceeded in good years or fall short in poor years. To reduce this fluctuation risk, these models have a safety buffer, continuously built up from a portion of contributions.

CDC plans face some challenges, particularly due to the fluctuating target income where the annual benefit is not guaranteed. Indeed, there may be no inflation linking, and the underlying funds providing the variable income may also fall, so impacting the base level of income.

Their complex structure, which ties payouts to the performance of underlying investments and fluctuating returns and the longevity of the plan members, adds to the challenges around plan governance, asset management, and communication. The intricacies of risk-sharing and market volatility can make these options harder for participants to understand. Therefore, CDC plans must provide good and understandable communication towards plan members and beneficiaries. Unpredictability, coupled with the need for employers to manage expectations about non-guaranteed benefits, may also help explain the slow adoption of CDC plans in the UK. The associated costs and fees, which are higher than for lump sums, can further discourage participants from choosing these options.

FLEXIBLE OPTIONS

Lump sum withdrawals

Lump sum withdrawals option provides the highest level of flexibility in decumulation. Retirees can withdraw part or all of their accumulated assets in a single payment while leaving the rest invested. It enables beneficiaries to allocate their funds according to their priorities, such as savings, investments, consumption, or paying off debt.

Many countries allow retirees to withdraw at least a portion of their retirement savings as a lump sum, often subject to limits defined as a percentage of accumulated savings, as in Portugal, or based on either savings or salary, depending on the pension vehicle, as in Ireland. Unless there are special provisions in place, retirees in countries with progressive tax systems, such as in the UK[6] or Germany, are affected by unattractive tax consequences if they opt for a lump sum. This illustrates the role tax policies can play in influencing decumulation choices (see Chapter 1).

Lump sums are generally low-cost compared to lifelong options like annuities, as they remove the need for governance, ongoing portfolio management, periodic adjustments, or administrative support.

However, they do not address longevity risk, unlike annuities, and an individual may lose out on potential investment growth if they hold the funds in cash (which may yield low returns during inflationary periods) or other low-return investments (although some participants may invest their lump sum individually to grow over time). Consequently, individuals may risk depleting their savings too quickly, making lump sum withdrawals unsuitable for covering essential needs or ensuring long-term stability. This may also lead to some individuals withdrawing too little, thereby potentially reducing their quality of living in retirement.

For these reasons, some countries, such as the Netherlands, do not allow lump sums withdrawals, although partial lump sums will be allowed as of 2026. Due to the importance of the second pillar in the Netherlands relative to the first pillar, introducing the ability to withdraw from a series of large lump sums would have large implications, requiring retirees to manage their own money and the associated risks.

Overall, lump sums can be useful for meeting immediate financial needs, providing flexibility, and for discretionary spending, which typically declines with age, although those people might be confronted with higher costs such as long-term care. Lump sums can also be useful if plan benefits are low.

Drawdown solutions

Drawdown solutions, including **programmed withdrawals**, provide a middle ground between lump sum withdrawals and annuities by combining flexibility with the potential for stable and long-term income. By keeping assets invested, drawdown solutions also allow for growth and inflation protection because retirement capital remains invested during the decumulation phase, unlike the fixed payouts of traditional annuities. At the same time, they avoid the one-time nature of lump sums and provide a structured approach to income that can be adjusted over time.

However, these options can still come with risks. Drawdown solutions do not in themselves address longevity risk, leaving retirees vulnerable to outliving their savings and posing the opposite risk of spending too conservatively to avoid depletion. Programmed withdrawals, while dynamically adjusted to optimise income, still expose retirees to market volatility and do not guarantee lifetime income. Managing a drawdown portfolio requires ongoing decision-making from beneficiaries, which can be particularly challenging for retirees with limited financial

6 Important to consider that in the UK, pension savers can typically take 25% of their benefits tax-free.

expertise or those experiencing cognitive decline. For example, Ireland's Approved Retirement Fund (ARF) allows retirees to manage their post-retirement fund on a gross roll-up basis and to determine the pace of their withdrawals, although it was necessary to introduce an imputed annual distribution of 4% of the fund for tax purposes to avoid excessive hoarding by pensioners. The ARF is explained in the graph below.

The downsides of ARFs include set-up and management fees at the individual level. Ongoing portfolio management also incurs fund manager fees for investment oversight, administration, and compliance. Additionally, participants may face advisory fees to obtain tax efficiency and ensure sustainable withdrawals, increasing overall costs. These complexities not only raise the risk of retirees making suboptimal decisions due to the intricate decision-making involved but also highlight that the costs of programmed withdrawals can become significant.

Despite these drawbacks, drawdown solutions can offer beneficiaries a broader range of options than annuities by allowing partial capital transfers to beneficiaries, making them a viable option for those seeking flexibility and control over their retirement savings or wider wealth management.

Additionally, innovative solutions can help mitigate some of these risks. For example, Ireland's proposed "in-scheme drawdown" functionality for DC plans would allow pension funds to remain within the scheme at retirement, enabling direct payouts and reducing the need for retirees to choose from external options. In Portugal, while drawdown benefits remain tied to market risks, strategies such as lifecycle investment and periodic payment adjustments could mitigate both market and longevity risks. By revising investment policies and product structures, some changes can improve the cost-efficiency and security of drawdown solutions, making them a more viable option for retirees.

*Options at Retirement: Approved Retirement Fund (ARF)**

WHAT IS AN APPROVED RETIREMENT FUND (ARF)?

