MFSA

MALTA FINANCIAL SERVICES AUTHORITY

Programmed Withdrawal Arrangements

Feedback Statement

May, 2011

1.0 Background

Further to the note for consultation issued on the 8th November, 2010, the MFSA is issuing a feedback statement in relation to the proposed conditions on Programmed Withdrawal Arrangements for Retirement Schemes ("*the Draft*"). The consultation process provided the industry with an opportunity to comment on this proposed Draft.

The MFSA received comments from the industry. An outline of the main comments received and the MFSA's position in relation thereto, is provided in Section 2.0.

2.0 Main Comments received and MFSA's position

2.1 Lump sum payment

Comments received:

Clarification was requested as to the limit allowed on the amount paid in the form of a cash lump sum on retirement of a retirement scheme member of 25% rather than 30%. The MFSA was also requested to clarify the term "quasi annuity". It was proposed that the method of payment for retirement scheme assets which are not paid as a cash lump sum should not be restricted to an annuity.

MFSA Remarks:

The MFSA considered the amount commuted as a lump sum payment on retirement of a scheme member, and has adjusted this percentage to 30%. For the sake of clarity, the terms: "annuity" and "quasi annuity" have been removed from the Rule.

2.2 Pension payable

<u>*Comments received*</u>*:*

The MFSA was requested to provide further information on how the average annuity rates are to be computed, and the type of annuity which ought to be used in the computation of the retirement income.

Three comments suggested the use of annuity rates provided by the Government Actuary's Department in the United Kingdom instead of those available within the EU market. Clarification was requested on which are the proposed annuity rates available in the EU market.

<u>*MFSA Remarks*</u>:

After due consideration of the comments outlined above, the MFSA decided not to establish a benchmark for the computation of the retirement income, but this will be left at the discretion of the retirement scheme administrator. This notwithstanding, in order to ensure that the retiree receives a stream of income after retirement, the Retirement Scheme or Retirement Fund shall, at the request of the MFSA, demonstrate that any remaining assets of a member which are not paid in the form of a cash lump sum, generate sufficient income to the retiree. The current benchmark shall remain applicable only to retirees domiciled in Malta, as outlined in paragraph 2.4.

2.3 Further drawdowns

<u>*Comments received*</u>*:*

The MFSA was requested to explain whether the €50,000 referred to in this paragraph relates to either the value of assets held to back the annuity at the end of the year; or the income generated from the assets backing the annuity. It was argued that allowing further cash lump sum withdrawals other than that on a member's retirement, could lead to non-compliance with other legislation which a Retirement Scheme may be subject to. Moreover, it was also unclear how the "excess capital" referred to in the Draft was to be determined. Additional comments requested the clarification of the terms "enhanced pension" and "provider surplus" referred to in the proposed Draft.

<u>*MFSA Remarks*</u>:

The MFSA clarifies that the amount which may be withdrawn as a lump sum shall be the excess value of a member's assets over and above that which is sufficient to provide a retirement benefit throughout a member's future lifetime.

Due to the comments received and possible lack of clarity in the terms used, the method of payment of the excess value of a member's assets has not been outlined in the rules.

An additional clause has been inserted to cater for any limitations on withdrawal of retirement assets with any other pensions or taxation legislation to which the retiree may be subject to.

2.4 Annual review of the Base Amount

<u>Comments received</u>:

It was requested that the MFSA specifies the index published by Eurostat and provides guidance on the calculation basis.

<u>MFSA Remarks</u>:

For ease of reference, the excess value which may be withdrawn as a lump sum mentioned in paragraph 2.3 shall be adjusted annually on the basis of changes in the index of inflation as published by the National Statistics Office in the Government Gazette of Malta. It should be noted that this adjustment shall only apply to retirees domiciled in Malta.

2.5 Retirees domiciled in Malta

Following consultation with the industry, the MFSA has also included an additional paragraph in the rules, where in the case of a retiree domiciled in Malta, the excess value mentioned in paragraph 2.3 above shall only be allowed where the retirement benefit from an annuity exceeds €50,000. This value shall be adjusted annually in line with the price index specified in paragraph 2.4 above.

Communications Unit
11th May, 2011