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# Men’s and women’s fixed-term occupational pensions

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# Summary


## Men’s and women’s fixed-term occupational pensions

The Swedish Social Insurance Inspectorate (Inspektionen för social-försäkringen, ISF) is an independent supervisory agency for the Swedish social insurance system. The objectives of the agency are to strengthen compliance with legislation and other statutes, and to improve the efficiency of the social insurance system through system supervision and efficiency analysis and evaluation.

The ISF’s work is mainly conducted on a project basis and is commissioned by the Government or initiated autonomously by the agency. This report has been commissioned by the Government.

*Background*

In Sweden, around 90 percent of all employees are covered by collectively bargained occupational pensions that top up their public pensions. There are four main occupational pension schemes covering central government employees, local government employees, white-collar workers in the private sector and blue-collar workers in the private sector, respectively.

All collectively bargained occupational pensions can be withdrawn, in part or in full, as temporary pensions with fixed-term payments over five to 20 years or as lifetime annuities. The public pension can only be withdrawn as a lifetime annuity.

Whether the occupational pension is withdrawn during a fixed period or as a lifetime annuity is crucial for the total amount that is paid out during an individual’s lifetime. For an individual that will have a long life, an annuity will give a much larger total pension amount compared to a fixed-term payment. For someone who dies relatively young, a fixed-term payment might instead give a much higher total payment than an annuity. The tax system might also be of importance, as fixed-term payments might lead to higher taxes being paid as gross income increases. However, when a fixed-term payment ceases, there might be government safety nets in terms of means-tested benefits (for example, housing allowance or social assistance for the elderly) that reduce an individual’s income loss, but increase public expenses.

*Objectives*

This report examines the characteristics of women and men who choose to withdraw their occupational pension as fixed-term payments instead of annuities.

*Methods*

In this report, descriptive statistics concerning pension choices combined with pensioners' characteristics are presented. This analysis is complemented by linear probability models (OLS).

To perform the analysis, longitudinal individual-level data from Statistics Sweden are merged with individual-level data from four large occupational pension insurance providers: Alecta, AMF, KPA and Kåpan. These companies are the default choice providers of the four largest collectively bargained occupational pensions and cover all labour market sectors. SEB has also provided data. SEB's customers are from all sectors. The data from Statistics Sweden include a large set of variables on income, education and other household characteristics. The data from the occupational insurance companies include the date and length of fixed-term occupational pension payments.

*Findings*

1. The number of occupational pensions per person has increased

Most retirees have more than one occupational pension with a fixed-term payment option. This number has increased over time from 1,6 to 2,6 occupational pensions per retiree between 2008 and 2014. Men have on average 0,2 more occupational pensions to make a payment choice for than women.

The results show that half of all occupational pensions with fixed-term payout options are paid out as fixed-term pensions. The most common alternative is to choose a five year payment. Women chose fixed-term payments to a slightly higher extent than men did. Almost all pensioners who chose to withdraw their pensions during a short period of time also had a lifelong occupational pension.

2. The default option is important for both the age of withdrawal and for the choice of a fixed-term payment versus an annuity

In all collectively bargained occupational pensions with a fixed-term payment option, 65 is the retirement age. There is, however, a possibility to withdraw the occupational pension earlier or later than 65. The results show that 79 percent of the occupational pensions in the data are withdrawn at age 65; 16 percent are withdrawn before age 65, and only 5 percent are withdrawn after age 65.

The default option for fixed-term payments is a period of five years in around one-fifth of the occupational pensions in the data. The rest of the occupational pensions have a lifelong annuity as the default payment period. About two thirds of both women and men followed the default option payment period. It was more common to follow the default payment period if the default option was a five year payment period than if it was a lifelong annuity.

3. Age, retirement assets, health and education also affect the choice of a fixed-term payment

The most important factor for the choice to annuitize or not is the default option payment period. The second most important factor is the person's age at the time of their first pension withdrawal. Men and women who began withdrawing their occupational pensions before the age of 65 had a higher probability to choose a five year payment period than those who started withdrawing their pensions at age 65. The younger a person was, the higher was their probability to choose a five year, fixed-term payment.

Persons who had accumulated lower amounts of retirement assets in their occupational pensions had a higher probability of choosing a fixed five year payment than persons with larger retirement assets. Also, persons with lower education had a higher probability of choosing five year payouts than persons with higher education. One result that is not in line with earlier research is that persons with low disposable income chose five year payments to a lower extent than others.

Those who had health issues (measured as payments from sickness or disability insurance) had a larger probability of choosing a five year payment than others, while the health of a spouse does not affect this choice. If the age gap between spouses was less than two years, then both spouses had a higher probability of choosing a five year payment period than spouses with a larger age gap. This last result is interpreted as if couples want to insure that the surviving partner has an occupational pension income to live off after the death of their (older) spouse.

*Concluding remarks*

In line with earlier research, this report shows that the default options in pension systems are very important for the pension payment choices made by retirees. This implies that the social partners, with the responsibility of negotiating the collectively bargained occupational pensions, and the pension insurance companies, can affect how and when retirees choose to withdraw their pensions by quite simple means, i.e. by changing the default option for payment periods (fixed-term versus annuities). This, in turn, affects income taxes and means-tested benefits. Hence, the choice of the default option payment period of occupational pensions should be carefully thought through by the social partners and pension insurance companies.