An ARF is a "post retirement" investment fund from which you draw down income as you wish

- **ARF = flexible income payments**
  You draw down your fund as you like
- **Income will be variable/the fund could run out**
  Passes to your estate in the event of death
- **Investment decisions needed by you.**

**ARF option subject to rules and conditions*

Source: Irish Life, 2025

04 The retirement journey and support systems

The retirement journey is a complex process that requires careful planning and well-informed decision-making. The degree to which individuals must actively make choices varies across jurisdictions and pension providers. Some countries have predefined options, as already explored in the previous chapters. In these systems, individuals do not make any active decisions on the payout phase.

When choice is available, however, individuals approaching the decumulation phase must decide how to access and manage their pension savings. Their options—whether annuities, lump sums, drawdown plans, or a combination—can have a lasting impact on their financial security. In this context, providing clear, timely, and accessible information is crucial to supporting informed decision-making.

This chapter explores the different stages of the retirement journey, highlighting the importance of good information and support systems across all these stages. Providing individuals with the necessary tools and guidance is especially important in systems in which participants decide on how to structure retirement withdrawals.

THE STAGES OF THE RETIREMENT JOURNEY

Throughout their retirement journey, members must understand the importance of saving and how their savings can be converted into retirement income. This awareness is particularly important given the low levels of financial literacy in Europe. According to the Eurobarometer 2023, only 18% of EU citizens have a high level of financial literacy, 64% a medium level, and the remaining 18% a low level.

The extent to which financial knowledge matters, depends on whether individuals must make active decisions when withdrawing their pensions. In systems where retirees are automatically directed to a single payout option, this issue is less important. However, where choice is available, individuals must understand how to optimise their savings while managing the risk of outliving their assets. Good communication about the payout phase must strike a balance—engaging individuals neither too early, when retirement may seem distant, nor too late when planning opportunities are limited.

The payout phase should consider both individual needs and, where relevant, those of employers. For instance, retirement could be structured as a phased transition, allowing individuals to shift to part-time work. Member States should consider combining state and occupational pensions to create a more flexible retirement system, which provide individuals with flexibility when they retire and ensure that the tax rules for both types of pensions work together smoothly. This would accommodate diverse needs, including those of individuals who retire earlier due to physically demanding jobs or caregiving responsibilities.

Aging can significantly impact financial decision-making, as cognitive decline often accelerates after age 70. Retirees must navigate complex choices, such as how to supplement state pensions and when to draw down their retirement assets. One approach is to provide a steady income stream from age 80 onwards, helping retirees manage savings and simplify decisions in later life. In some countries, pension fund participants have to decide on all decumulation options no later than reaching retirement age. This is, in principle, the case in the Netherlands.

Ageing populations and increasing life expectancy suggest that the effective retirement age is likely to continue to rise —a trend clearly visible in the European context. Moreover, between 2012 and 2023, the transition from work to retirement has shifted to approximately 5 years later, according to Eurostat. Extending working lives helps mitigate old-age poverty and prevents reductions in pension benefits due to longevity. From this perspective, the pension system should focus on easing the transition from work to retirement.

PROVIDING INFORMATION TO MEMBERS AND BENEFICIARIES

To support informed decision-making, individuals must have access to timely and relevant information, particularly when faced with multiple decumulation options. Many members accumulate pension savings passively—often due to a lack of engagement—and few are fully prepared to navigate the complex decisions linked to longevity, inflation, and investment risks. Behavioural factors such as choice overload (too many options leading to indecision) and shortsightedness (prioritising immediate access to funds over long-term security) can result in suboptimal outcomes. The complexity of different decumulation options can also be overwhelming for those without financial expertise.

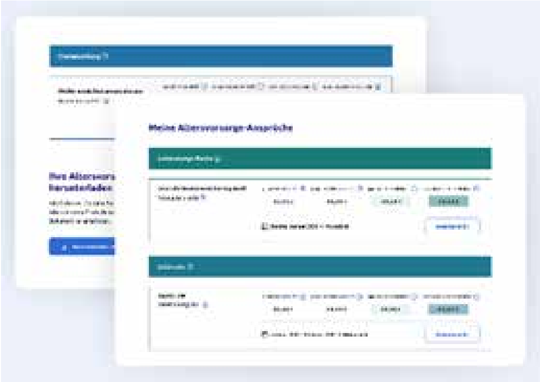
Some countries have implemented tools to assist savers practically in estimating the amount of money required for their desired lifestyle in retirement. For instance, in the UK, the PLSA has introduced *the Retirement Living Standards*, which help individuals envision their retirement lifestyle and the associated expenses needed to maintain a minimum, modest, and comfortable standard of living in retirement. Similarly, *the ASFA Retirement Standard Explainer* offers insights into the lump sum required by the average Australian to afford a comfortable or modest retirement. It is important to note that these conditions vary significantly depending on each country and therefore cannot be generalised.

Retirement income is also often fragmented, as individuals typically receive entitlements from a combination of state, occupational, and/or personal pensions or, indeed, other sources such as inheritance. Gaining visibility over these different income streams is important to assess whether savings are adequate and to identify potential pension gaps. In this context, Pension Tracking Systems (PTSs) play an important role in providing a transparent, comprehensive overview of pension entitlements across multiple sources. By consolidating information, PTSs empower individuals to understand their total accruals, reconnect with "lost" pension savings, and engage more proactively in retirement planning.

