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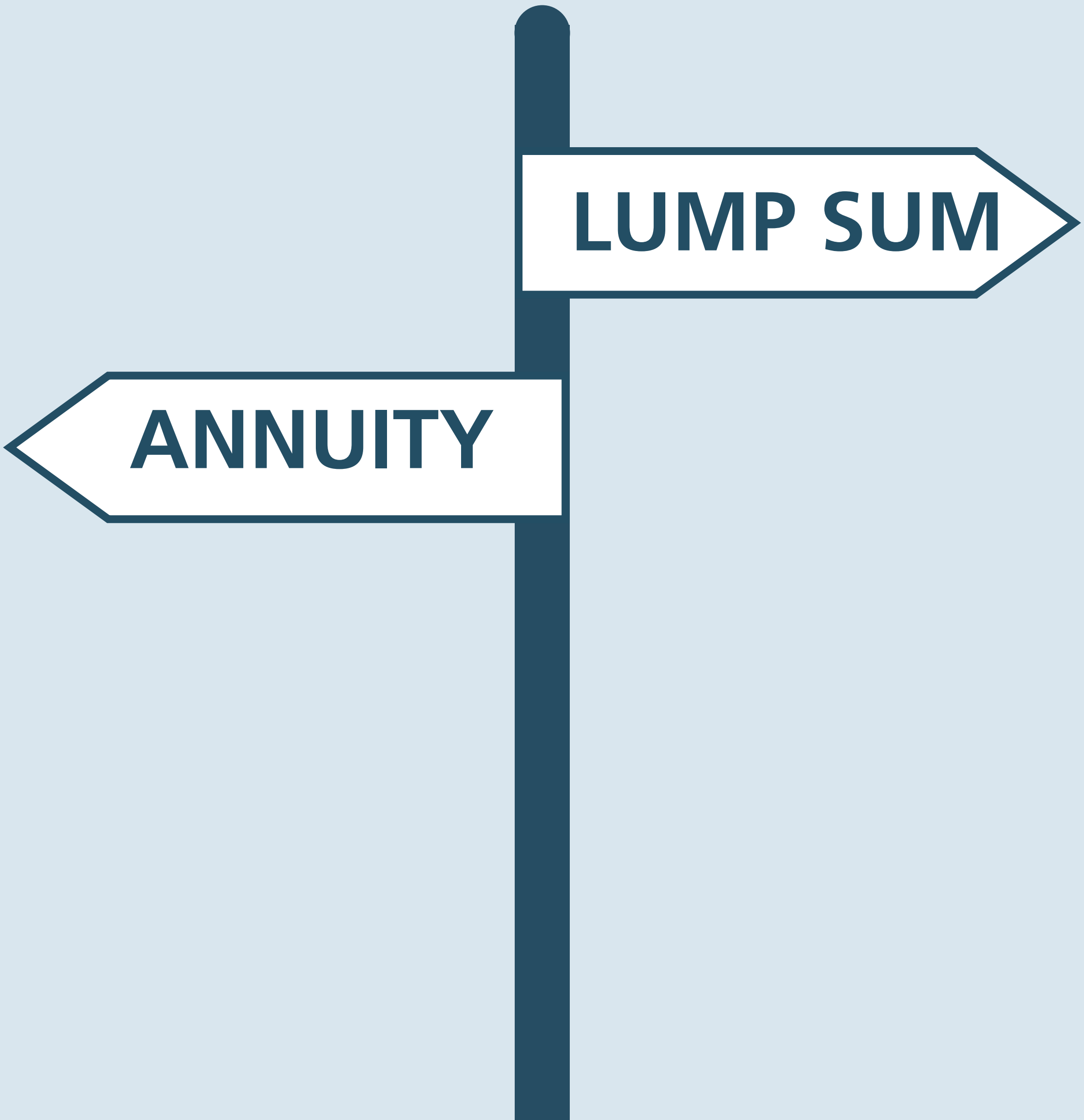
THE PENSION PROVIDER

Annuity or lump sum?

A study on the trends, determinants and backgrounds of retirement decisions at PUBLICA



Management summary

A particular feature of occupational pensions in Switzerland is the option to draw pension savings as a lump sum rather than an annuity on retirement. This is proving increasingly popular: lump-sum withdrawals on retirement in Switzerland have grown by 120% over the last 10 years (SFSO, 2023). PUBLICA has also been impacted by this development, with the volume of lump-sum withdrawals rising by 300% over the same period.

This study aims to analyse the trend in lump-sum withdrawals over the last decade, evaluate the determinants driving the payout decision, and investigate the background to it in greater detail. To this end, it evaluates administrative data on all retirements at PUBLICA in the years 2013–2023 (13,000 people) as well as the results of a survey of 1,400 of those individuals, and presents its conclusions.

At PUBLICA, the proportion of retirees taking exclusively a lifetime annuity declined from 67% to 43% between 2013 and 2023, while the proportion taking a lump sum rose from 33% to 57%. There was especially strong growth in the proportion of those taking their entire retirement assets as a lump sum, which jumped from 6% to 20%. The average lump-sum withdrawal relative to retirement assets climbed from 12% to 33%.

