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Forms of pension benefit payments

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SUMMARY

The functioning of the pension system is carried out through three phases. The first phase refers to the payment of contributions or premiums of participants, the second phase involves the accumulation of assets, a the third payout of pension benefits. In most countries of the world, pension benefits can be accomplished in three ways: through pension insurance under the social insurance, within the pension insurance financed by employers and throw individual pension insurance. The main forms of pension benefit payments are: single payment, i.e. lump-sum, programmed withdrawal, which includes fixed or variable periodic payments, that are generally calculated by dividing the accumulated assets with a predefined fixed or expected number of years of life of the retiree and annuity payments via traditional life annuities, which implies current payments until the insurance beneficiary death.

Lump sum payments offer a relatively high level of flexibility and liquidity to beneficiaries, but also run the risk that the entire accumulation of pension assets will be fully depleted while the user is still alive. In the case of annuity payment of a pension benefit, on the other hand, longevity risk is transferred to the pension plan organizer. However, the beneficiaries of the pension insurance may lose a potential opportunity for a more profitable investment and financing of unforeseen needs after retirement.

In addition to liquidity, investment and inflation risks, entities that provide pension benefit payments in the form of an annuity face underwriting risks, in the form of undervaluation of premiums (contributions) based on incorrect assumptions regarding future mortality rates, investment returns and operating costs. Longevity risk management gains importance in the process of demographic transition, which describes the switch from the zone of high birth rates and high death rates to the zone of low birth rates and low death rates of the population.

Some countries allow only one form of pension benefit payment, while other countries allow several forms or combination of forms of payments. Pension benefits in the public pension insurance in Serbia are paid monthly. In a system of voluntary pension insurance, there are possibilities of single payments, programmed withdrawal, purchase of annuities, as well as their combination. Despite the dominance of the lump-sum benefits, a change in the structure of pension payments in the future is certain, primarily due to legal restrictions on the maximum lump-sum payments. With its regulation and policies, the state has an important role in stimulating the purchase of annuities as a form of benefit payment in the voluntary pension insurance, through tax incentives, financial education and the issue of debt instruments with a sufficiently long maturity.

Key words: pension insurance, pension benefit, lump-sum payment, programmed withdrawal, life annuities, longevity risk

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