PTSs also provide clear insights into when and how pension benefits will be disbursed, helping users track the timing, amounts, and types of payments from various schemes. This transparency can support retirees in making informed decisions to optimise their income and maintain financial security throughout retirement. They can also work to reconnect individuals with possible multiple pension plans from previous employment. Overall, it can facilitate member-driven consolidation and improve retirement outcomes by benefiting from economies of scale

Several national PTSs have already demonstrated their value:

- **Germany:** Digitale Rentenübersicht, the German public pension tracking system, aims to provide an integrated overview of pension entitlements from all three pillars. Since the start of 2025, pension providers with more than 1,000 beneficiaries are subject to an obligation to provide members with a pension benefit statement on at least a yearly basis and required to connect to the online platform. As of February 2025, 700 providers (almost all providers under this legal obligation and even a few employers with book reserve schemes as voluntary participants) are listed on the platform.
- **Sweden:** minPension covers, all three pension pillars, had 3 million unique visitors and 22.6 million visits in 2024.
- **Belgium:** mypension.be covers the first and second pillars and recorded 2.8 million unique visitors and 10 million visits in 2022.
- **Netherlands:** mijn pensioenoverzicht covers the first and the second pillars. Since its launch, it has attracted more than 6 million visitors.



Digitale Rentenübersicht portal

mijnpensioenoverzicht portal

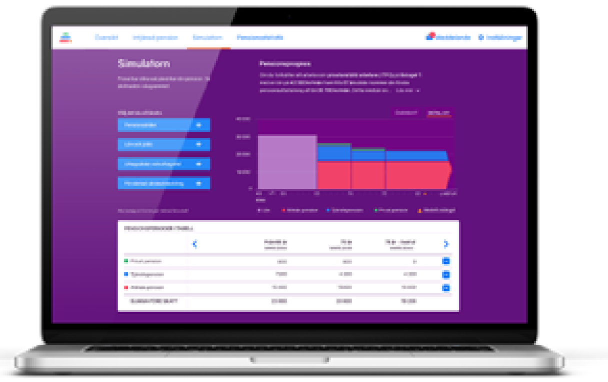
Mypension.be portal

At the European level, the European Tracking System (ETS), is an ongoing project designed to support the approximately 10 million mobile workers in Europe. By connecting national tracking systems, the ETS aims to offer a cross-border pension overview, ensuring that individuals who have worked in multiple EU countries can easily access and manage their accumulated entitlements. The development of this system is in progress.

Beyond access to information on their pension entitlements, individuals should have resources to help them prepare for the payout phase. In the United Kingdom, various tools assist retirees in navigating their different options. A notable example is MoneyHelper, a government-backed financial education platform offering free and impartial guidance. It provides resources on pension options, tracking multiple pension pots, retirement planning, and payout strategies.

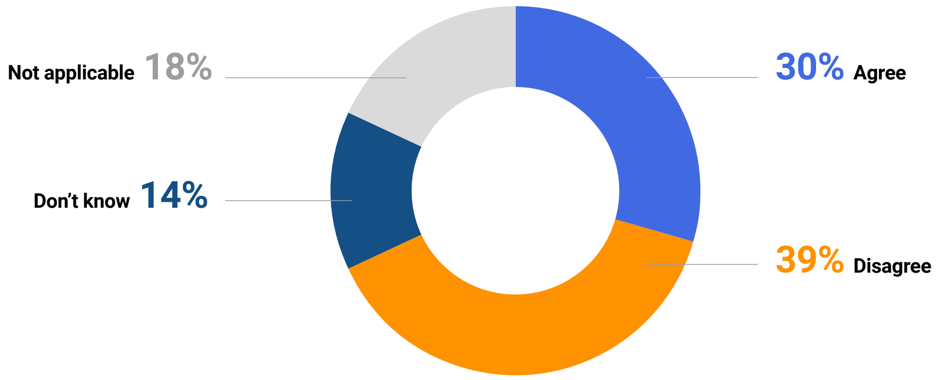
In the Netherlands, pension funds increasingly provide digital tools that allow individuals to simulate the financial impact of different choices—such as early retirement or higher annuities in the initial years of retirement—within the context of expected living costs. To provide a comprehensive overview, pension funds can access second-pillar entitlements from other providers through an Application Programming Interface (API), and members can also include their spouse's entitlements for a more complete financial picture.

In Sweden, the minPension website offers a free retirement planner that enables individuals to compare different payout scenarios, access retirement planning tips, and seamlessly transfer their chosen plan directly to their pension provider.



Minpension pension simulator

Consumers believing that the support received via chatbots is accurate and complete



Source: Consumer Trends Report 2024, EIOPA

Digital tools, such as robo-advisors, also have significant potential to improve support to members and beneficiaries in a personal and cost-effective way. However, their rapid expansion also presents challenges. Digital exclusion remains a concern for individuals lacking adequate digital skills or technological access. Moreover, the 2024 EIOPA Consumer Trends Report highlights that 39% of the respondents in the 2024 EIOPA Eurobarometer survey found chatbot support either inaccurate or incomplete. It illustrates the limitations of automated tools in addressing complex financial questions. The report also raises concerns about insufficient online information, which undermines the effectiveness of digital advice platforms. While digitalisation offers promising ways to enhance member support, these limitations must be carefully addressed. Finally, IT security and the risk of cyber-attacks remain key issues with any online-based system involving significant quantities of personal and financial data.

DEFAULT OPTIONS

Providing savers with a default payout option is one of the most effective ways to mitigate the risks associated with a lack of active decision-making in systems where individuals must choose a payout option. Due to inertia and other behavioural biases, most individuals are likely to opt for the default choice rather than actively selecting an alternative. For example, in 2015, the Dutch government introduced a choice between fixed/guaranteed and variable annuities for DC plans. The default option was fixed annual benefits, and a 2019 study revealed that 95% of eligible members ultimately selected the default.