Over time, there has been a marked increase in the withdrawal ratio, with this trend apparently being accelerated by cuts to the conversion rate and moves to make lump-sum withdrawals easier. There was a one-off rise when the conversion rate was cut in 2015, and it has climbed further each year since the 2019 cut and the simplification of the withdrawal process in 2021. Those with relatively low levels of pension wealth withdraw much more of it, proportionately. A greater proportion of men than women take this option. There are no significant differences when it comes to marital status.

In retrospect, the vast majority would make the same decision again. Tax considerations are the reason most often cited for taking a lump-sum, but the motivations for the decision differ markedly depending on the chosen retirement model.

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1 Introduction

For many people in Switzerland, retirement entails not only a major personal change but also an important and irreversible financial decision: should they take their accumulated retirement assets as a lifetime annuity, a lump-sum withdrawal or a combination of the two? A number of factors make this an especially significant decision from an individual perspective. First, it means that people suddenly have a large sum of money at their disposal when they retire. Second, it is an irreversible decision that every insured person can only take once. Third, the choice they make will influence their financial circumstances throughout their retirement.

Over recent years, the proportion of those drawing funds for retirement as a one-off payout has risen sharply (see figure 1). In 2022, CHF 13 billion were paid out as a lump sum on retirement across Switzerland as a whole (FSO, 2023). The volume of lump-sum withdrawals rose 79% compared with five years earlier, and 121% over a 10-year period. That equates to a rise of 27% over five years and 40% over 10, to CHF 240,000 per person (FSO, 2023). The figures differ because the number of retirements also rose over that period.

