

Implementation of IORP II:

**REPORT ON OTHER INFORMATION
TO BE PROVIDED TO PROSPECTIVE
AND CURRENT MEMBERS:
GUIDANCE AND PRINCIPLES
BASED ON CURRENT PRACTICES**

March 2019

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EXECUTIVE SUMMARY

This report analyses certain national practices existing prior to the implementation of the Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORP II). It concerns disclosure documents to be given to prospective members and members in the pre-retirement and pay-out phase, as set out in Chapter III “Other information documents to be provided” within Title IV “Information to be given to prospective members, members and beneficiaries”.

This report complements the [EIOPA report](#) “Implementation of IORP II: Report on the Pension Benefit Statement: guidance and principles based on current practices” that was published on November 13, 2018.

EIOPA, based on an exchange of views and an assessment of current practices with other information documents, has drawn together principles and guidance on core areas identified by National Competent Authorities as of particular importance in order to implement the IORP II requirements and promote consistent practices. These are: calculation and presentation of **past performance** in the information to be provided to **prospective members**; the **presentation of retirement options** in the pre-retirement phase; the **timing of issuance of documents**; and the communication **channels used** in the information to be provided during the **pre-retirement and the pay-out phases**.

The first chapter covers the design of information documents that need to be provided to prospective members, members at pre-retirement and pay-out phases. On the one hand, confirming the validity of the general principles identified for the Pension Benefit Statement (PBS): considering the behavioural purpose when designing information documents with the support of communication experts; taking into consideration the characteristics of the pension scheme (DB vs. DC, investment options) and integrating the communication tools already in place within the Member States (e.g. a pension dashboard), to facilitate the insight into the member full retirement situation. On the other, outlining two overarching principles: the use of layering of information and digital guidance. First, information should be simple, easy to read for the member and put in layers and be adapted to the members’ needs. Second, the plea for IORPs to combine paper information with digital forms to support members towards retirement decisions.

The second chapter on information to be given to prospective members provides an analysis of past performance, drawing general principles on information standards, comparability and cost considerations. These include that past performance should be clear, correct and balanced in order not to be misleading. Past performance should come with a warning that past performance does not imply an indication for future returns. In relation to the presentation of past performance it should be shown as an appropriate combination of annual returns and cumulative returns. Additionally, Member States or IORPs are required to show past performance for a period of 5 years, but can opt for a longer period. Consumer testing should be done to see which presentation is most understandable for (prospective) members.

Past performance information shall assist prospective member in making decisions on the suitability for investment options. An important principle is the comparability of past performance within a Member State, meaning a member can compare various pension plans or even IORPs. This comparability is helped by showing past performance net of costs. Examples extracted from current practices at national level are presented to illustrate some of the principles.

The third chapter on pre-retirement information analyses the reference to the ‘due time before retirement age’ stated in the Directive and proposes a step-by-step approach to the information to be provided to the member: starting five years before the retirement until the retirement date.

Step 1 is taken a few years before retirement and consists of general information of the process and options available. Specific information is provided as of step 2 that starts between a year and a few months before the retirement age. In steps 3 and 4 personalised choices are presented to and have to be made by the member. These are offered on paper as well as digitally. The final step concerns the granting of the retirement benefit.

Among the choices the member has to make the basic question in most Member States is: do you want to receive an annuity, programmed withdrawals or a lump sum payment? In case the member chooses for an annuity several other choices can be offered, among which: between a variable and a fixed annuity, a preset level of the annuity throughout the years and the frequency of the payments. Examples of choices in different Member States and information provided implies that the look-and-feel and language used in the information is dependent on the population you want to reach. It is important to perform regular consumer testing to improve the information provided continuously. Several current practices are presented to illustrate the different steps and choices a member has to go through before reaching the retirement date.

The fourth chapter on pay-out information analyses the frequency, the communication channels to be used, and the content of this document, both from the legal requirements view point and beyond. The analysis made shows that besides the annual statement that is provided, pensioners receive – dependent on the Member State – information about: annual tax adjustments, indexation of benefits, reduction of the level of benefits and changes by investment risk borne. Several examples on these topics have been provided. Overall, the following principles for the pay-out information were highlighted:

- **Frequency:** pay-out information should preferably be provided to beneficiaries on annual basis after retirement,
- **Personalised:** information that refers to the adjustment of benefits should be provided in a way that shows the effect of the benefit reduction for the individual member,
- **Communication channel:** information should be provided to beneficiaries in the most reliable medium – paper, digital or a combination of both.

The information approach during the pay-out phase in different Member States is dependent on the applicable law. Some countries use principles where the IORP can look for the best way to provide the information to their pensioners. Other Members States have applied a rules based approach to make sure a minimum set of information is shared with the pensioner. IORPs in different Member States make use of web-based information not only for the active members but also for pensioners.

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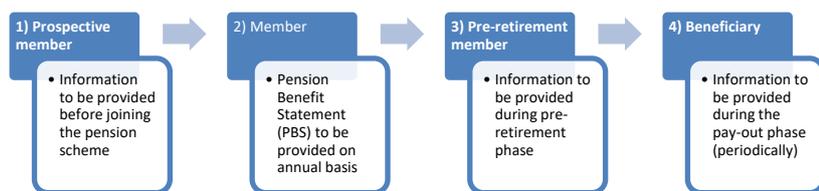
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INTRODUCTION

The IORP II Directive provides an updated EU legislative framework for workplace pensions. The IORP II Directive will improve the way IORPs are governed, make it easier for IORPs to conduct cross-border business and provide clearer information to pension scheme members and beneficiaries. EU Member States must have transposed the new rules into their national law by 13 January 2019.

In particular, Chapter III of the Directive covers the other information documents to be provided to IORP members at the different stages of their membership phase: 1) prospective member, before joining the IORP, 3) pre-retirement member, before the retirement date and 4) beneficiary/pensioner, after reaching the retirement date or during the pay-out phase. See the figure below for a comprehensive overview of the information documents to be provided at different stages before and during the pension scheme membership.

Fig. 1 Overview of all information documents at different stages of IORP membership



This report will cover all the stages except for the membership (stage 2) as this was the object of the Report on the Pension Benefit Statement.

Occupational pension communication differs across Member States: some Member States have a long history with providing information on occupational pensions, and require the provision of documents during the membership phases, while other Member States still have to develop occupational pension communication.

This report provides principles and guidance regarding the design, content and timing of issuance of the other information documents based on pre-IORP II national experiences with prior documents either required under IORP I or under national legislation.

Annex 1 lists the Articles analysed for this Report, namely Article 41 “Information to be given to prospective members”, Article 42 “Information to be given to members during the pre-retirement phase” and Article 43 “Information to be given to beneficiaries during the pay-out phase”.

The Report on the Pension Benefit Statement included a cost and benefit analysis in the Annex, which covered the rationale and objectives of the policy options considered in the development of the work. That analysis is also valid for this report, and so has not been repeated.

1. DESIGN OF INFORMATION DOCUMENTS FOR PROSPECTIVE MEMBERS, PRE-RETIREMENT AND PAY-OUT PHASES

The IORP II Directive Chapter 1 on General provisions, Article 36 outlines principles on how information provided to prospective members, members and beneficiaries should be provided. This information should, inter alia, be regularly updated, be written in a clear manner, use clear, succinct and comprehensible language, not be misleading, have consistency in vocabulary and content, and be presented in a way that is easy to read. These principles are to be followed by all information documents.

In the Report on the Pension Benefit Statement (PBS), EIOPA has identified general principles for the design of the PBS, which can be considered valid for the information documents (below referred to as “the documents”) that need to be provided to prospective members, members at pre-retirement and beneficiaries. These are outlined as follows:

- 1) The documents should be designed with a behavioural purpose and the information respond to the member key questions
- 2) Member States and IORPs should engage with communication experts when designing the documents
- 3) The documents’ design should take into account the characteristics of the pension scheme (DB vs. DC, investment options)
- 4) The documents’ design should integrate and complement the communication tools that are in place within the Member States – such as the availability of an online pension dashboard or other pension communication channels to facilitate the insight into the member full retirement situation.

In addition and to reinforce the messages from previous work conducted in the area of behavioural economics, we would like to highlight the importance of providing information that is comprehensive, understandable for non-financially literate people and user-friendly. Information overload has the immediate effect of discouraging members from engaging.

One of the tools that helps structuring information by levels of relevance to the member is layering. In fact, the presentation of the PBS included principles promoting the use layout tools and describing the approach on layering. The following principle is a combination of both.

The practices shared in the area of information to pre-retirement members show the growing importance of digital communication channels in the provision of information and guidance towards retirement decisions. By using the website of the IORP and the member’s personal environment on the website (after login) IORPs are better able to help members in filling out forms providing layered information.

Principle 1 on layering

Information should be simple, easy to read for the member and put in appropriate layers. Layered information is better to digest by members because it limits the information to the needs of the member.

Among the advantages of digital channels are:

- the use of tutorials, short videos and images that help foster easy associations with difficult concepts;
- where the a member wants to deviate from the pre-offered choices an online calculation can be made to see the direct effect of the choice made;
- the facility to monitor the retirement process online.

Digital guidance is a valuable additional support that can accompany the member throughout the cycle of his/her pension scheme membership.

Principle 2 on digital guidance

IORPs are encouraged to use not only paper but also digital forms to support members towards retirement decisions. Digital guidance can be provided through online tutorials, short videos, use of visuals and images, use of online calculators, etc.

¹ See definitions on layering and layout on Chapter 5 of the [EIOPA report](#) “Implementation of IORP II: Report on the Pension Benefit Statement: guidance and principles based on current practices”.