However, since most individuals will stick with the default option, it must be designed with care. Defaults carry more risks in the payout phase than during the accumulation phase. In accumulation, decisions mainly focus on affordability and investment allocation, which can be managed with low-cost, long-term strategies like lifecycle funds and are reversible or adaptable. In contrast, payout decisions involve more complex considerations, including liquidity risks (unexpected expenses), sequencing risks (short-term market fluctuations), and longevity risks (uncertainty about lifespan). They also tend to be harder to unwind.

Any default option must be accompanied by clear disclosures, such as warnings that inaction will result in the default route being followed. This is particularly important when the activation of a new income stream could have broader consequences, such as affecting individual tax treatment or the loss of entitlement to other, unrelated state benefits.

THE ROLE OF FINANCIAL ADVICE AND GUIDANCE

Financial advice provides the most tailored approach to identifying solutions that best match an individual's retirement needs. A financial adviser will recommend a specific product or course of action based on individual circumstances and financial goals. This advice is personalised and relies on the information provided by the saver. It is delivered by a qualified and regulated professional. Providers of financial advice are responsible for ensuring that their recommendations are accurate, high-quality, and suitable. They are also legally liable for the advice they give. Ongoing financial advice is especially important for those using drawdown options, as these may require regular adjustments over time. In contrast, annuities are more standardised and typically fixed once setup.

However, while financial advice is valuable, it can be inaccessible to savers with smaller pension pots, as illustrated in the UK, Ireland, and the Netherlands. Regulated financial advice is often costly, and many savers lack the financial literacy needed to fully understand their options without professional guidance.

In the UK, advice fees typically range from £75 to £350 per hour, with an average of £150. Advisers often apply multiple charges, including a fixed setup fee and an ongoing fee based on a percentage of the saver's assets. As a result, the total cost of financial advice may be higher than the hourly rates suggest.

To address the concerns around the cost and availability of full financial advice in the UK:

- UK DC plans can allow members to withdraw up to £500 tax-free (each year for up to three years) from their pension pot to contribute towards the costs of retirement advice; and
- The development of a cheaper, more limited form of financial assistance called "targeted support" is under active consideration.[7] Targeted support would sit between guidance services (see below) and full financial advice. The idea is to help members make effective, timely, and properly informed decisions about their pensions without needing full bespoke advice. The suggestions made to the individual would be appropriate to a person in similar circumstances and would be phrased in terms of options that "people like you" might take.

Furthermore, advisers are often less inclined to provide services to clients with smaller pension pots, as the cost-to-value ratio may not justify their time. Digital solutions for personalised advice present an opportunity to offer accessible and effective support to individuals with smaller pension pots. Still, the challenges of digital exclusion and the limitations – and risks – of automated, online tools (see above) must be carefully addressed to ensure these solutions work well.

7 ICP24/27: Advice Guidance Boundary Review – proposed targeted support reforms for pensions | FCA

Guidance plays an important role in helping individuals make informed decisions about their retirement savings, empowering them to navigate their options with confidence. Unlike financial advice, guidance is an impartial service that helps savers understand their retirement better but does not recommend specific actions.

Guidance providers are responsible for ensuring the accuracy and quality of the information they offer, but are not liable for the decisions made based on it. It is typically free unless the provider explicitly states otherwise.

There are various ways to deliver guidance, including digital tools that offer interactive ways to explore different decumulation options and their implications. As a minimum, guidance should ensure that savers have access to clear, understandable information, enabling them to make confident and informed decisions.

The way payout options are presented—known as choice architecture—is crucial in guiding members toward the best decisions. By incorporating research-driven behavioural interventions, retirement plans can help individuals overcome biases and make choices aligned with their needs. These interventions can effectively nudge savers toward better decisions during the decumulation phase. A notable example is Sweden's digital service, minPension, which provides a neutral and independent retirement planner allowing individuals to compare different decumulation scenarios. This service is jointly funded by the state and pension companies.

Several countries have recognised the importance of providing guidance. In the Netherlands' new DC system, pension funds are required to offer "choice guidance" to help members make informed retirement decisions. However, this obligation applies only to the pension plan(s) within a given fund and does not extend to a member's overall financial situation. In other countries, support varies by provider and is not always legally mandated.

In Germany, trade unions such as IG BAU in the construction sector assist members with the application and retirement process, while some employers also provide guidance. However, employers tend to be reluctant to give any guidance or advice as they may be concerned about the risk of liability for any mistakes. While they are not required to comment on matters like tax or pension aspects, any statements they make in these areas must be accurate. In Sweden, social partners have established Avtalat, which provides online information and guidance for employers and employees covered by collective agreements in the private sector.

A related challenge is the blurred distinction between personalised guidance and financial advice in some countries, leading to regulatory uncertainty. While guidance and advice have distinct legal implications, the severe liability risks associated with incorrect advice can create hesitation among providers and pension funds. This ambiguity may discourage pension plans and providers from offering even basic guidance, as they fear unintentionally crossing into the realm of regulated advice. Therefore, additional measures to improve access to guidance should be explored in countries where this is relevant.

05 Policy recommendations

This chapter presents a set of recommendations for the decumulation phase of DC and hybrid pension plans. PensionsEurope strongly supports the development of robust workplace pension systems, many of which are transitioning toward DC and hybrid models.

It is beyond the scope of this chapter to suggest exactly how—or which of—these recommendations should be implemented in each Member State or across Europe. Not all recommendations will necessarily work together, and some will be better suited to specific pension systems than others. This reflects the fact that Member States operate under diverse pension frameworks. Our goal here is to provide a comprehensive set of options for Member States to consider as they shape their own decumulation systems.

In the payout phase, Member States adopt varying approaches based on the structure, social policies, and objectives of their pension systems. These differences illustrate the importance of implementing strategies that respect national contexts while ensuring that legislation aligns with the unique characteristics of each system across Europe.

