Retirement Benefits Authority

Safeguarding your retirement benefits

IMPLEMENTATION OF REGULATION 25(6) OF THE RETIREMENT BENEFITS (OCCUPATIONAL RETIREMENT BENEFITS SCHEMES) REGULATIONS, 2000 ON INCOME DRAWDOWN OPTION FOR MEMBERS OF DEFINED CONTRIBUTION RETIREMENT BENEFITS SCHEMES

1. INTRODUCTION

1.1 Regulation 25(6) of The Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations, 2000 was amended under Legal Notice Number 77 of 2008 to provide that scheme rules may provide for the payment of retirement benefits by way of an income drawdown as an alternative to the purchase of an annuity at retirement.

1.2 This Prudential Guideline repeals Practice Note RBA No 1 released by the Authority in 2010 *in toto* and will become the singular reference point as regards income drawdown, subject to any future changes that may vary it.

1.3 This Prudential Guideline is mandatory for all defined contribution retirement benefits schemes which, in compliance with Regulation 25(6) of the Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations, 2000, have made provision for income drawdown in their scheme rules. Any income drawdown provided for on any other basis will be in breach of the said provision and the Retirement Benefits Authority will not approve scheme rules making provision for income drawdown which is not in compliance with the law.

2. DEFINITION OF AN INCOME DRAWDOWN ARRANGEMENT

An income drawdown is an arrangement in which a member opts to access his/her retirement benefits as a regular income through an investment fund from which retirement benefits payments are drawn. The key features are as below:-

a) The income is not guaranteed but is entirely dependent on the performance of the underlying investments backing the member's accrued benefits, the amount of the periodic withdrawal and the member's lifespan.
b) An individual member has flexibility as regards investment choice, frequency, timing and amount of income withdrawals.
c) In selecting an income drawdown arrangement, members assume the investment and longevity risk.

3. INCOME DRAWDOWN RULES

3.1 The following rules will apply for income drawdown arrangements:

a) The rules of the defined contribution retirement benefits scheme may provide for income drawdown as an option for receiving retirement benefits;

b) The income drawdown may be paid out of a special fund of the retirement benefits scheme where the retiree has been a member or from a scheme registered by the Authority for purposes of receiving accrued benefits and paying income drawdown to members;

c) Benefits may be transferred from any retirement benefits scheme into a drawdown arrangement of a member's choice;

d) The minimum drawdown period allowable is ten years from the date of commencement of the drawdown;

e) The member may withdraw an income from his/her drawdown fund subject to a **maximum of 15%** p.a. ("withdrawal percentage") of the member's outstanding account balance;

f) The individual member may select a specific regular amount or percentage of the investment fund value, subject to a maximum of the withdrawal percentage, to afford the selected regular payments for the minimum period prescribed in the law;

g) The structure of each individual income drawdown will entail setting out the frequency of the drawdown which can be monthly, quarterly or bi-annually;

h) No later than **ten (10)** years from the date of commencement of the drawdown, the following options will be made available to the member:

i. The income drawdown arrangement can be continued,
ii. The fund balance can be used to purchase an annuity from an insurance company, or
iii. The fund balance can be converted into a cash lump sum for the member to withdraw.

i) On the death of the individual member, the fund can be used to provide an income to the nominated beneficiaries either by a continuation of the income drawdown arrangement to the beneficiaries or the purchase of an annuity or if income is not taken in this way, the balance may be paid to the nominated beneficiaries.

3.2 It is recognized that schemes opting to establish an income drawdown arrangement shall require advice from an Actuary, a Chartered Financial Analyst, a Fund Manager or an Investment Advisor approved by the Capital Markets Authority in terms of structuring and tailoring their drawdown arrangements.

3.3 No scheme may establish a drawdown arrangement without first seeking the prior written approval of the Authority.

Provided that such approval may only be granted upon the satisfaction of the following objective criteria and is subject to periodic review by the Authority in line with risk-based supervision:

1. The scheme shall have the ability to segregate the funds of the income drawdown arrangement,

2. The scheme shall have the technical and administrative capacity to manage the portfolio and provide basic advisory services on the income drawdown arrangement,
3. The scheme shall have the infrastructural capacity to operate the arrangement.

3.4 Prior to commencement of the drawdown, the member is required to sign a member consent form acknowledging that he/she understands the product design and the associated risks.

Issued this **17th** day of **August, 2012**
<u>CHIEF EXECUTIVE OFFICER</u>