2. INFORMATION TO BE GIVEN TO PROSPECTIVE MEMBERS ON PAST PERFORMANCE

Article 41 of the IORP II Directive requires IORPs to ensure that prospective members receive certain information (annex 1 lists the details). IORP II introduces the term prospective member and states that prospective members should be informed on relevant options, the relevant features of the scheme and environmental, social and corporate governance factors (ESG factors). Furthermore, for schemes in which members bear investment risk or can make investment decisions, prospective members shall be provided with information on the past performance of investments related to the pension scheme for a minimum of five years, or for all the years that the scheme has been operating where this is less than five years and information on the structure of costs borne by members and beneficiaries.

This chapter focuses *inter alia* on the latter element of IORP II: information on past performance. It draws out principles on how to communicate past performance to prospective members.

This report does not address the information on investment options that prospective members should receive, as IORP I (article 11.4.c of directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision) already included this requirement. Given that past performance is a new topic to IORPs it was decided to limit the scope to this new provision. Furthermore, the report does not address the other new requirement as another EIOPA working group focuses on ESG disclosure.

IORP II defines a prospective member as a person who is eligible to join a pension scheme. Article 41 of IORP II makes a separation between prospective members who are automatically enrolled and prospective members who are not automatically enrolled. Some Member States do not offer the option to join a pension scheme due to mandatory participation or offer the option when certain criteria are met, while other Member States offer the choice of joining a pension scheme to most prospective members. Therefore, Member States could further define the concept of prospective member, what is meant by automatic enrolment and when certain information needs to be received by prospective members.

2.1 INFORMATION ON PAST PERFORMANCE SHALL NOT BE MISLEADING

Principle 1

In order not to be misleading, information on past performance of the pension scheme should be clear, correct and balanced.

Information on past performance should not only be in line with the provisions of article 41 of the Directive, it should also comply with the general information standards set out in article 36. According to article 36, 2 (c) information shall be *not misleading*.

'Not misleading' implies that members should not receive information, which gives them an erroneous impression of the functioning of the pension scheme.³ In a DC scheme, such erroneous impression might particularly concern (unrealistic) expectations about future returns, about the risks connected to the scheme or about the costs.

The principle that information shall not be misleading is of particular importance for information that is intended to support decision making. This is the case with much of the information to prospective members - recital 65 states that *before joining a scheme, prospective members should be given all the necessary information to make an informed choice* – and especially with information on past performance.

In general, information entails the risk to be misleading if it accentuates the potential benefits without also giving a fair view on the significant disadvantages. In the case of past performance, information may be misleading if it highlights the potential for higher returns without giving also a fair indication of the risks.

Principle 2

Information on past performance should go together with a clear warning that the shown past performance does not imply an indication for future returns.

It is advisable that information on past performance goes together with a prominent and clear warning that past returns are not indicative for future performance. Such a warning is

³ EIOPA's Advice to the European Commission on the review of the IORP Directive 2003/41/EC, p 489.

required already for UCITS funds, where a bar chart representing the past returns is supplemented by a prominent statement that warns about its limited value as a guide to future performance.

This also holds true when the investment strategy is a lifecycle fund in which the investments shift from risky assets to more conservative assets when the member approaches the retirement date. This means that past performance is by definition not indicative for future performance after a portfolio change.

In addition, complementing past performance information with pension projections could further help prospective members understand the impact of performance on their savings and income in retirement.

Principle 3

Past performance should be shown as an appropriate combination of annual returns and cumulative returns.

Presenting past performance can be done in both annual returns or cumulative returns. Both have their advantages and disadvantages. Annual returns can be easily compared and give insight in the recent performance of an IORP. However, in the context of pensions, one should as well try not to focus too much on short term returns. In particular, if annual returns are volatile while cumulative pluriannual returns are more stable, presenting only annual returns may lead to overestimate long-term risk and induce sub-optimal choices. In order to achieve these objectives, an appropriate combination of annual and cumulative returns should be used.

From a behavioural viewpoint, past performance might be a confusing concept to an average member, as they may not be sufficiently financially literate to understand the limitations of this information. To find out what members understand best, Member States or IORPs could conduct consumer testing on the presentation of past performance.

Principle 4

Information on past performance should be provided for an appropriate time period.

According to IORP II, information to prospective scheme members should indicate past performance of investments related to the pension scheme *for a minimum of five years*, or for all the years that the scheme has been operating where this is less than five years.

The question arises whether a fixed time period of five years of past performance is appropriate and if it would not carry the risk of being misleading? Indeed, cases are conceivable - especially after a long period of rising markets - in which the representation of past performance over a period of only 5 years does not reflect accurately the performance (and the risks) of the scheme in the past, because only the "good years" are shown and the bad years are omitted. There is then a risk that prospective members will be misled and that they choose a product or an investment option, for which they would not normally have chosen taking into account their investment profile.

It should be noted that the five-year period is not a fixed period of time imposed by the Directive. It is expressly stated that this is a minimum period, so that this could be further specified at national level. In order to achieve comparability of pension products- at least within Member States - it appears appropriate that Member States set a uniform time period.

The precise determination of this period must take into account the requirement that information shall not be misleading. Without commenting on a precise duration, EIOPA considers that Member States should be sufficiently aware of the risks in this respect when setting this period. Ideally, the reference period should be set so that the past performance shown to prospective scheme members provides a balanced indication of the performance of the pension scheme in the past and of the risk linked to it. A longer period might be more likely to meet those requirements.

In this context, it can also be noted that the UCITS Directive imposes an indication of past performance over a period of 10 years.

Current practices

There are very few examples of current (pre-IORP II) practices regarding the indication of past performance.

In Italy, the information document for prospective scheme members contains a section on past performance.

- Past performance is presented in a bar chart, representing annual returns over a time period of 10 years.
- Also cumulative returns over 3, 5 and 10 years are shown.
- The section contains a clear warning that past performance will not necessarily be repeated in the future.

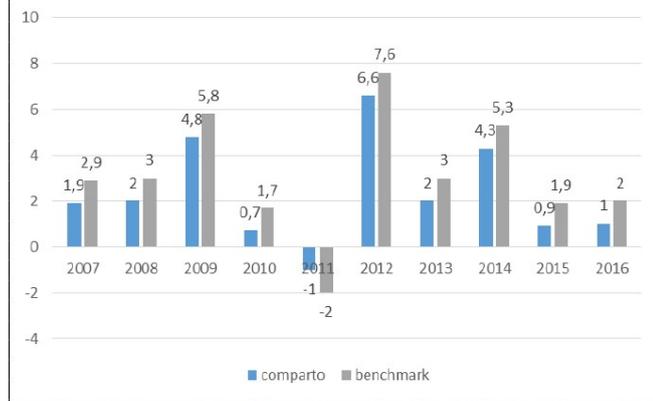
Illustrazione dei dati storici di rischio/rendimento

Di seguito sono riportati i rendimenti passati di EuroUno in confronto con il relativo *benchmark*.

Nell'esaminare i dati sui rendimenti ricordati che:

- ✓ i dati di rendimento non tengono conto dei costi gravanti direttamente sull'aderente;
- ✓ il rendimento della linea risente degli oneri gravanti sul patrimonio dello stesso, che invece non sono contabilizzati nell'andamento del *benchmark*, e degli oneri fiscali;
- ✓ il *benchmark* è riportato al netto degli oneri fiscali vigenti.

Tav. II.4 Rendimenti annui



Benchmark: Tasso di rendimento medio dei titoli di Stato e delle obbligazioni

Attenzione: I rendimenti passati non sono necessariamente indicativi di quelli futuri

Example 1. Section on past performance in the document for prospective members in Italy

2.2 PAST PERFORMANCE AND LIFE CYCLING

Principle 5

In case of a lifecycle investment policy, information on past performance should be shown in different age cohorts

While past performance can be a useful indicator for prospective members to help make their investment decisions or whether to take up a particular retirement product, the past performance shown should reflect the underlying product. While past performance is dependent on the investment strategy and the economic cycle, it might also be influenced by the prospective member's age in case of a lifecycle investment strategy.

A lifecycle investment strategy stems from the idea that a young member has a long time horizon and a high amount of human capital so that he or she can invest more in risky assets,

such as equity. The exposure to risky assets will be lower when the member is older as the retirement date comes closer and the human capital decreases. A shock in these risky assets will then have less of an effect on a member's portfolio when he or she is close to retirement, minimizing the effect of a stock market crash and making the retirement pot stable and predictable just before retirement.

Life cycles can be constructed in various ways; from a straightforward linear decline in exposure to risky assets from a certain date to a less linear approach, but they will result in an age dependent asset mix for a member. This means that showing past performance should reflect this age dependency. For example, a prospective member with the age of 35 should be shown a different past performance than a 55 year old prospective member given that they will be in different stages of the life cycle. An IORP can for example show the return for various age cohorts to prospective members and specifically the age cohort that applies to the prospective member.

Tavola II.5 - Rendimento medio annuo composto

Periodo	Comparto	Benchmark
3 anni (2014-2016)	***	***
5 anni (2012-2016)	***	***
10 anni (2007-2016)	***	***

Tavola II.6 - Volatilità storica

Periodo	Comparto	Benchmark
3 anni (2014-2016)	***	***
5 anni (2012-2016)	***	***
10 anni (2007-2016)	***	***

Example 2: Past performance information in a lifecycle

The Dutch IORP Flexsecurity offers their Pluspensioen pension scheme with a lifecycle investment strategy. Members are divided into 10 age cohorts and can look up the past performance information depending on the age cohort that they are in. The 21-39 age cohort is 70% invested in risky assets (such as equity funds and alternative investments) and 30% in fixed income, while the 64-65 age cohort is invested for 10% in risky assets and 90% in fixed income.