Building on our previous work on decumulation, this chapter outlines key principles for ensuring adequate and stable retirement income solutions. The payout phase should enable retirees to convert their accumulated savings into reliable income streams that align with their financial needs while mitigate key risks associated with DC and hybrid models, including longevity, inflation, and capital protection. However, it may not always be possible to address all these risks simultaneously. The extent of the risks borne by individuals ultimately depends on the plan design and particularly on whether it incorporates risk-sharing mechanisms.

UNDERSTANDING ADEQUACY

So far, most thinking on DC and hybrid occupational pensions has focused on the accumulation phase (the process of building up the account). However, as an increasing number of people start to retire in circumstances where DC and hybrid pensions make up a significant proportion of their retirement income, more attention will need to be given to delivering good member outcomes in the payout phase. Decumulation is the critical time when accumulated savings are converted into benefits to support members through their retirement.

Policymakers must clearly define what is an "adequate" retirement income, ensuring that a combination of state pensions and funded accruals allows retirees to cover essential expenses such as housing, healthcare, and transportation. The primary goal of any pension system should be to provide individuals with enough income to meet these basic needs throughout retirement. At the national level, legal frameworks should equip pension funds with the necessary tools to mitigate legal risks in the payout phase as effectively as possible.

The EU's Pension Adequacy Report (PAR) published every three years, serves as a key resource for understanding pension adequacy across Member States. The report defines the concept of adequacy around three main dimensions: (a) poverty protection, (b) income maintenance, and (c) pension/retirement duration. It analyses income adequacy across different career scenarios and life events, looking at both state pensions and, where relevant, supplementary pensions.

EXPENDITURE	MINIMUM	MODERATE	COMFORTABLE
HOUSE	DIY £100 a year to maintain condition of your property	£500 a year to maintain condition of your property, £300 contigency.	£600 a year to maintain condition of your property, £300 contigency.
FOOD	Around £50 PP a week on groceries, a month on food out of the home, £15 per fortnight on takeaways.	Around £55 pp a week on groceries, £30 a week on food out of the hime, £10 a week on takeaways, £100 a month to take others out for a monthly meal.	Around £70 pp a week on food, £40 a week on food out of the home, £20 a week on takea-ways, £100 a month to take others out for a monthly meal.
TRANSPORT	No car, £15 per week for a couple on taxis, £100 per year per person on rail fares.	3-year-old small car, replaced every 7 years, £20 a month on taxis per household, £100 a ayear on rail fares per person.	3-year-old small car, replaced every 5 years, £20 a month on taxis per household, £200 a year on rail fares per person.
HOLIDAYS & LEISURE	A weeklong UK holiday. Basic TV and broadband plus a streaming service.	A fortnight 3* all-inclusive holiday in the Med and a long weekend break in the UK. Basic TV and braodband plus two streaming services.	A fortnights 4* holiday in the Med with spending money and 3 long weekend breaks in the UK. Extensive bundled broadband and TV subscription.
CLOTHING & PERSONAL	Up to £30 for clothing and footwear each year.	Up to £1,500 for clothing and footwear each year.	Up to £1,500 for clothing and footwear each year
HELPING OTHERS	£0 for each birthday and Xmas present. £50 a year charity donation.	£0 for each birthday and Xmas present, £200 a year charity donation, £1,000 for supporting family members e.g. paying for grandchildren activities.	£50 for each birthday and Xmas present, £5 per month charity donation, £1,000 family support.

Source: PLSA, 2023

The PAR is a valuable tool for Member States to assess the generosity of their pension systems, particularly when focusing on the first pillar. It can serve as a foundation for developing policies tailored to DC or hybrid pension plans by illustrating how the first pillar contributes to the adequacy and understanding of the complementary role of DC and hybrid plans to state pensions. The role of the third pillar should not be overlooked and will also alter how relevant occupational pensions are in achieving adequacy.

SINGLE	COUPLES
43k COMFORTABLE	59k COMFORTABLE
31k MODERATE	43k MODERATE
14k MINIMUM	22k MINIMUM

Source: PLSA, 2023

Another useful approach is benchmarks, which help assess whether retirement savings will cover essential expenses or provide room for discretionary spending. Consumption benchmarks show the amount of savings needed to maintain different living standards in retirement. By comparing expected retirement income from various sources against these benchmarks, savers can better understand how their DC or hybrid plans will help cover essential, unexpected, or discretionary expenses. Benchmarks also provide policymakers with valuable insights into the financial needs of individuals when designing occupational pension policies. The PLSA Retirement Living Standards is a good example of how these benchmarks can operate.

EIOPA has also worked on the potential of pension dashboards[8]. These are tools that provide a comprehensive and visual overview of retirement savings across all three pension pillars to policymakers. These dashboards can improve the monitoring of pension developments within Member States, as well as transparency regarding the adequacy and sustainability of national pension systems. They allow public authorities to identify emerging gaps and develop appropriate policy responses to address future pressures on public finances, risks of old age poverty, and pension gaps.

We recognise the potential of pension dashboards to provide a better understanding of the retirement landscape and make informed policy decisions about where to encourage pension savings. While EIOPA has extensively worked on the feasibility of a EU-wide pension dashboard, we would like to highlight that some Member States may be reluctant to provide their social security data for the creation of such a dashboard. However, these dashboards could be created at the national level. The European Commission could encourage Member States to do so, as well as facilitate the exchange of best practices and insights among them.

