Innovation in decumulation is essential to EU labour market – CBBA

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The changing labour market is dependent on cross-border funds and new decumulation design, such as inflation indexed annuities to protect members, panellists said at the CBBA-Europe annual conference.

During a debate on cross-border benefit solutions at the Brussels conference, industry leaders discussed the future of funds under the new labour trends and how to design accommodating solutions.

Rules for accruing pensions should be changed for 'dependent' workers, European Commission pensions team leader at the Directorate General - Employment Social Affairs and Inclusion, Valdis Zagorskis, told the attendees of the conference.

Only 60 per cent of people in the labour market today are in full-time employment, which the social system today is organised around, while labour market trends are moving towards an increase in fixed-term contracts.

"It is a valid point whether supplementary pensions, occupational and personal pensions could have a bigger role to play in retirement income for people in non-standard and self-employment," Zagorskis said.

Amundi head of investor research centre Marie Brière said there is no one-size-fits-all decumulation plan and that the design should fit different lifestyles and be customisable.

She said participants should be allowed to continue to be invested in risky assets but at the same time decumulate through liquid and flexible investment solutions that combine investment products with deferred annuities or a gradual annuitisation strategy in later life.

"We probably need flexible investment products in the early retirement phase, and annuities for the late life phase, deferred annuities, that's very important, but also we need more of variable annuities."

Fixed annuities, Brière said, do not provide inflation protection, and can be very expensive in the current economic environment. "What we need is inflation-indexed annuities which provides protection, and also variable annuities."

Brière also said systematic and idiosyncratic longevity risks could be disentangled and born by different players, not the member alone. "Life insurers could pool the idiosyncratic risk, but we could imagine to have individuals carry the systematic component of the longevity risk."

In practice this would mean that member's benefits would be adjusted with the life expectancy of the age group, but if one member outlives the rest of its group, the risk would be hedged by the insurance company, she explained.

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