The IORP shows the past performance in both the participation value of the fund and as cumulative returns over the past year.

Pluspensioen

Bij het **Pluspensioen** wordt belegd volgens de zogenaemde Life Cycle-aanpak. Dit houdt in dat de beleggingsmix van het Pluspensioen bestaat uit 10 verschillende beleggingsmixen voor 10 verschillende leeftijdsgroepen. Is je pensioenleeftijd nog ver weg? Dan wordt voor jou op een andere manier belegd dan voor deelnemers die kort voor hun pensioen zitten.

Klik hier voor de beleggingsresultaten en de participatiewaardes van het Pluspensioen.

- [Pluspensioen: 21-39 jaar](#)
- [Pluspensioen: 40-44 jaar](#)
- [Pluspensioen: 45-49 jaar](#)
- [Pluspensioen: 50-54 jaar](#)
- [Pluspensioen: 55-57 jaar](#)
- [Pluspensioen: 58-59 jaar](#)
- [Pluspensioen: 60-61 jaar](#)
- [Pluspensioen: 62-63 jaar](#)
- [Pluspensioen: 64-65 jaar](#)
- [Pluspensioen: 66+](#)
- [Beleggingsalternatief](#)

More information (in Dutch) can be found at:

<https://www.flexsecuritypensioen.nl/over-ons/beleggen/de-ontwikkeling-van-jouw-pensioenkapitaal/>

Past performance for prospective members a few years before retirement

The next paragraph focuses particularly on past performance shown to prospective members at an age closer to retirement.

In the case of a DC pension scheme and if the pension accumulation is converted into an annuity at retirement date, there is a risk that at that moment the rate at which the conversion takes place is unfavourable for the member. Typically the interest rate and demographic factors determine to a large extent the conversion rate. To counter the conversion risk, an investment portfolio can be invested into assets with a similar duration to the annuity. This means that as the retirement date comes closer, the investment portfolio will be shifted towards investments with a long duration, such as government bonds, or will be hedged with financial instruments. This will reduce the exposure to interest rate changes as the member approaches the retirement date.

In case the accumulated capital is converted into a fixed annuity, the aim is to create a stable and predictable income stream after the retirement date. As the risks of the

investments mirror the risk of the conversion into an annuity at the retirement date, a change in the value of the annuity caused by a change in interest rates will be (largely) offset by a change in the value of the assets.

However, this means that the present value of the assets will become rather volatile if the interest rate (i.e discount rate) changes frequently, especially just before the retirement date. This will be reflected in the past performance of the pension scheme. While this serves an important purpose, showing the past performance of such a pension scheme might be confusing to members. It is important to explain the effects of hedging for this age cohort.

Fortunately, this problem is limited to prospective members closer to retirement, as interest rate hedging typically starts 10 to 15 years before the retirement date of a member. However, these members might be shown a past performance that is much lower or higher than they would expect and might be turned off by the prospect of such a risky product. It is up to the IORP to explain how the product chooses to manage the conversion risk and not solely the investment risk.

2.3 RELEVANCE OF THE INFORMATION ON PAST PERFORMANCE FOR THE CHOICE OF INVESTMENT OPTIONS

Principle 6

Information on past performance shall assist prospective members in determining the suitability of an investment option to their own risk and return profile.

According to the EIOPA Report on Investment options for occupational DC scheme members, the main focus of entities involved in developing investment options is the suitability of the strategy with target groups' risk and return characteristics. Although automated decision tools and personal assistance exist in a few Member States that do offer choices to occupational DC pension scheme members, much of the effort is put in general information provision. EIOPA's analysis has shed light on the following issue which may require further attention from policy makers in occupational DC pension schemes: improved mechanisms for providing relevant standardized and comparable information to help (prospective) members making better investment decisions.

Whether it is to ensure the design of suitable investment strategies, or in order to provide support to (prospective) members' initial or subsequent decision-making, in cases where they do have a choice, information provision has the potential role of increasing the knowledge and understanding on the available options or possible actions. In some Member States, the method chosen to partly address the importance and comparability of the information is by providing it in a standardized form. In this case members may find it easier to interpret and compare investment options in order to choose the one that best fits their profile.

Past performance is a useful piece of information in regard to the suitability of investment strategy. For example, volatility of

past performance may be associated with the level of risk that a prospective member may have been willing and able to withstand for the specific period of time under analysis, while the level of performance, in absolute or relative terms (in comparison with other IORP's performance level), may have been compared with the level of return that a prospective member expects. This particular personal analysis may help prospective members better choose the investment option suitable to their own profile. A better association between prospective member and the chosen investment option would raise the possibility of expectations being realistically met, and, as such, increases satisfaction regarding the retirement product.

2.4 INFORMATION ON PAST PERFORMANCE SHOULD BE COMPARABLE

Principle 7

Past performance information should be comparable within a Member State

Current practices show that in the majority of Member States information to be provided to prospective members does not include past performance data. In addition, the calculation of past performance is regulated only in five jurisdictions. The lack of methodologies for calculating past performance undermines the comparability between documents offered by different schemes, hindering the accurateness of decisions of prospective members regarding the enrolment into a scheme.

In addition, comparable cost, risk and returns information across different types of saving products within a Member State would help consumers assess and compare different products clearly, as well as having a general overview on the future saving prospects and as a result better plan financial needs and savings.

Principle 8

Past performance should be presented net of all costs, on the basis of clear methodologies; where this is not yet possible, very clear disclosures of costs not included should be provided.

From a consumer perspective, it is important to understand what is the net performance, after the deduction of all the costs, including administrative costs. In order to present net returns, the returns should be net of all costs that are charged to the member or that decrease the value of the assets. Premiums charged to provide additional biometric insurance benefits, where relevant, which are not contributing to the investments being made, may be disclosed separately and not treated as an investment cost, though it is important that the consumer understands how their contributions are being allocated (e.g. for investments or for insurance benefits).

In order to ensure comparability of past performance data, it is crucial to develop standardised methodologies for past performance calculations that show a net return for the member at the national level.

This can be done by developing a methodology of performance calculation which is net of all costs, or, where some costs are not known by the IORP, by explaining how the performance disclosed would be further reduced by additional costs that are not included. Given that from a consumer perspective the complete picture taking into account all costs is likely to be most comprehensible, this approach is clearly preferable, and all efforts should be taken to develop methodologies to permit

a clear overall perspective on performance for the prospective member.

To elaborate, for schemes invested via mutual funds, performance is often expressed in terms of Net Asset Value (NAV), which shows the performance after deducting the Total Expense Ratio (TER) of the funds and is net of transaction costs and performance fees, but might or might not include the administrative costs of the IORP.

At the moment, national practices have different levels of consistency and transparency on the calculation of returns and inclusion of costs. There is no European standard or common practice to express the net performance net of all costs at the member level, after deduction of the costs of the scheme.

To present a net return at the level of the member, when a pension scheme is invested in pooled funds, the investment return should be further reduced by the administrative costs of the IORP when these costs are not included in the NAV, to show the net performance.

However, when not invested in pooled funds, the underlying investment returns are not going to be available in terms of NAVs, requiring a specific approach tailored for these asset classes, including methods for the appropriate allocation of costs and returns.

The Global Investment Performance Standard (GIPS) can be applied to pooled funds and other IORP investments. However, this standard does not include administrative costs of the mutual fund nor the IORP. Adaptations of the standard would be needed for the presentation of the returns net of all costs at the level of the consumer.

3. PRE-RETIREMENT INFORMATION

Article 42 of the IORP II Directive requires IORPs to ensure that members receive information on the pay-out options available in taking their retirement benefits (see annex I for the full article). This section focuses on the pre-retirement information, describing its content, the steps which can be taken in the pre-retirement process and which information might be provided during this phase. The section will present some examples to illustrate how IORPs in different Member States deal with the provision of information.

As stated in the general principles, the design of the pre-retirement information should take into account the characteristics of the pension scheme (DB/DC). In the case of a DC pension scheme, if the pension accumulation is converted into an annuity, there is a risk that at retirement date the rate at which the conversion takes place is unfavourable for the member. In this regard, members of a DC scheme should be informed about the possible options to reduce the conversion risk.

The principles outlined in the pre-retirement and pay-out phases are generally applicable to both DB and DC schemes. However, specific examples of DC and DB schemes information disclosure to members are provided to illustrate national and industry practices.

3.1 WHAT IS PRE-RETIREMENT INFORMATION?

Pre-retirement information is information provided in due time before the retirement age or at the request of the member. Of course this raises questions about what “in due time” means, which steps are taken in practice and what choices are provided for. This will be elaborated hereunder.

3.2 STEPS TOWARDS RETIREMENT

Principle 1

Pre-retirement information should be provided to members during the steps towards retirement: starting five years before the retirement until the retirement date.

The retirement age is set by law, by the pension plan or chosen by the participant if he or she is able and wishes to deviate from the set retirement age. The pre-retirement phase is the time period before retirement used to prepare for the payment by the IORP and could be divided in the following steps:

1. Preparing for retirement
2. First announcement
3. Provision of personal information
4. Filling out forms
5. Granting the pension

These five steps do not represent a prescribed and generally applied practice for all Member States and should therefore be considered as an example of what is currently done under IORP I Directive.

In some Member States information obligations are part of social and labour law, which can provide for a differently structured information process, while respecting the provisions of the Directive. However, the five steps and the indicative timeframe of five years can be used by IORPs in guiding the member towards retirement.

An example can be found in **ANNEX 2: 5 STEPS TOWARDS RETIREMENT – GOOD PRACTICE PROCESS** that shows a diagram summarising the key components of the information to be provided along the 5 steps towards retirement.