PROVIDING STABLE RETIREMENT INCOME

Retirees must have access to a stable source of income throughout their retirement period. In countries where DC and hybrid plans play a significant role in overall retirement income and meeting essential expenses, annuities can be a suitable option. On the other hand, in countries where state pensions already cover a substantial portion of retirement income, options incorporating flexibility, such as income drawdown or lump sum, could also be considered if they exist in the Member State and/or are a possible option within the plan.

Additionally, the payout design should take into account the inherent risks in this phase. Market conditions, such as downturns or low interest rates, can have a detrimental impact if individuals are forced to lock in a lower guaranteed income than they would have had in better economic conditions. Additionally, longevity can severely affect the level of income, and in such cases, delaying annuities could be useful. CDC, such as the German Social Partner Model, when available, is well suited to mitigate these risks. These plans, which can only be established through collective agreements, involve social partners in the investment decisions, and the investment risk is collectively shared by participants.

The optimal payout solution should also aim to maximise income throughout retirement within appropriate risk tolerances. When relevant, it may be useful to consider varying the timing of payments. For instance, delaying drawing a pension will usually lead to increased benefits. It may therefore be interesting for individuals to continue working, even part-time, after reaching retirement, and governments might be able to provide incentives such as bonuses for remaining in employment. Such an approach may help retirees improve their retirement adequacy.

While inflation protection for basic income needs can be valuable, it may not always be necessary, especially if state pension benefits already mitigate a significant portion of inflation risk. Generally, benefits are either lifelong and indexed to inflation or not indexed at all. Policies should reflect retirees' real spending patterns by offering temporary increases or adjusting benefits to reflect their evolving needs.

8 EIOPA provided its technical advice on pensions dashboard to the European Commission in 2021 advising to develop a visual pension "dashboard" to monitor pension developments in the Member States by presenting a complete set of indicators.

ALLOW FOR FLEXIBILITY WHEN RELEVANT

In addition to addressing immediate needs, retirees often have non-essential expenses that contribute to their quality of life in later years. Some may also require quick access to savings for unforeseen expenses, and a flexible payout phase can meet this need. Consumption patterns typically show higher spending in the early years of retirement, followed by a decrease later on, with the potential for higher expenses again as medical and long-term care requirements arise. Hence, a certain degree of flexibility in the payout phase can be beneficial for participants.

Flexibility can be provided through partial, deferred, or delayed annuities, alongside withdrawals. Another approach is to adjust the level of lifetime benefits during the decumulation phase, such as starting with a higher benefit that decreases over time or vice versa. Early withdrawals should be discouraged. For example, during the COVID-19 pandemic, some countries, like France for self-employed workers or Iceland, allowed early access to retirement funds. While this provided short-term relief, it could lead to more reliance on social assistance or result in old-age poverty.

More flexibility should not encourage participants to withdraw their retirement savings and invest them poorly, without securing adequate returns. Ensuring appropriate investment returns during decumulation is important for financial security in retirement.

Lastly, while retirees may initially appreciate autonomy in managing their savings, this flexibility can become unsustainable as they age, especially as cognitive decline sets in. At this point, they may risk outliving their funds or making poor financial decisions, which could undermine their financial security in later life.

CONSIDERING DESIGNING A STRONG DEFAULT

Consideration could be given to providing a default or mandatory lifetime income option in the payout phase unless existing pension structures in the national jurisdiction already guarantee adequate payments. When faced with complexity in decision-making, individuals often procrastinate, and worse, they experience "present bias"—a tendency to focus on immediate concerns rather than long-term consequences. As such, policymakers and pension fund administrators should create a framework that encourages better decision-making, ultimately preparing individuals for a successful retirement. Establishing a good default is especially crucial, as most individuals are likely to stay in this arrangement.

A well-designed default option must strike a balance between reasonable returns, security, and managing the risk of material loss. It should align with the goals of the pension system while considering factors like state pension provisions, member demographics, and individual savings habits. Setting clear goals for participants is essential to ensuring their financial stability during retirement.

The default should cater to the broad range of participants in the plan. While a one-size-fits-all solution may not be feasible, a blended approach can better address diverse needs. In such cases, a financial instrument like the "collective risk sharing reserve" tool of the Dutch pension reform can offer a solid smoothing of the negative impact of returns and/or longevity and yet offer inflation increases and a lifelong income. Ultimately, while designing a good default option presents challenges, it is likely to lead to better retirement outcomes compared to systems that lack one.

OTHER CONSIDERATIONS FOR A ROBUST PAYOUT DESIGN

Whatever design is put in place, DC and hybrid pension plans must offer suitable decumulation options that assist members in managing withdrawal rates during the payout phase. If there is a default or a mandatory payout option, its structure should align with the objectives of the DC pension system and be appropriate for both the accumulation and payout phases.

Promoting cost-effective retirement arrangements is key in the payout phase. Costs and charges should be justified by the corresponding value while ensuring affordable access to quality DC pensions. A "race to the bottom," where a focus on low costs undermines value, quality, performance, and service delivery, should also be avoided.

In a good payout system, both flexibility and stability need to be considered, which remains a key challenge for pension systems. Governments and pension providers are increasingly exploring ways to achieve this balance. One promising solution is designing hybrid decumulation models, which combine the freedom of drawdown with the security of guaranteed income from annuities. These models allow retirees to retain some control over their pensions while benefiting from a reliable lifetime income.

A fundamental tension also persists between default-driven simplicity and member engagement — a challenge inherent to DC and hybrid plans. Many provide standardised options for all participants, keeping costs low and reducing individual risks. Parameters, like the earliest withdrawal age and payout type, are predefined. While this reduces flexibility for individuals to tailor payments to their specific needs, it also simplifies decision-making and relieves retirees from making complex financial choices.