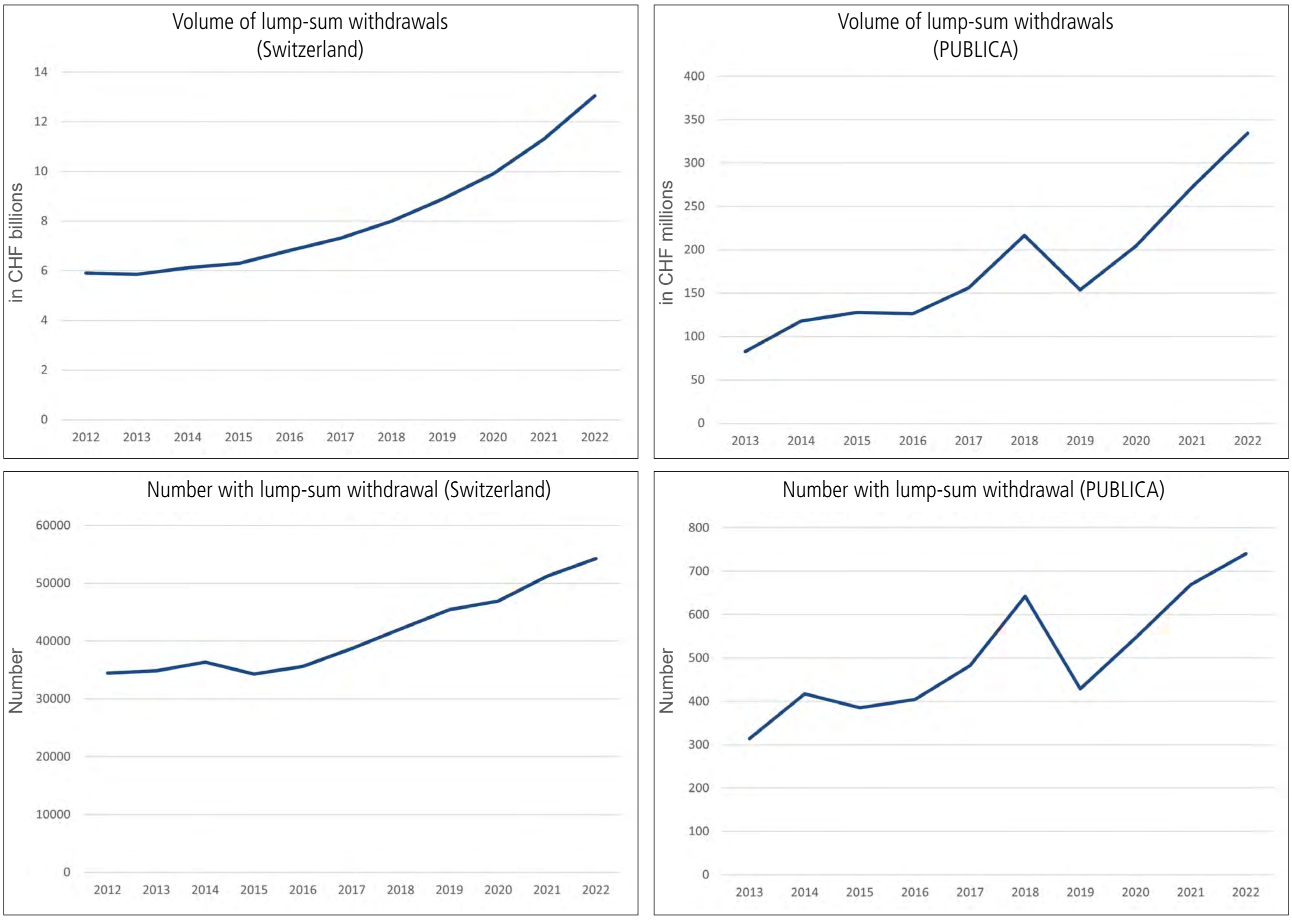


Figure 1: Trend in lump-sum withdrawals in Switzerland and at PUBLICA

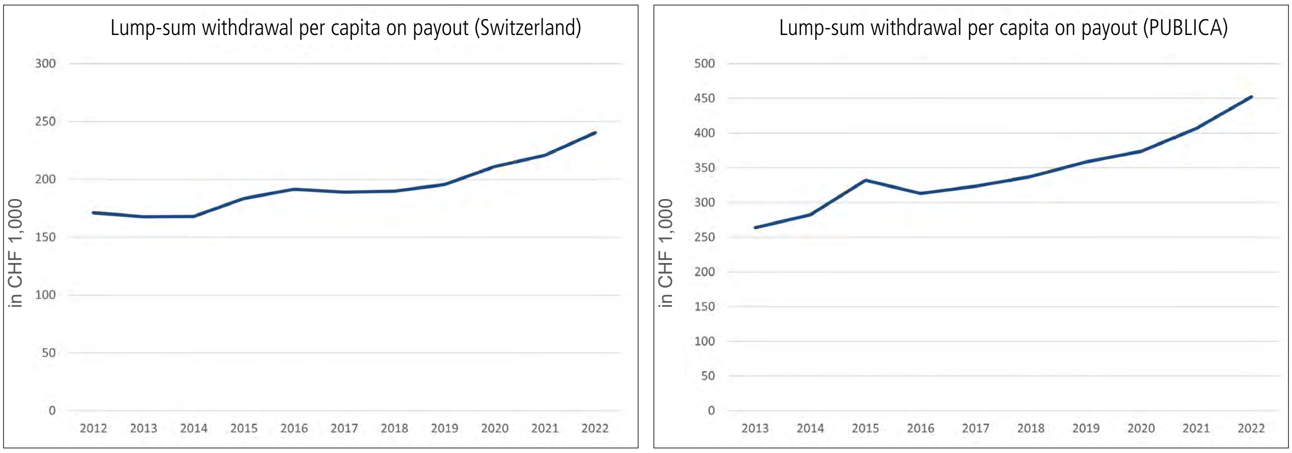


Figure 1: Trend in lump-sum withdrawals in Switzerland and at PUBLICA

This trend can also be observed at PUBLICA, with CHF 83 million being paid out in 2013 and CHF 335 million in 2022, a rise of 300%. The per capita lump-sum withdrawal for all retirements increased from CHF 87,000 in 2013 to CHF 248,000 in 2022, up 185%. Counting only those who took a lump sum, the per capita figure rose from CHF 264,000 in 2013 to CHF 452,000 in 2022, up 71%. Measured against the entire retirement assets (RA) of retirees, the lump-sum withdrawal ratio grew from 12% in 2013 to 28% in 2022. Additionally, the average lump-sum withdrawal ratio (i.e. the capital withdrawn compared with total retirement assets) climbed from 14% to 32%. Over the same period, the proportion of those taking part of their retirement assets as a lump sum increased from 33% to 52%, and of those taking all of their retirement assets in that form from 6% to 19%. During that decade, payouts per head, the proportion taking a partial or 100% payout, and the lump-sum withdrawal ratio therefore all rose.

Against the backdrop of these changes in retirement behaviour, this study examines developments in lump-sum withdrawals at PUBLICA over the last 10 years. It then considers and analyses a range of possible determinants of the withdrawal, and analyses which groups of individuals tend more towards lump-sum withdrawals and which tend to go for an annuity. Finally, the results of a survey among members who retired from PUBLICA over the last 10 years sheds light on the payout decision.

In recent years, academic research has also addressed questions related to lump-sum withdrawal patterns at Swiss pension funds. Bütler and Teppa (2007) show that individuals with low levels of retirement assets choose a lump sum comparatively often. Bütler et al. (2015) show that a reduction in the conversion rate leads to a higher level of lump-sum withdrawals, with an implicit reduction of 8% in the conversion rate leading to a 16.8 percentage point reduction in the propensity to annuitise. Bütler et al. (2017) demonstrate that supplemental benefits create incentives to withdraw retirement assets as a lump sum. They show that this effect is particularly great for those with low incomes and retirement assets. Finally, Bütler and Ramsden (2024) show that taxation of lump-sum withdrawals and retirement pensions impact the choice of payment option. Lump-sum withdrawals are higher at locations where annuities are more expensive. They also show that individuals adjust the amount of their lump-sum withdrawal in response to discrete changes in the tax rate and optimise their tax burden.

The results reveal similar patterns at PUBLICA. The lump-sum withdrawal increases substantially over time, and the trend has accelerated, particularly in the years since 2019. Second, there is a visible trend towards those with relatively low retirement assets at PUBLICA taking a lump-sum withdrawal, where the rate is markedly higher than for those with greater pension wealth. Third, men are more likely to make a lump-sum withdrawal than women, while those retiring younger withdraw more than those retiring later. There is also a correlation between lower conversion rates and higher lump-sum withdrawal ratios. Finally, there is no significant difference between married and unmarried individuals.