Standard information templates

In our research we have not encountered any example of standardized information for the IORP in the pre-retirement phase.

Step 1: Preparing for retirement

Circa five years before retirement, IORPs or employers could provide awareness campaigns or give information to help members prepare for retirement and explain procedural steps.

In some Member States, around five years before retirement employers and/or pension providers organize meetings for employees to prepare them for retirement. Among other things the processes of the pension provider are explained. In other Member States, IORPs provide dedicated information aiming to help members to prepare for retirement and understand different pay-out options available.

In this preparatory phase, it is important to explain to members what are the financial impacts changing their date of retirement. If they opt for an early retirement, members should be informed about the penalization factor applied to the pay-out. On the contrary, should the member decide to postpone the retirement date, he or she should be informed on the bonus factor applicable to the expected pay-out.

The aim of this step is to help members prepare for retirement, by explaining the retirement process and the potential consequences of changes in the retirement date.

Getting ready for retirement

Around 5 years before you want to take your pension benefits from the Scheme, you should start planning for your retirement in more detail.

Pre-Retirement Workshop for BASF Employees

- Available to all employees, with manager consent.
- Covers all aspects of planning for later life including lifestyle, health, financial planning and taxation.
- The best time to attend is 2-5 years before you plan to access your pension savings and/or stop working. You will be automatically invited if you are between 2-5 years of your normal retirement date. However if you have not received an invitation please contact Sharon Bedford via the email below.
- For more information see the "Planning for Retirement Factsheet" link on the right hand side of the page.

Workshop dates

- 14/15 May 2019 - (provisional - venue t.b.c) this date is for employees

Example: preparing for retirement – through website engagement (Dutch IORP PME)

In order to help members to prepare for the pay-out of their retirement benefits Dutch IORP PME shows them on their website – shown hereunder – a few choices members can make. The choices that are shown in the example consider:

1) what the retirement age for the first pillar benefits are,

2) whether the member is an active participant in the pension plan,

3) whether it will take less or more than 6 months before the participant will retire and

4) whether the participant already applied for retirement pension pay-out.

Bijna met pensioen



Wat is uw situatie?

Om u zo goed mogelijk te kunnen helpen, verzoeken we u enkele vragen te beantwoorden.

Ik bereik bijna mijn AOW-datum

Ik wil voor mijn AOW-datum met pensioen

Ik wil na mijn AOW-datum met pensioen

Ik wil met pensioen en woon in het buitenland of verhuis naar het buitenland

Ik wil meer informatie

Bouwt u nu pensioen op bij PME? Ja Nee

Duurt het nog langer dan 6 maanden voor u met pensioen gaat? Ja Nee

Heeft u uw pensioen al aangevraagd? Ja Nee

Uw pensioen nog niet aangevraagd

Vraag uw pensioen op tijd aan. Minimaal drie maanden voordat uw pensioen moet ingaan.

Heeft u hulp nodig bij uw aanvraag? Neem dan contact op met onze Serviceclub of maak een afspraak voor een persoonlijk gesprek met uw pensioenconsulent.

Bij het aanvragen van uw pensioen kunt u de volgende keuzes maken:

- 1 U kunt kiezen voor een lager ouderdompensioen, waardoor u extra partnerpensioen krijgt. Of u rult partnerpensioen in voor extra ouderdompensioen.
- 2 U kunt kiezen voor eerst een hogere en daarna een lagere pensioenuitkering. Of u kiest voor eerst een lagere en dan een hogere pensioenuitkering. Dit kan maar voor een bepaalde periode, bijvoorbeeld 5 jaar een hoge uitkering en daarna een lage uitkering.

In de factsheet 'Het pensioen op uw AOW-datum of daarna' leest u meer over de keuzes die u kunt maken.



In order to do so the participant with little knowledge about pensions knows by ticking a few boxes whether he or she has to take action to receive the retirement pension pay-out.

Step 2: First announcement

Between a year and a few months before retirement, a first announcement could be sent to IORPs members, providing general information on the retirement process, retirement options and timeline.

Between approximately a few months and a year before the retirement age a first announcement is sent to IORPs members. This announcement consists of general information about the retirement process and timing in order to inform the member about what he or she is about to receive and to do for the period to the retirement age. The aim in this step is to kick-off the official start of the retirement process. This period is used in order to give the member and the IORP enough time to prepare for the retirement.

Example: preparing for retirement – providing information on different pay-out options – for DC schemes

In Italy, being the annuities usually paid by an insurance company, members approaching retirement can shop around in order to get different pay-out conditions. Members can also choose to receive a lump sum, but this should not exceed the 50% of their accumulated capital. The remaining part has to be paid as an annuity. In Italy, information about the different options available at retirement are provided in a document called "Documento sulle rendite", that IORPs usually publish on their website. It contains general information about the different options available for members at retirement (annuity, lump sum, tax treatment etc.). This document helps members in understanding the characteristics of pay-out options and in doing better informed decisions.

Step 3: Provision of personal information

A few months before the retirement date, the IORP should provide personalized information on the pay-out options, including types of providers and forms to be filled out. Members of DC schemes could be informed on where to find additional information and personal advice.

In the third step the IORP sends personal information to the individual member. This information gives a picture of the possible benefit(s) to receive by the member dependent on the pay-out options offered by the pension plan and if there is a possibility to deviate from the options (e.g. shop around or opt out).

In case of a DC pension scheme, where members might be confronted with a difficult decision on the choice to make, members could be informed on how and where additional information can be found and where additional personal advice can be offered.

Whilst the first announcement provides general information, in this step the IORP provides individualized information tailored to the member. The aim being to present the options at hand, the ways to select one and how to find more information, help or advice.

This information provision is mostly combined with the provision of all kinds of different forms that have to be filled out by the member. Each IORP has to find a balance in providing detailed information without overloading the member with information.

Example – The UK “retirement wake-up pack” for DC schemes

In the UK the so called “retirement wake-up pack” is sent to members at least 4 months before reaching the retirement age. The aim is to inform members of their options for retirement income or cash withdrawal³ and to redirect members to visit Pension Wise, a governmental free and impartial service aimed at helping people to understand their choices.⁴ This retirement wake-up pack is on average between 70-100 pages long.

Following a recent consultation by the Financial Conduct Authority (FCA) to reduce the size and complexity of the wake-up pack information, new wake-up packs will include a single-page-summary document.⁵ This document – referred to by some as a ‘Pension Passport’ – has been tested in a randomized control trial.⁶ This simplified and personalized one-sided document should be provided to members at of the age of 50 and then every 4 to 5 years. The document should give savers an idea of their current position and include a summary of open market options that help them make an informed decision. It is envisaged that such approach will be applicable as of 2019.

Step 4: Filling out forms

Until 4 weeks before the retirement date, the member should make a choice of the desired pay-out option.

Filling out the forms is probably the most difficult step for the participant because the participant has to make up his or her mind about the choices that are offered. The aim in this step is to facilitate the choice of the retirement option and how to find further information, help or advice.

Example: Snapshot of Retirement Options Letter Ireland – DC schemes

In Ireland, members in DC-plans are offered different options between lumps sum and annuities on how to receive their accrued pension capital for retirement. This includes personal details, the fund value and an explanation about the different options that are offered, including a warning to seek professional financial advice, and an option selection form. In the picture hereunder a snapshot is taken from the option selection form that has to be filled out by the member. This snapshot is taken from a model document for DC retirement options letter published by the Pensions Authority.

If you have any questions on the above please contact [insert name/title and address].

To select any of the retirement benefit options above please complete the ‘option selection form’ and forward to [insert name, address and any other contact details].

It is recommended that you seek professional financial advice to assist you in selecting the most suitable option and completing the option selection form.

³ In 2015 the UK ‘pension freedoms’ reforms gave those aged 55 and over fully flexibility to spend defined contribution pension cash as they wished
⁴ See example of standard letter available at: www.pensionwise.gov.uk/signposting/assets.zip

⁵ [Improving engagement with pension decisions: The results from three randomized controlled trials](#), by the Behavioral Insights Team (BIT) in collaboration with the UK Government’s Pension Wise service (PW), and IORPs.
⁶ See: <https://bit.ly/2GKxNKD>

ABC Company Pension Scheme (defined contribution)

Retirement options letter

4. Option selection form

Member's name	
Member's ref number	
Please indicate which option you are choosing and return form to [insert name, address and any other contact details].	
Option selected	Provide details and amount
1. Tax-free lump sum and annuity	
2. Tax-free lump sum, AMRF and ARF	
3. Tax-free lump sum, annuity and ARF	
4. Tax-free lump sum and ARF	
5. Tax-free lump sum and taxable cash	
6. Annuity	
7. Taxable cash under triviality	
Signature:	
Date:	

Choices have a personal effect taking into account that pensions are perceived as difficult. This emphasizes the importance of good choice architecture: how to guide members through this step for example by offering defaults or not, whom to contact to get support and/or a warning to reach out for a professional advice.

Apart from choices in the pension plan the member has probably to fill out other forms for example to arrange tax payments.

Step 5: Granting the pension

By the retirement date the member should be informed of the exact retirement benefits amount, the payments frequency and due date.

The benefits are granted taking into account the choices made by the member through the forms in step 4. The aim in this step is to inform the member about the expected amount that will be granted, the frequency and the date of the first payout. If the expected amount is likely to change at the actual payout date (e.g. in DC schemes) the IORP can decide

to offer information about a favourable and an unfavourable scenario.⁷ In this way or by other means the IORP is able to

show that the expected payout is likely to change between the date of information and the actual payout date.