Occupational pension plans are typically established by sponsoring companies or social partners who influence the design of payout options. When assessing potential changes, factors such as national social policies, regulatory frameworks, and taxation must be carefully considered. Decisions on the adequacy of retirement income and the flexibility of benefit withdrawals are a national matter.

TAXATION

Tax regulations should be transparent, consistent, and aligned across all pension pillars to prevent confusion. Financial incentives must be designed carefully to cater to the varying saving needs and capacities of different demographic groups.

Taxation plays a crucial role in shaping retirees' choices, particularly in systems offering multiple payout options. Good tax incentives can encourage sustainable strategies, guiding retirees toward options that provide predictable and secure income streams. This is especially important when occupational pensions form a significant part of an individual's overall retirement income. At the same time, tax policies should allow for flexibility, taking into account that retirees' financial needs and access to funds may change throughout their retirement journey.

In essence, taxation is a national competence. Member States remain the best positioned to define taxation strategies tailored to the features of their national pension systems and institutional frameworks and to ensure that the fiscal approaches support both individual financial well-being and broader retirement policy objectives.

EMPOWERING MEMBERS AND BENEFICIARIES THROUGH GOOD COMMUNICATION AND DIGITAL TOOLS

Good communication is key to empowering pension plan participants in their retirement planning. It should clearly outline the risks and benefits of adjusting contributions, as well as the consequences of opting out when participation is voluntary. Participants must have access to relevant information about how to use their retirement funds to support their lifestyle in the early years while also being mindful of the risk of depleting their funds prematurely. Similarly, where a default route is followed, communication should highlight the various risks, including the possible knock-on consequences for an individual's tax position or entitlement to other state benefits.

National strategies should raise awareness about the importance of consistent retirement savings with a focus on evolving educational efforts that are tailored to individuals at different life stages. Although this approach will take time to show results, it is essential for promoting sound long-term decision-making.

Clear and accessible communication becomes even more critical in systems offering multiple retirement options, as behavioural biases and short-term thinking can hinder retirees from making optimal choices. Proactive communication can help participants understand the implications of their decisions and encourage greater engagement.

Digital tools like robo-advisors, simulation models, and pension tracking systems can significantly improve communication and decision-making. These tools should incorporate personalised data to help participants understand how their individual choices impact their retirement. Encouraging proactive engagement through these platforms is key to improving retirement outcomes. Communication strategies must be flexible enough to adapt to evolving technologies. Prioritising principle-based approaches over rigid regulations will ensure they remain relevant.

PROMOTING ENGAGEMENT AND SUPPORT TO MEMBERS AND BENEFICIARIES

Good choice architecture can guide members toward appropriate payout options, but nudges alone are not enough and should be complemented by additional support tools. Pension funds should be encouraged or incentivised, where possible, to provide access to personalised support through advice or guidance. Governments could strengthen these efforts by establishing public funded entities to assist members and provide resources for retirement planning. However, a key challenge is ensuring that individuals are aware of these services and motivated to take the necessary steps to access them.

In the UK, the government is legislating to extend the responsibility of those running pension funds to specifically cover the decumulation phase. The same approach is being followed in the Netherlands after hybrid recent reforms. A well-designed legal and financial framework equips pension funds with the right instruments for managing the decumulation phase. The use and reach of these tools are negotiated between social partners, making it not just the concern of the pension fund. To facilitate the transition from accumulation to decumulation, these instruments can be introduced sometime before the formal retirement date, combining individual pots with well-balanced collective solutions.

Advice is especially valuable, as it takes an individual's unique circumstances into account, helping participants navigate complex payout options, such as drawdown plans. Governments may need to explore ways to make advice more accessible, particularly for members with smaller pensions, for whom the cost of advice may be prohibitive.

In countries where the distinction between advice and guidance is unclear and where liability risks exist, the definitions and responsibilities of each should be clarified. This will encourage providers to offer information without fear of liability. Also, statutory clarifications that mere guidance by employers does not (at least not unless given malevolently) involve liability could be very helpful and encourage many employers to provide some guidance.

Finally, digital solutions present a promising opportunity to deliver personalised guidance in a scalable and cost-effective manner. These technologies can bridge the gap between in-person support and self-service information, though data security, transparency, and user comprehension must remain top priorities. Policymakers should closely monitor the development of these tools and assess their effectiveness in supporting members and beneficiaries.

CONCLUSION

The research project ***Decumulation in Focus: Understanding the Payout Phase*** analyses the key features and considerations of the payout phase in DC and hybrid occupational pension plans. Using case studies from different EU Member States and other countries, the report provides a comprehensive overview of how the payout phase is structured and the key challenges it seeks to address.

The objective is to provide general principles to guide policymakers and stakeholders in designing good decumulation options. While this report provides broad recommendations, their relevance and applicability will depend on the unique legal, economic, and social context of each jurisdiction and pension system.

Chapter 1 gives an overview of the different pension structures by defining DB and DC plans and recognising the growing presence of hybrid models that combine elements of both.

In more social-oriented systems, pension plans tend to provide more standardised options that ensure financial security while reducing complexity for retirees. These systems often include protective measures such as predefined payout structures, minimum withdrawal ages, and mandatory annuities or other types of lifelong options. While these safeguards enhance retirement income stability, they limit individual flexibility. On the other hand, more liberal systems grant retirees more choice in managing their pension assets, allowing them to tailor withdrawals to their needs. This approach places financial responsibility on individuals, requiring them to navigate investment risks, longevity concerns, and potential market fluctuations.

Finding the right balance between security, flexibility, and cost efficiency is key to ensuring that DC and hybrid pensions support retirees and their needs. The chapter also explores the role of taxation in shaping decumulation choices, as tax incentives can draw participants to specific payout options.