The survey results show a high degree of satisfaction with the choice people have made in all three categories (annuity only, combination, lump sum only). More than 90% would make the same decision today. The motives for the choice differ markedly between the various options. Asked an open question about the reasons for their decision, those opting entirely for an annuity often mention security, a regular income and not being interested in investing. For those choosing a combination, taxes, a stable income and repaying a mortgage play an important role. In the case of those taking everything as a lump sum, investing their own money, the possibility of dying early and the conversion rate become more significant. Interestingly, relatives are cited as a motivation in all three scenarios: securing survivors' benefits for those choosing an annuity, and preserving the full capital for the partner and children for those choosing a lump sum. Asked about their reasons for taking a lump sum, those surveyed most often mentioned taxes (56%), followed some way behind by implementing their own investment strategy, needing funds after retirement (for example to repay a mortgage), and the conversion rate. Advice is becoming more important to the decision-making process, with the proportion of those seeking outside guidance doubling over a 10-year period. Those choosing a lump sum also sought advice almost twice as as often as those taking an annuity only. Some sources of information (pension experts, banks, pension funds) correlate clearly with the combination or lump-sum options, while others (employer, friends/family, work colleagues) are mentioned more frequently in connection with annuities. Risk appetite when investing and the importance of inheritances correlate positively with higher levels of lump-sum withdrawals. In all, 70% of survey participants state that they manage the money they have withdrawn themselves. They most often invest it in bank and savings accounts, closely followed by investment funds.

Chapter 2 of this study describes the institutional background during the analysis period. Chapter 3 describes the data used. Chapter 4 evaluates the results of the analyses of retirement data from PUBLICA, and chapter 5 analyses the results of the survey of retirees. Finally, chapter 6 offers a brief conclusion.

2 Institutional background

At PUBLICA, the conversion rate has been cut three times over the last 12 years, in 2012, 2015 and 2019. In 2012, the rate at the statutory retirement age of 65 was reduced from 6.53% to 6.15%. In 2015, it was adjusted downwards again to 5.65%. Both of these changes were almost fully funded, in other words, the retirement assets and contributions were increased by the factor of the reduction. Finally, in 2019, the conversion rate was lowered to 5.09%, this move being 100% funded for those at the reference age. The further a person was from the reference age, the lower the funding adjustment, from full compensation at the reference age down to zero for those 20 years away from retirement. Here again, the contributions were raised accordingly, and this time a distinction between those over and under the age of 60 was introduced. Those over 60 only received the funding adjustment when they retired. This resulted in a de facto higher conversion rate for members in that age category. Younger members received the compensation via their retirement assets.
Those joining after the rate cuts benefited from the increased contributions, but not from the revaluations.

At the same time, changes were made to the provisions on lump-sum withdrawals contained in the regulations. At PUBLICA, the option of a full lump-sum withdrawal on retirement has been available throughout the last 10 years. However, until 1 January 2021 the regulations stipulated that lump-sum withdrawals of over 50% had to be notified a year in advance. As of that date, that restriction ceased to apply.

Finally, the environment for pension funds has changed. Individual asset management has been made simpler, and new providers/solutions have come onto the market. Third-party providers are increasingly offering solutions aimed directly at people withdrawing their retirement assets as a lump sum.[1] This is also reflected in public interest in the topic. The number of Google searches on the subject of lump-sum withdrawals has risen sharply in Switzerland (see figure 2).[2] The index describes the number of searches for the term "lump-sum withdrawal" relative to the moment with the most searches (indexed to 100). The number of newspaper articles on the topic also grew sharply over the same period. References to the term in the Swiss press rose markedly, from 308 in 2013 and 2014 to 903 in 2022 and 2023,[3] a threefold increase. People in Switzerland therefore see greater coverage of the topic in the media, and are also finding out about it themselves by actively searching.

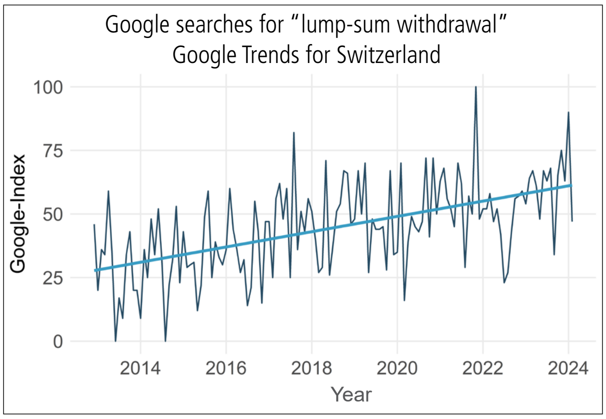


Figure 2: Google searches for "lump-sum withdrawal"

1 Examples include Economico from c-alm, offerings from VZ Vermögenszentrum, the increased spread of self-managed custody accounts for ETFs, funds and equities such as Swissquote, as well as many other fintech operators.
2 The data are taken from trends.google.ch for the term "lump-sum withdrawal".
3 The data are taken from swissdox.ch for the term "lump-sum withdrawal".