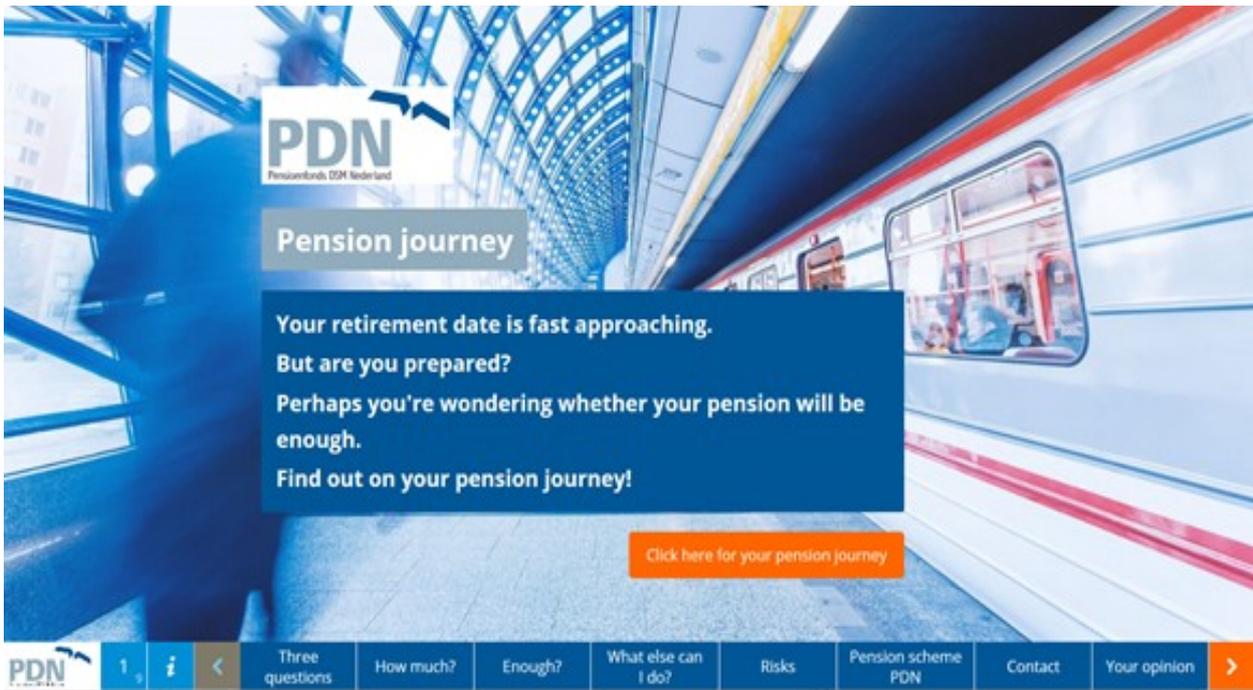
How to guide members through the retirement process?

As stated above filling out the forms by the member is one of the most difficult tasks to perform. The pension awareness and knowledge is on average low and the impact of the decisions is high because you are taking a decision that affects your income after retirement. Therefore efforts are taken by IORPs to simplify the forms to be filled out and the process. IORPs therefore use not only paper but also digital forms. By using the website of the IORP and the member's personal environment on the website (after login) pension providers are better able to help members in filling out forms providing layered information. Layered information is better to digest by members because it limits the information to the needs of the member.

Example: digital guidance retirement process – DB scheme

Pensioenfonds DSM Nederland provides the information towards retirement as shown in this picture on their website. The steps the member can take are shown at the bottom of the screen and as a detail in these steps the member is able to log-in into the personal website.

⁷ For more information on projections, please refer to the chapter 3 of the [EIOPA report](#) "Implementation of IORP II: Report on the Pension Benefit Statement: guidance and principles based on current practices"



Digital guidance via a personal website has also other advantages. If the member wants to deviate from the pre-offered choices an online calculation can be made to see the direct effect of the choice made. Whereas when the information is provided on paper the member has to make a separate request to the IORP which takes a few days or more to produce. From the perspective of the IORP the retirement process can be monitored better when it is dealt with digitally.

3.3 CHOICES MEMBERS CAN OR HAVE TO MAKE

There are several choices that members have to make when they are getting close to retirement.

First of all in some cases the member can choose their retirement age. Depending on legal restrictions this can be the retirement age set by the pension plan. However members may be able to ask for an early or postponed retirement age.

Other choices may be made regarding the level of benefits they want to receive throughout the year depending on the scheme rules. The starting point for this is the default level of benefits at the retirement age set by the pension plan. Via actuarial calculations the pay-out phase can be adjusted for example to have higher payments at first and lower payments

after several years if allowed for in the scheme rules. But also in early and postponed retirement actuarial calculations are undertaken to set the new level of payments. Depending on national law it may also be possible to create a temporary retirement pension by actuarially redistributing the pension payments.

In Belgium pension plans can foresee both lump sum and annuities. In practice most pensions are paid out as a lump sum. If a pension plan foresees the payment of a lump sum, the member has a legal right to convert the lump sum into annuities. In Ireland different pay-out variations of lump sum and annuities are possible in DC-plans (see the example of *Retirement Options Letter Ireland* above).

In the Netherlands a retirement pension has to be paid out as an annuity. It is also possible to exchange accrued survivor's pension for a higher old age pension or the other way round to exchange a part of the old age pension for a survivor's pension. This is also calculated via actuarial methods.

Example: choices in the level of benefits to be made at Shell Pensioenfond, NL

This example shows some of the legal options that Dutch pension fund Stichting Shell Pensioenfond offers their members: the exchange between retirement pension and partner's pension (i.e. survivor's pension) and the choice between a temporary high/low or low/high pension income.



OPTION 4: EXCHANGE RETIREMENT PENSION / PARTNER'S PENSION

You can decrease or increase your partner's pension in favour of or at the expense of your retirement pension. Please indicate on the form the desired percentage for your partner's pension. If you select this option, your partner will have to sign this form too. If you do not have a partner on your retirement date, or if you have not registered your partner with our pension fund, SSPF will automatically exchange the partner's pension for a higher retirement pension for you.

I want to adjust the proportion between retirement pension and partner's pension
I want to adjust the partner's pension to 70% 50% 30% 0% of the retirement pension

or:

I want a higher retirement pension for as long as we both live
I want to adjust the proportion between retirement pension (RP) and partner's pension (PP) for this. If one of us dies, the surviving partner will receive the following pension:
RP / PP = 50 / 50 70 / 70 50 / 70 70 / 50 % of the higher retirement pension

You receive a higher retirement pension as long as you and your partner both live. If your partner dies, your retirement pension (RP) will then be 30% or 50% lower. If you die, the partner's pension (PP) for your partner will then be 30% or 50% lower. Please indicate the percentage of retirement pension (RP) or partner's pension (PP) that should remain if you or your partner dies. If you select this option, your partner also will have to sign this form too.

OPTION 5: VARIABLE PENSION HIGH / LOW OR LOW / HIGH

It is possible to receive a higher retirement pension in the initial years of your retirement. After that period you will receive a lower pension benefit for the rest of your life (high/low). The converse is also possible: receive a lower benefit during a few years and then a higher retirement pension for the rest of your life (low/high). The partner's pension remains unchanged if you adjust the level of your retirement pension. First you indicate the period during which you wish to receive the higher (or lower) pension. This can be up to your statutory retirement age as applicable on the retirement date. If you prefer this option, please indicate so below. You can also choose to receive a higher or lower benefit during a certain number of years, ranging between a minimum of 1 year and a maximum of 10 years. If you prefer this option, fill in the number of years and the desired percentage.

I want to receive a higher retirement pension in the initial years of my retirement, followed by a lower pension in later years
I receive the higher pension as of my retirement date until the statutory retirement age as applicable on the retirement date

or

as of my retirement date for years (1 up to 10 entire years)

or:

I want to receive a lower retirement pension in the initial years of my retirement, followed by a higher retirement pension in later years
I receive the lower pension as of my retirement date until the statutory retirement age as applicable on the retirement date

or

as of my retirement date for years (1 up to 10 entire years)

Please indicate your choice

The lower pension is a fixed percentage of the higher pension.
I choose the following percentage 75% 77% 80% 83% 87%

Other legal options are to choose for an early or postponed retirement and the use of a temporary retirement pension to bridge the gap at early retirement towards the standard retirement age at which the social security (first pillar) benefits are paid out.

Example: choices in the pre-retirement phase in Poland

In Poland occupational pension schemes are pure Defined Contribution arrangements. Members have only two options of benefits payment: to take the lump sum of all the accumulated capital at once or arrange programmed withdrawals (e.g. monthly, quarterly, yearly) up to accumulated capital. During the pre-retirement phase, an employer shall provide a member with written information on the terms of pay-out of the assets accumulated in the scheme: 1) in the first quarter of the calendar year in which the participant reaches the age of 60, or 2) within 30 days of the termination of

employment as a result of the employee gaining early statutory pension entitlement. Very often the employer's obligation is fulfilled through a IORP, if agreed between employer and provider. The information has commonly a format of a standardized letter, written in clear and concise manner, and contains information about:

- entitlement to make the pay-out at the certain time,
- social security and tax exemption regarding accumulated capital (Poland has adopted a TEE system with regard to taxation in occupational pension schemes),
- warning that in case an employee has made a withdrawal of the lump sum or made reimbursement of a first instalment from the particular scheme, he or she cannot rejoin this scheme,
- contact details of the employer and provider.