Chapter 2 highlights the importance of ensuring that retirees can cover essential expenses, such as housing, food, and healthcare, while also allowing for non-essential expenditures, including leisure or holidays, that contribute to overall well-being and have a positive effect on life expectancy.

The analysis shows that the extent to which workplace pensions need to provide annuities depends on several factors, including the generosity of state pensions and the availability of additional savings or income from personal pensions. Where state pensions offer a strong baseline income, retirees can have more flexibility in withdrawing workplace pension savings. However, in systems with less generous state and/or limited sources of other income, occupational pensions may become more important in providing income until death. The report also highlights the importance of unexpected costs, especially those related to health and long-term care. It suggests that payout designs, if possible, should account for these risks, and that some degree of flexibility may help mitigating them.

Chapter 3 explores the different decumulation options available within DC and hybrid pension plans, noting that payout structures vary significantly depending on national regulations and plan-specific rules. The main payout methods analysed include:

- Fixed/ guaranteed annuities, which can provide stability and mitigate longevity risk but come at the cost of flexibility. Variable annuities, where longevity risk is pooled across participants, link payouts to investment performance. Lifelong payments are then provided but at a variable rate.
- Lump sum withdrawals, which provide a lot of flexibility but leave retirees at risk of outliving their savings and do not cover inflation risks.
- Drawdown options, including programmed withdrawals, strike a balance between flexibility and long-term income security but require ongoing financial management throughout retirement.

While no single approach is optimal for all retirees, a well-designed system should ensure that individuals have access to a stable income stream, and some degree of flexibility can enable them to meet their specific needs.

Chapter 4 examines the role of information and engagement in supporting retirees during the payout phase. The complexity of the payout phase means that individuals require access to good information. The extent of engagement required depends on whether retirees must actively choose a payout method or if a default or mandatory option is provided.

The chapter looks at the different options to improve communication with members and beneficiaries, including, for instance, Pension Tracking Systems, which allow individuals to obtain a holistic view of their retirement income across multiple pillars. Overall, digital tools can enhance member engagement and simplify decision-making, but challenges remain, e.g., linked to digital literacy or cyber risks. Financial advice and guidance are also important in helping participants navigate the payout phase, though cost and legal complexities often limit their availability.

Chapter 5 presents key recommendations for the design of the decumulation phase of DC and hybrid pension plans. While this chapter does not prescribe a one-size-fits-all solution, it outlines some principles that can help ensure adequate retirement income.

The chapter stresses the importance of clearly defining the adequacy level needed in a given country. The EU's Pension Adequacy Report is an important tool for measuring how well pension systems across the EU achieve adequacy, with a particular focus on the first pillar, and it helps guide policymakers on this topic.

Benchmarks can be useful for savers, helping them assess whether their retirement savings will cover essential expenses or allow for discretionary spending. National dashboards could also enhance the understanding of adequacy across pillars within each country and help establish relevant policies to address specific national challenges.

We believe that DC and hybrid plans should offer lifelong income when they significantly contribute to retirement income although this also depends on state pension generosity and personal savings. Payout design should also account for risks such as market conditions, inflation, and longevity, although not all risks will be able to be covered in the design.

Flexibility is another key aspect, as consumption needs vary throughout retirement. While retirees may spend less on non-essential items as they grow older, other expenses may rise due to healthcare and long-term care costs. To address this, if possible, flexible options could be provided for individuals in retirement. These options should be carefully managed to prevent retirees from outliving their savings or making suboptimal investment choices.

We encourage considering providing a default option to minimise the risks related to choice overload and information bias in systems where members must make active decisions in the payout phase. It should align with the goals of the pension system while considering factors like state pension provisions, member demographics, and individual savings habits.

Taxation plays an important role in shaping retirees' decisions, particularly in systems offering multiple payout options. Well-designed tax incentives can encourage retirees to choose options that provide predictable and secure income streams. Ultimately, the responsibility for designing these policies lie with the Member States, who are best placed to make decisions on this matter.

Good communication is key to empowering pension plan participants in their retirement planning. Participants should have access to relevant information that helps them understand how to manage their retirement funds to support their lifestyle in the early years of retirement, and also considering the risk of depleting their funds too early. There should be a particular focus on digital tools to support this communication, although their potential related risks must be carefully considered.

Guidance and advice play an essential role in ensuring that participants make informed decisions based on their unique circumstances. Governments can strengthen these efforts by exploring ways to make advice more accessible, especially for individuals with smaller pensions, where the cost of advice may be prohibitive. In countries where the distinction between guidance and advice is unclear and where liability risks exist, clarifying the definitions and responsibilities of each can help ensure that individuals receive accurate and appropriate support. Digital solutions also offer a promising opportunity to deliver personalised guidance in a scalable and cost-effective manner.

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace and other funded pensions. Some members operate purely individual pension schemes.

PensionsEurope has 25 Member Associations in 18 EU Member States and 3 other European countries.

PensionsEurope member organisations cover different types of workplace pensions for around 90 million people.

Through its Member Associations, PensionsEurope represents close to € 6.1 trillion of assets managed for future pension payments. Many members of PensionsEurope also cover personal pensions, which are connected with an employment relation.

PensionsEurope also has 14 Corporate and Supporter Members, which are various service providers and stakeholders that work with IORPs.

This report was written by Gabrielle Kolm,
Policy and Communications Officer at PensionsEurope

PENSIONS EUROPE

www.pensionseurope.eu
Montoyerstraat 23 rue Montoyer
B-1000 Brussel - Bruxelles