3 Data

The study is based partly on data for all retirements at PUBLICA in the years from 2013 to 2023 (up to November). In total, 13,000 people retired during that period. For each retirement, we have anonymised information on the time of retirement, age at retirement, gender, marital status, previous salary, retirement assets and guarantees, the lump-sum withdrawal and the applicable conversion rate. These data are complemented by tax data with the tax rates for lump-sum withdrawals at communal level (place of residence at time of retirement). For each person, the pension assets are added to the individual lump-sum withdrawals where retirement is taken in stages.
We also analyse data from an anonymous survey of a selection from those 13,000 people comprising all retirees whose e-mail address is registered with us along with a randomised selection of the remaining insured members conducted by post. In all, 1,400 people took part in the survey between May and July 2024.

Table 1 shows statistics for selected variables in the administrative data for PUBLICA for the years 2013 and 2022. The number of retirements rose from around 900 in 2013 to 1,400 in 2022. The proportion of women taking retirement increased from 24% to 30%, while the average age at retirement rose slightly, from 63.2 to 63.5. The retirement assets at retirement also grew, from an average of CHF 708,000 in 2013 to CHF 881,000 in 2022. There was also a sharp rise in the proportion of those assets paid out as a lump sum on retirement, from an average of 14% in 2013 to 32% in 2022.

Retirements in 2013

Variable	Number	Average	Median
Gender (women)	907	24%	–
Age at retirement	907	63.19	63.20
RA at retirement	907	CHF 708,182	CHF 612,985
Lump-sum withdrawal	907	CHF 86,875	CHF 0
Lump-sum withdrawal in % of RA	907	14%	0%

Retirements in 2022

Variable	Number	Average	Median
Gender (women)	1,370	30%	–
Age at retirement	1,370	63.53	64.00
Salary before retirement	1,370	CHF 139,964	CHF 135,478
RA at retirement	1,370	CHF 881,238	CHF 794,614
Lump-sum withdrawal	1,370	CHF 248,148	CHF 24,601
Lump-sum withdrawal in % of RA	1,370	32%	7%

Table 1: Descriptive statistics for retirements in 2013 and 2022 at PUBLICA.

4 Trend and determinants of lump-sum withdrawals at PUBLICA

This chapter describes the trend in lump-sum withdrawals, focusing initially on certain aspects in isolation and then analysing them collectively in regression models.

4.1 Number of retirements and age at retirement

The number of retirements at PUBLICA has risen sharply over recent years. Figure 3 shows the figures for each year. This reveals a positive trend, with the annual number rising by around 30% since 2013. For partial retirements, the data do not indicate a trend, and the number per year has remained roughly the same. There is a spike in retirements in 2014 and 2018, the years immediately preceding the conversion rate adjustments, which are shown as dotted lines in the chart. On the face of it, this is surprising, since members were compensated for the change to the conversion rate. However, the reduction was only balanced out by an increase in the retirement assets for people at the reference age. For those planning early retirement, there was an incentive to take it before the adjustment, since this did not entail any significant loss of pension for those already close to retirement age. However, it may also be explained by a lack of understanding of the guarantee measures.
The average age at retirement of new retirees rises marginally over the observation period, from 63.2 to 63.5 (see figure 4).

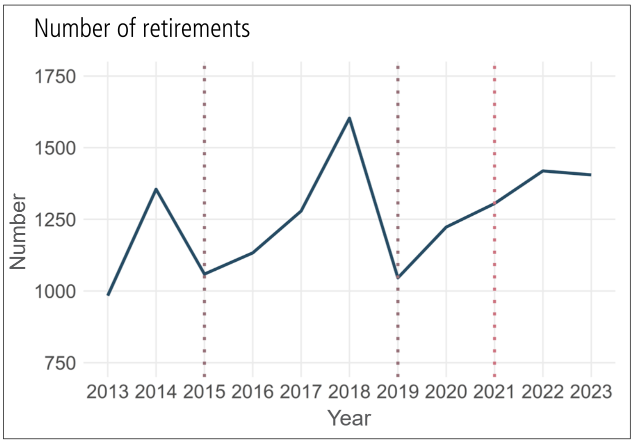


Figure 3: Number of retirements

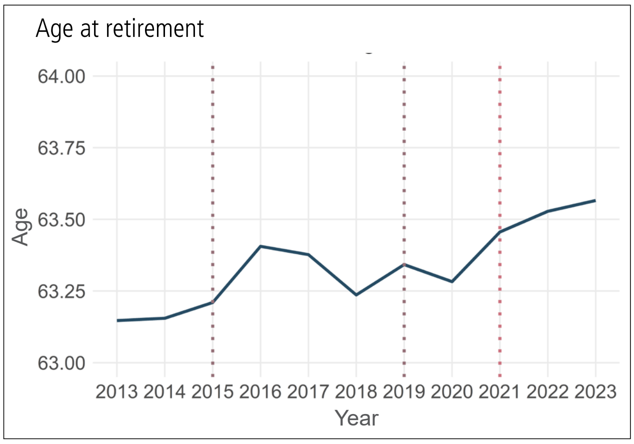
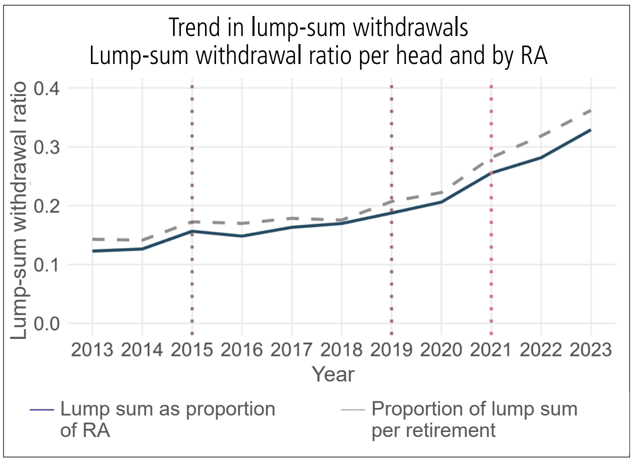