Example: choices in the pre-retirement phase in the United Kingdom

In the UK, the Money Advice Service (MAS) is providing online information as to the decumulation options that members of a DC pension have when reaching retirement.³ The webpage contains a summary of the main options provided to members at a glance:

1. Leave your pension pot untouched
2. Use your pot to buy a guaranteed income for life – an annuity
3. Use your pot to provide a flexible retirement income – flexi-access drawdown
4. Take small cash sums from your pot

5. Take your whole pot as cash

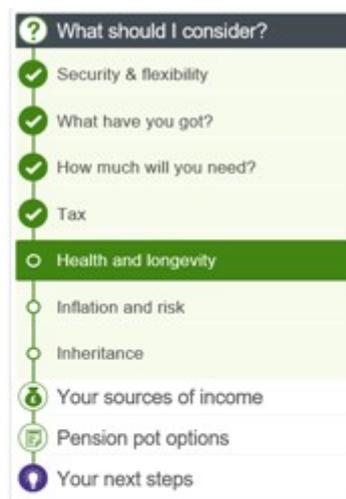
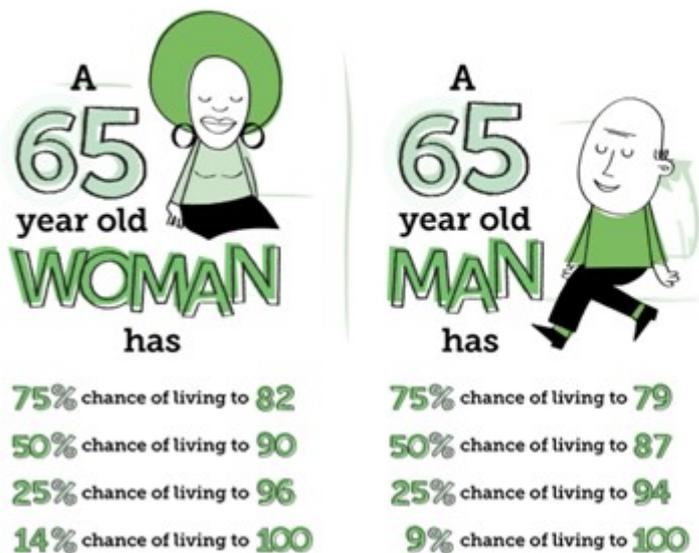
6. Mixing your options

This leads to further help and advice through a Retirement income options tool.⁴ First, a short video describes how people normally approach their retirement income. Then, users are invited to try-out the retirement income options tool: an online tutorial with a drop-down interactive menu describing all the steps needed to plan for retirement. This is a good example of layered information, which is provided with a combination of questions relevant to the member and visuals that help foster easy associations with difficult concepts, such as longevity, inflation and risk, etc. A few screenshots have been selected to show the way the tutorial tool unfolds.

Example of Health and longevity section - Retirement income tool

Health and longevity

People are living longer than they used to. A 65 year old man now has a 50% chance of living to 87 and a 65 year old woman has a 50% chance of living to 90.



³ See MAS webpage: <https://www.moneyadviceservice.org.uk/en/articles/options-for-using-your-pension-pot>

⁴ See MAS webpage: <https://www.moneyadviceservice.org.uk/en/retirement-income-options>

Example of Inflation and risk section - Retirement income tool

Inflation and risk

Prices tend to rise over time. If your retirement income does not keep up with rising prices (inflation) then you may struggle to make ends meet as you get older.

To maintain your standard of living, you need your income to keep up with inflation. You may do this by buying an insurance policy that gives you a guaranteed income for life (a lifetime annuity) that changes with inflation each year.



Your State Pension will keep up with inflation as it rises by at least this amount each year.

If you're relying on savings and investments to provide you with an inflation-proof income then the amount of interest or income they earn needs to keep up with inflation too.

If you don't use your pension pot to secure yourself a guaranteed income in retirement but instead leave your pot invested, you need to decide how much risk you're comfortable taking with your money. If your investments fall in value so will the value of your pension pot. On the other hand, your investments could increase in value and this means you would have a bigger pension pot.

- What should I consider?
- Security & flexibility
- What have you got?
- How much will you need?
- Tax
- Health and longevity
- Inflation and risk**
- Inheritance
- Your sources of income
- Pension pot options
- Your next steps

Example of Pension pot options (annuity) section - Retirement income tool

Buy a guaranteed income for life - an annuity

A lifetime annuity provides you with a regular retirement income for life – with the guarantee that the money won't run out before you die.

Lifetime annuities include:

- **basic lifetime annuities** - these offer a range of income options to suit different personal circumstances and attitudes to risk.
- **investment-linked annuities** - with these your income will vary depending on the performance of the funds your annuity invests in. This means your income could fall below the amount you need.
- **flexible annuities** - these offer flexibility over income payments, investment options and death benefits.



Ask your existing provider if your pension scheme offers a 'guaranteed annuity rate'. If it does, this may provide a highly competitive income which you may not want to lose.

Annuities can have various features you can choose from such as:

- payments which increase each year by a fixed amount or change in line with inflation
- providing your partner with an income if you die before them
- a guarantee period to ensure the income is paid for a minimum amount of time even if you die before this
- value protection is designed to pay your nominated beneficiary the value of the pot used to buy an annuity less income already paid out when you die.

Is this option right for you?



Security/flexibility

- You receive a secure income for life. Once you've agreed the terms of the annuity you cannot change your mind later.
- You can not change your annuity back into a pension pot.



Health and longevity

- The income is guaranteed for life, regardless of how long you live, so there is no risk of it running out.

- What should I consider?
- Your sources of income
- Pension pot options**
- Leave pension pot untouched
- Guaranteed income - annuity**
- Flexible income - drawdown
- Take small cash sums
- Take whole pot as cash
- Mix your options
- Your next steps

In Ireland the options at retirement are summarized in this guide to pension options published by the Pensions Authority:

- a pension, or
- a tax-free lump sum and a reduced pension.

If you work in the public sector, your scheme would normally provide a fixed level of pension and an additional tax-free lump sum.

Depending on the rules of any particular scheme, your pension may or may not increase in payment.

A *defined benefit scheme* member with *AVCs* may, if the rules of the scheme permit, use their *AVCs* to provide:

- all or part of the lump sum
- additional pension
- a payment to an *Approved Retirement Fund "ARF"* or an *Approved Minimum Retirement Fund "AMRF"* (see Section 6)
- a taxable lump sum (see Section 6).

Pensioenverzekeraar Nederland

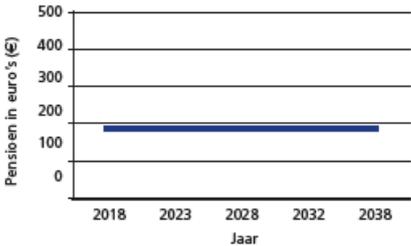
**U gaat binnenkort met pensioen:
kiest u een vast of een variabel pensioen?**

4. Hoeveel pensioen krijgt u?

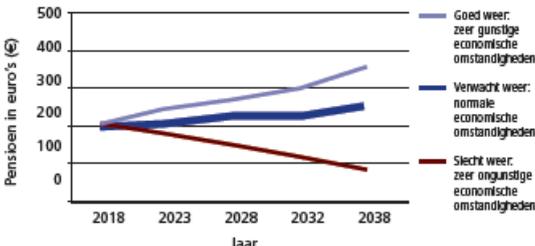
Vast pensioen
Als u voor een vast pensioen kiest, staat het bedrag vast. U krijgt € 190,- bruto per maand, totdat u overlijdt.



Variabel pensioen
Als u voor een variabel pensioen kiest, kan uw pensioen elk jaar anders zijn. In het eerste jaar krijgt u € 210,- bruto per maand. Bij het variabel pensioen hangt de hoogte van uw pensioen af van de economie. U ziet in de grafiek hoe uw pensioen zich kan ontwikkelen bij verschillende economische omstandigheden.



Uw maandelijks pensioen Bruto, €	2018	2023	2028	2032	2038
Uw maandelijks pensioen Bruto, €	190	190	190	190	190



Uw maandelijks pensioen Bruto, €	2018	2023	2028	2032	2038
Goed weer scenario	210	240	280	300	340
Verwacht weer scenario	210	215	220	220	230
Slecht weer scenario	210	180	140	110	90

Let op: bij deze bedragen is er geen rekening gehouden met de verwachting dat u over 20 Jaar van dezelfde euro minder kunt kopen dan nu. Lees hierover meer in blok 5 "Wat is de koopkracht van uw pensioen?".

In the Netherlands as of 1 September 2016 for DC plans variable annuities can be offered at retirement date. One of the ways to help members to choose between a fixed and a variable annuity is the information provided via the so-called “standard model”. This model has been developed and tested

by a group of people representing all stakeholders in the pensions sector. It is mandatory to use this model for IORPs. The graphs and the tables shown in this picture therefore have to be used with of course the specific numbers for the member involved.

4. INFORMATION IN THE PAY-OUT PHASE

Article 43 of the IORP II Directive requires IORPs to ensure that members receive information about the benefits due and the corresponding pay-out options (see annex I for the full article). This section focuses on the information in the pay-out phase: presenting what information in the pay-out phase is sent to pensioners (beneficiaries) in different Member States and what choices can be made. Some examples will be presented to illustrate how different IORPs deal with providing information to pensioners.

4.1 WHAT INFORMATION IS TO BE PROVIDED IN THE PAY-OUT PHASE?

According to the newly introduced requirements, IORPs shall provide pensioners periodically with information about the benefits due and the pay-out options and inform pensioners about a reduction of the level of benefits and when a significant level of investment risk is borne by the beneficiary. This section will also cover other important information that is provided for pensioners, which is not part of the mandatory requirements.

In a few Member States at present there is no legal requirement to provide this kind of information. This is the case when the pension is paid out as a lump sum (BE), the IORPs have not reached the decumulation phase (RO) or the IORP is not responsible for making the payments, for instance, if the pension pot is transferred into an annuity provided by an insurer (HR).