Figure 4: Age at retirement

4.2 Trend in lump-sum withdrawal ratio and payout type

This section examines two key figures: The **lump-sum withdrawal ratio** measures the amount of the payout against the available retirement assets: a figure of 50% means that half were paid out as a lump sum and half as a lifetime annuity. The **payout type**, meanwhile, is based on the number of retirements in the three categories: annuity only, combination of annuity and lump sum, and lump sum only. When they retire, members can convert their retirement assets into a lifetime annuity or receive it as a one-off, lump-sum payment. PUBLICA also allows them to combine the two in any way they wish.

Figure 5 shows the trend in the lump-sum withdrawal ratio on the left. The points at which the conversion rate was adjusted and withdrawals were made easier by shortening the notification period are shown by vertical dotted lines. The lump-sum withdrawal ratio rose from 12% of the annuitised retirement capital in 2013 to 33% in 2023. The average of the individual payouts is slightly higher than their share of the total annuitised capital, having increased on average from 14% to 36%. This means that on average, those with more pension wealth withdraw a smaller proportion of it as a lump sum. Figure 5 shows on the right the proportion of people converting their entire retirement assets into an annuity, choosing a combination of annuity and lump sum, or having their assets paid out in full as a lump sum. The proportion taking 100% as an annuity fell markedly, from 67% in 2013 to 43% in 2023, while the proportion opting for a combination rose from 27% to 38%. The sharpest rise was in those taking all of their retirement assets as a lump sum, up from 6% in 2013 to 20% in 2023.



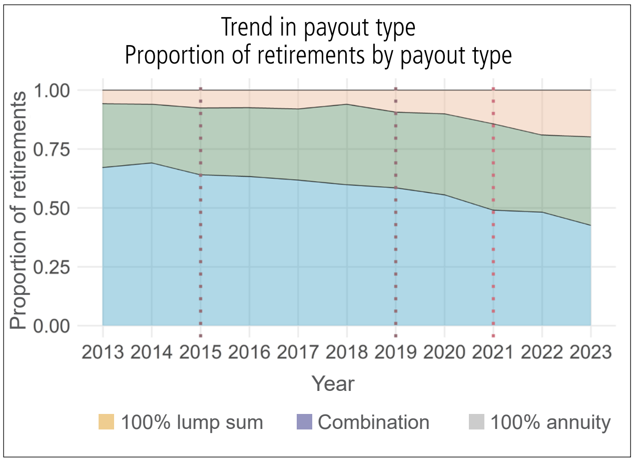


Figure 5: Trend in lump-sum withdrawal ratio and payout type

Gender

Breaking the numbers down by gender (see figure 6 top), we see a similar trend in lump-sum withdrawals for both men and women, albeit with a somewhat sharper rise among men than women over recent years. In terms of payout types, men choose a combination of annuity and lump sum more often, whereas women more frequently opt for an annuity. The proportion taking all their assets as a lump sum is very similar for both genders (see figure 6 centre and bottom).

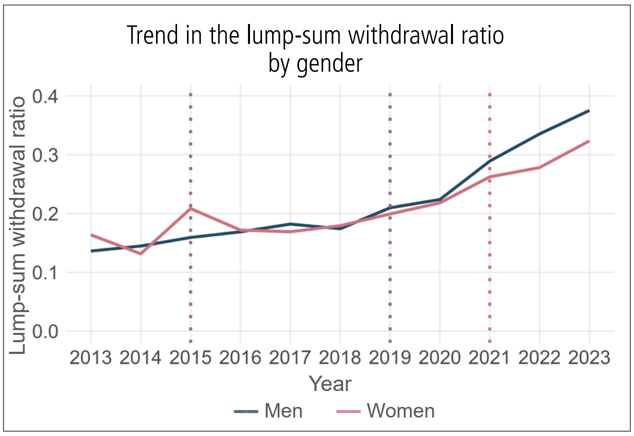
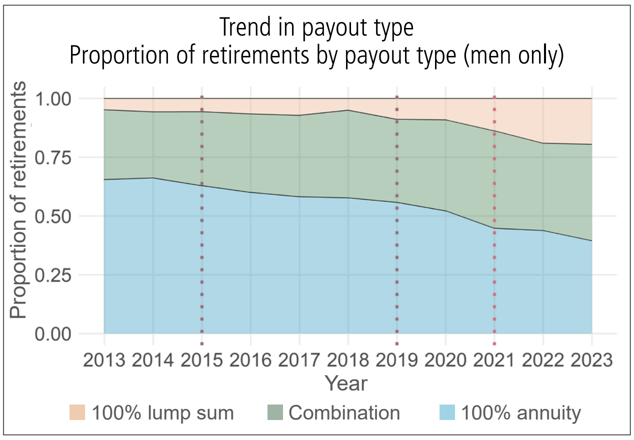
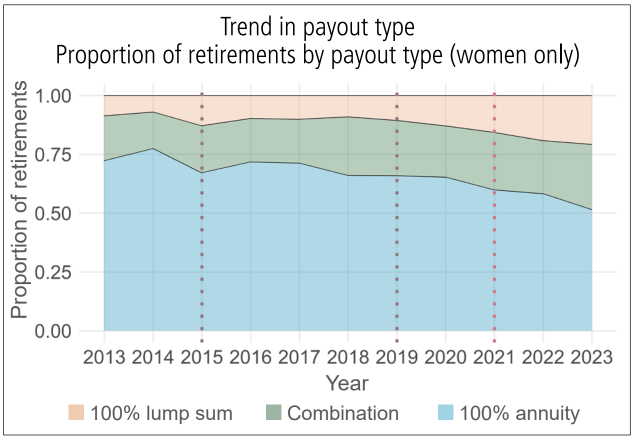


Figure 6:
Trend in lump-sum withdrawal ratio and payout type by gender





Marital status

A breakdown by marital status (figure 7 top) shows that married and unmarried people behave in very similar ways, with both the trend and the level matching.

In the case of **partial retirements**, lump-sum withdrawals have increased, especially since 2019, and since notification was simplified in 2021, the proportion of 100% lump-sum withdrawals in this category has risen sharply. Partial retirements account for roughly 7% of the total. In 2022, 66% of these involved all the capital annuitised at that time being paid out.

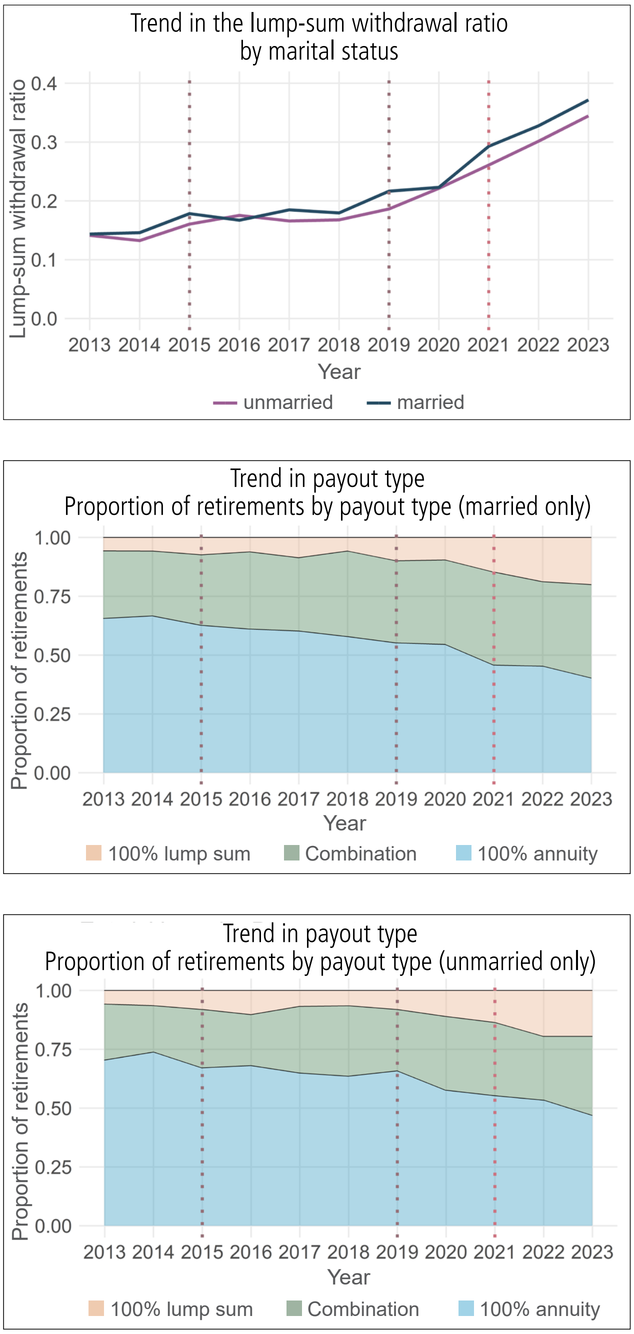


Figure 7: Trend in lump-sum withdrawal ratio and payout type by marital status

Retirement assets

In this section, we compare the lump-sum withdrawal with the retirement assets available at retirement. Figure 8 presents the combinations of lump-sum withdrawal and retirement assets at retirement. The chart at top left shows the individual observations and a local average (fitted polynomial). The ratio of lump-sum withdrawal to retirement assets displayed exhibits the following patterns of behaviour: On average, those with relatively low levels of pension wealth at retirement have a higher lump-sum withdrawal ratio. The rate falls, on average, until around CHF 500,000 and then picks up again. The same pattern can be seen when comparing with salaries.
There is also a pronounced clustering of withdrawals at 0%, 50% and 100% of retirement assets, highlighted in green on the chart. Additionally, there are discernible patterns that look like "indifference lines", which are marked in red. This means that many people withdraw a "round" amount, such as CHF 100,000 or CHF 200,000. That explains the visible declining "line pattern" in comparison with retirement assets.