4.2 PERIODIC INFORMATION ABOUT BENEFITS AND PAY-OUT OPTIONS

Periodic information about benefits

Principle 1: Frequency

Pay-out information should preferably be provided to beneficiaries on annual basis after retirement.

In France, Ireland and in the Netherlands information is provided on an annual basis for pensioners about the benefits

via the Pension Benefit Statement (PBS). In Poland beneficiaries who decided to receive programmed withdrawals are treated by law as “regular” fund members and receive regular information on the amounts available to the member’s account, fund’s performance, etc. The difference to the PBS is that they do not receive “new” contributions from the employer.

Apart from this, pensioners in general get - in practice periodically - information when the pay-out changes. Information about the annual adjustments of pension benefits is for the beneficiary perhaps the most important and relevant information. In order to understand what information is sent to pensioners in case of a change in the level of benefits - apart from the reduction of benefits described in the next section (4.3) - we need to understand the reasons why the level of benefits could change. This report distinguishes the following situations:

1. Annual tax adjustments
2. Indexation of benefits
3. Changes by investment risk borne

Hereunder these situations are elaborated and state what kind of information is sent in the different situations.

Annual tax adjustments

In some Member States when tax rates change, the gross retirement benefit is not changing but the net pay-out is. This is of high importance to the pensioner as it influences his purchasing power directly. As a rule of thumb the pensioner receives in this situation a gross-net overview of his new payments. These can be provided digital (via a personal website) or on paper to the postal address.

Indexation of benefits

Defined Benefit arrangements in most cases have at least an ambition to increase pension benefits as prices rise. This increase is called the “indexation of benefits”. IORPs inform their members about this possible increase in the same way as annual tax adjustments are communicated. Apart from this, IORPs tend to show a general message about the indexation of benefits at their website (see example hereunder) and/ or in a general letter to the postal address.

Example: general information about indexation of benefits

The screenshot shows the Unilever UK Pension Fund website. At the top, there is the Unilever logo and navigation links for HOME, LATEST NEWS, and CONTACT US. Below this is a blue banner that reads "YOU'RE A PENSIONER MEMBER" with a "BACK TO THE HOMEPAGE" link. The main content area is titled "Pension increases" and includes a "Pensioner member" sidebar with links to various sections. The main text explains that pension increases occur on 1 April each year and lists three categories of increases based on when the pension was built up. There are also sections for "JARGON BUSTER" and "FEEDBACK".

This example shows general information from the Unilever UK IORP about the pension increases that are given in July 2012.

Changes by investment risk borne

No current examples in Members States were encountered where information is provided to pensioners due to a change of investment risk borne.

Information about pay-out options

In Poland if the member chooses the programmed withdrawals option, the member could change his mind and take the rest of the accumulated amount as a lump sum.

4.3 REDUCTION OF THE LEVEL OF BENEFITS FOR DB-SCHEMES

Principle 2 – Personalised information

Information that refers to the reduction of benefits should be provided in a way that shows the effect of the benefit reduction for the individual member.

In some EU-countries a reduction of defined benefits is possible. Hereunder we describe in short the possibility of reductions in some selected countries.

Belgium

In Belgium a reduction of benefits is only possible if the employer has gone bankrupt. For the reduction of benefits, there are no specific legal information requirements available for the pay-out phase.

Ireland

In Ireland trustees can apply to have DB benefits cut under Section 50 of the Pensions Act. The Section 50 guidance states that trustees must notify all scheme members or beneficiaries and trade union or representative group in writing of the following:

- a) the circumstances giving rise to the proposed application,
- b) the reasons why the trustees believe an application is in compliance with their fiduciary duties,
- c) the proposed benefit reductions,
- d) that the trustees have requested additional contributions from the employer(s) and the employer(s) response,
- e) where the application is made under Section 50(1) of the Pensions Act, 1990 (the "Act"), general examples of the projected impact of the reductions using actuarial assumptions,
- f) where the application is made under Section 50(1A) of the Act, general examples of the projected impact of the reduction on future increases, and
- g) where the application is made under Section 50 (1B), general examples of the projected impact of the reductions on members/beneficiaries in receipt of benefits.

The Netherlands

In the Netherlands – depending on the pension agreement – it is possible to use benefit cuts as a measure of last resort to improve the financial situation of the IORP. The information provision around these benefit reductions is merely the same as described at the “Indexation of benefits” paragraph. A significant difference is that the information provision of this reduction is compulsory. The reduction has to take place at the earliest one month after the IORP has informed the pensioner.

Example: benefit cuts in the Netherlands in 2012 and 2013

In the Netherlands in 2012 and 2013 some IORPs had to reduce the benefits of their members. The Dutch supervisor Autoriteit Financiële Markten (AFM) conducted a survey in 2013 to find out whether the information, that was sent to the members – among which pensioners - was clear and balanced.

One of the findings was the importance of providing personal information meaning to show the effect of the benefit reduction for the individual member. Another finding was the connection of this information about benefit reductions with other information provided such as the PBS and the benefits shown on the Dutch pension tracking service www.mijnpensioenoverzicht.nl. When the personal impact of the benefit reduction was shown to the member, this information had to be in line with the information on the PBS if sent afterwards and the information shown on <https://bit.ly/2lcTaGR>.

The overall results of this survey (in Dutch) can be found via this link: <https://bit.ly/2SEwjcz>.

Which channels are used?

Principle 3: Communication channels

Pay-out information should be provided to beneficiaries in the most reliable medium – paper, digital or a combination of both - to ensure s/he receives the information. In addition to the regular information, it seems a good practice to provide general information on the IORPs' website to reach out to beneficiaries that prefer this communication channel.

Information about the reduction of benefits can be provided on paper as well as digitally. It is important to mention that IORPs want to make sure that the beneficiary has received the information they have sent: sending information on paper by mail gives a certainty that the information is well received by the beneficiary.

Sending information by e-mail is more difficult: E-mail addresses are not always known and can change without the IORP knowing this whereas for example in the Netherlands a change of the postal address is always sent to the IORP.

Increasingly, more information is also provided via the IORP's website, both on the public and on the personal website (after login). The IORP's website and especially the personal area is becoming more and more the common channel of communication between a member and an IORP. It can also be a first contact point for e.g. beneficiaries living abroad, travelling for a long time, etc.

4.4 OTHER INFORMATION PROVIDED FOR PENSIONERS

Websites

As stated above website are becoming more and more popular to communicate between IORP and members. Websites of IORPs contain all kind of information for different target groups. For pensioners you can find the following general information:

- To let pensioners know what to do when (life) events occur
- Payment dates
- Newsletters
- Information about the social security system
- Available general documents of the pension provider
- Links to other websites
- Etc.

To give a glance of the available information we show hereunder some examples of public websites.

Examples of other information available to pensioners,
National Grid Pension Scheme, UK

[Log into My Online Pension](#)

National Grid UK Pension Scheme Pensioner or dependants ▾

Home Your pension Life events Benefits payable on death Report a death Retirement Employee Associations

News Scheme information Documents Obituaries Contact us

Reporting a death

>

Change of bank account

>

Change of address

>

Unilever Pension Fund, UK

UNILEVER UK PENSION FUND
HOME | LATEST NEWS | CONTACT US

YOU'RE A PENSIONER MEMBER [BACK TO THE HOMEPAGE](#)

Pensioner member

YOUR PENSION

- > AT A GLANCE
- > PAYMENT OF YOUR PENSION
- > PENSION INCREASES
- > PROTECTION FOR YOUR FAMILY
- > DOWNLOADABLE DOCUMENTS
- > USEFUL LINKS
- > TRUSTEE PROFILES
- > CONTACTS

Your pension

As a pensioner member who joined the Fund after 1 January 2008, you would have a Career average plan pension.

This section gives you general information on your Career average plan pension. It is currently being updated and more content will be added over the following weeks.

JARGON BUSTER

Don't know your 'Annual Allowance' from your 'Final pensionable salary'?

[Find out more in the Dictionary of jargon terms](#)

FEEDBACK

This site is for you, so tell us how we can improve it and let us know what you think.

[Leave feedback](#)

Staples Pensioenfond, NL

STAPLES Pensioenfond ENGLISH / NEDERLANDS

HOME CONTACT FUND DOWNLOADS

Pension at Staples Pensioners information News About the pension fund Pension Q&A

- [Payment dates](#)
- [Dutch State Pension](#)
- [Pensioners Association](#)

PENSIOEN 1 2 3

Your pensionplan in 5 minutes.

Pensioners information

You accrued pension with Staples Pension Fund and you already receive a pension. On this page you'll find:

- [Payment dates in 2019](#)
- [Information about AOW \(Dutch State Pension\)](#)
- [Adjustment letters](#)
- [Pensioners Association](#)

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- [Annual statement \("Jaaropgave"\) in January](#)
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'Proof of life'

In several countries when pensioners live abroad the IORP is not informed automatically when pensioners decease. Therefore on an annual basis the IORPs send out a so-called 'attestatie de vita' (proof of life) to their beneficiaries living abroad in order to find out whether the benefit pay-out is still applicable.

In order to provide continuity of service and to avoid financial abuse in cases of dementia and other situations of incapacity that may arise for beneficiaries, it would be advisable to ask the member or beneficiary to nominate a second person to receive communications. All requests in view of proving a beneficiary is still alive should be accessible for persons with disabilities or must not solely rely on the access to electronic communications.

CONCLUSION

This report analyses the national practices existing prior to the implementation of the Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORP II).

NCAAs have identified the areas where guidance and principles drawn from existing practices would be beneficial for a number of Member States in order to implement the IORP II requirements and promote consistent practices. In this report the information requirements from articles 41, 42, 43 are looked at, i.e. information to be given to prospective members, information to be given to members during the pre-retirement phase and the information to be given to beneficiaries during the pay-out phase.

Design of information documents for prospective members, pre-retirement and pay-out phases

Article 36 of the IORP II Directive provides relevant principles on how the information should be provided for all pension information documents. The general principles identified for the Pension Benefit Statement (PBS) are also valid for the remaining information documents.

These are related to the need to have a behavioural purpose in the design of the documents that addresses the member key questions; the involvement of communication experts and the need to consider the characteristics of the pension scheme (DB vs. DC) in the design of such documents and the integration of communication tools that are already in place within the Member State.

In addition, two general principles have been identified in this Report.

- **Principle 1 on layering:** Information should be simple, easy to read for the member and put in appropriate layers. Layered information is better to digest by members because it limits the information to the needs of the member.
- **Principle 2 on digital guidance:** IORPs are encouraged to use not only paper but also digital forms to support members towards retirement decisions. Digital guidance via website can be provided through online tutorials, short videos, use of visuals and images, use of online calculators, etc. .

Information to be given to prospective members

Article 41 of the IORP II Directive requires IORPs to ensure that prospective members receive certain information. One of the new requirements is that members who bear investment risk or can take investment decisions should receive information on past performance. In this report 8 principles on communicating past performance have been identified:

- **Principle 1:** In order not to be misleading, information on past performance should be clear, correct and balanced about the pension scheme
- **Principle 2:** Information on past performance should go together with a clear warning that the shown past performance does not imply an indication for future returns.
- **Principle 3:** Past performance should be shown as an appropriate combination of annual returns and cumulative returns.
- **Principle 4:** Information on past performance should be provided for an appropriate time period, which is long enough to contain both “good” and “bad” years.
- **Principle 5:** In case of a lifecycle investment policy, information on past performance should be shown in different age cohorts
- **Principle 6:** Information on past performance shall assist prospective members in determining the suitability of an investment option to their own risk and return profile.

- **Principle 7:** Past performance information should be comparable within a Member State
- **Principle 8:** Past performance should be presented net of all costs, or at least should disclose the costs that are included in the performance.

Information to be given to members during the pre-retirement phase

Article 42 of the IORP II Directive requires IORPs to ensure that members receive information on the pay-out options available in taking their retirement benefits. Pre-retirement information is information given to the participant in due time before the retirement age or at the request of the member. In this report 1 principle and 5 steps on communicating pre-retirement information have been identified:

- **Principle 1:** Pre-retirement information should be provided to members during the steps towards retirement: starting five years before the retirement until the retirement date.
- Step 1: Circa five years before retirement, IORPs could provide awareness campaigns or give information to help members prepare for retirement and explain procedural steps.
- Step 2: Between a year and few months before retirement, a first announcement could be sent to IORPs members, providing general information on the retirement process, retirement options and timeline.
- Step 3: A few months before the retirement date, the IORP should provide personalized information on the pay-out options, including types of providers and forms to be filled out. Members of DC schemes could be informed on where to find additional information and personal advice.
- Step 4: Until 4 weeks before the retirement date, the member should make a choice of the desired pay-out option.
- Step 5: By the retirement date the member should be informed of the retirement benefits calculation and payments should follow thereafter.

Information to be given to beneficiaries during the pay-out phase

Article 43 of the IORP II Directive requires IORPs to ensure that members receive information about the benefits due and the corresponding pay-out options. According to this article, IORPs shall provide pensioners periodically with information about the benefits due and the pay-out options and inform pensioners about a reduction of the level of benefits and when a significant level of investment risk is borne by the beneficiary. In this report three principles on communicating pay-out information have been identified:

- **Principle 1:** Pay-out information should preferably be provided to beneficiaries on annual basis after retirement.
- **Principle 2:** Information that refers to the reduction of benefits should be provided in a way that shows the effect of the benefit reduction for the individual member.
- **Principle 3:** Pay-out information should be provided to beneficiaries in the most reliable medium – paper, digital or a combination of both - to ensure s/he receives the information. In addition to the regular information, it seems a good practice to provide general information on the IORPs' website to reach out to beneficiaries that prefer this communication channel.

ANNEX 1 - IORP II REQUIREMENTS

(ARTICLES 41, 42 AND 43)

CHAPTER 3

Other information and documents to be provided

Article 41

Information to be given to prospective members

1. Member States shall require IORPs to ensure that prospective members who are not automatically enrolled in a pension scheme are informed, before they join that pension scheme, about:

- (a) any relevant options available to them including investment options;
- (b) the relevant features of the pension scheme including the kind of benefits;
- (c) information on whether and how environmental, climate, social and corporate governance factors are considered in the investment approach; and
- (d) where further information is available.

2. Where members bear investment risk or can take investment decisions, prospective members shall be provided with information on the past performance of investments related to the pension scheme for a minimum of five years, or for all the years that the scheme has been operating where this is less than five years and information on the structure of costs borne by members and beneficiaries.

3. Member States shall require IORPs to ensure that prospective members who are automatically enrolled in a pension scheme are promptly after their enrolment, informed about:

- (a) any relevant options available to them including investment options;
- (b) the relevant features of the pension scheme including the kind of benefits;
- (c) information on whether and how environmental, climate, social and corporate governance factors are considered in the investment approach; and
- (d) where further information is available.

Article 42

Information to be given to members during the pre-retirement phase

In addition to the Pension Benefit Statement, IORPs shall provide each member, in due time before the retirement age as specified in point (a) of Article 39(1), or at the request of the member, with information about the benefit pay-out options available in taking their retirement benefits.

Article 43

Information to be given to beneficiaries during the pay-out phase

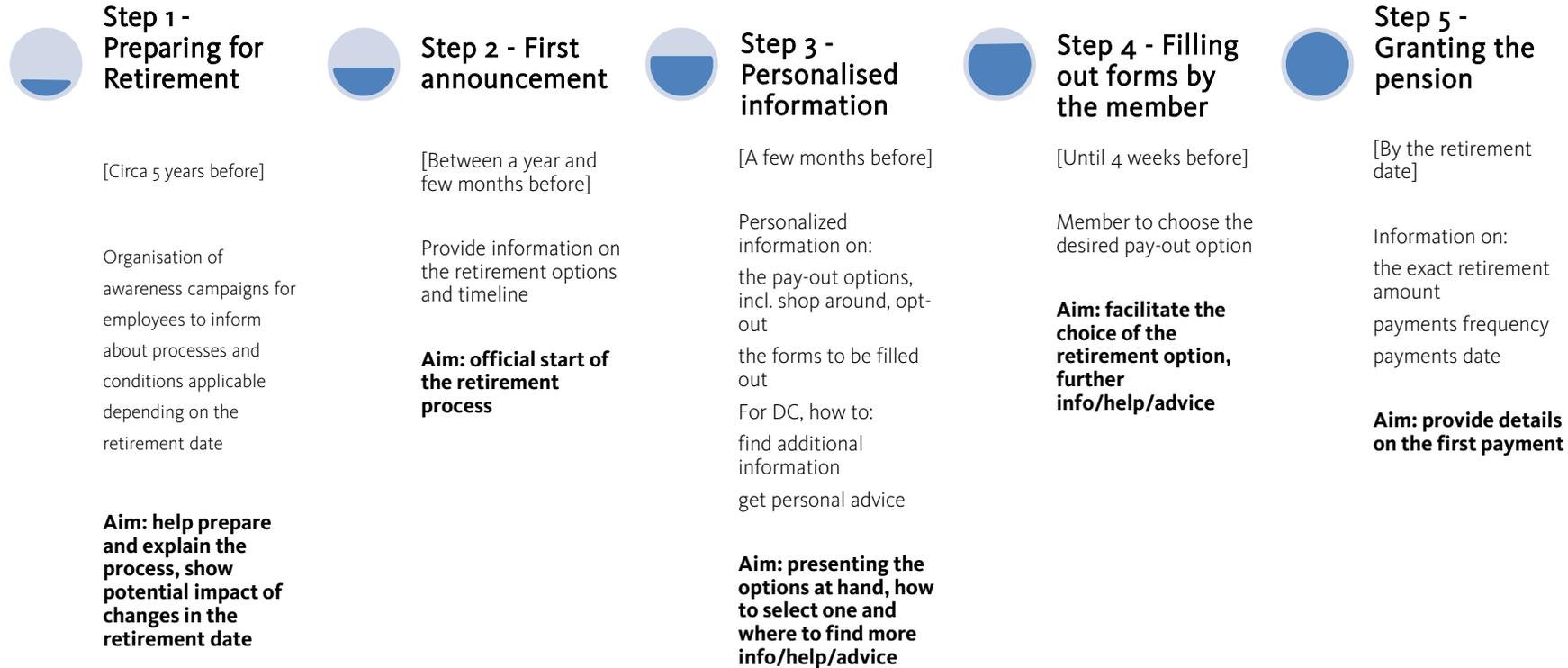
1. Member States shall require IORPs to periodically provide beneficiaries with information about the benefits due and the corresponding pay-out options.

2. IORPs shall inform beneficiaries without delay after a final decision has been taken resulting in any reduction in the level of benefits due, and three months before that decision is implemented.

3. When a significant level of investment risk is borne by beneficiaries in the pay-out phase, Member States shall ensure that beneficiaries receive appropriate information regularly.”

ANNEX 2: 5 STEPS TOWARDS RETIREMENT – GOOD PRACTICE PROCESS

The retirement process is for illustrative purposes only and is not intended to set out comprehensively all the steps which may be involved.



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