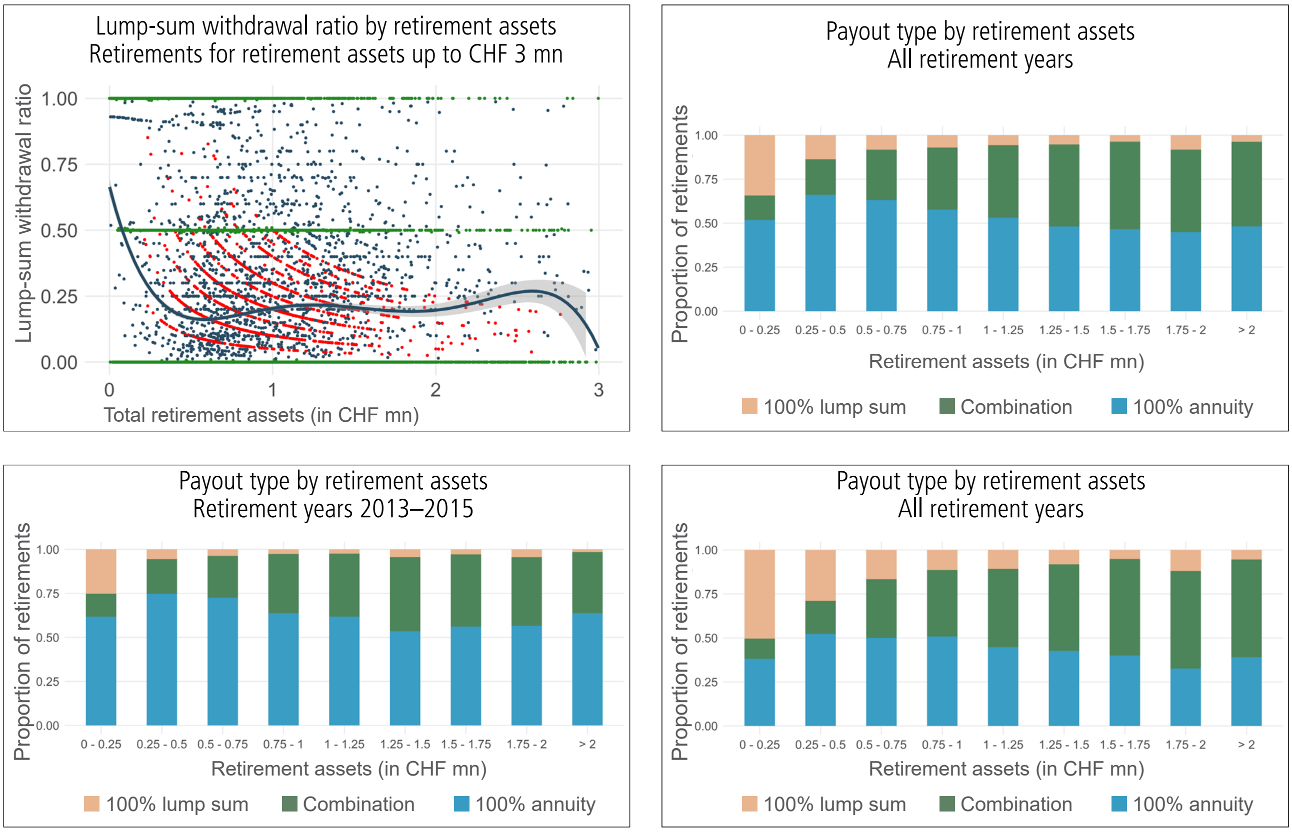


Figure 8: Lump-sum withdrawal by retirement assets

In this dimension too, we show the proportion of members taking a lump-sum withdrawal only, choosing a combination. or opting for an annuity only according to various levels of retirement capital groups. In figure 8, the chart at top right shows that people with retirement assets of less than CHF 250,000 choose to have all those assets paid out particularly often. Thereafter, the proportion choosing a combination rises again with retirement assets of up to around CHF 1.5 million. If we divide the sample into retirements in the years 2013–2015 (chart at bottom left) and 2021–2023 (chart at bottom right), this pattern can be seen in both periods, though the proportion of those taking a lump sum only or a combination has risen substantially.

Retirement assets and level of annuity

Retirement assets at retirement grew from CHF 847,000 in 2019 to CHF 902,000 in 2023(see figure 9), a rise of 6.5%. The effective conversion rate for new retirees averaged 4.9%. This is somewhat lower than the official rate, owing to early retirements. If they had converted all those assets into an annuity, they would have received an average pension of CHF 41,600 in 2019 and CHF 44,400 in 2023, a small theoretical rise over that five-year period.
In fact, however, the annuitised retirement capital fell from CHF 686,000 to CHF 604,000. This is due to a simultaneous, marked increase in lump-sum withdrawals, from an average of CHF 161,000 in 2019 to CHF 299,000 in 2023. The lump-sum withdrawal ratio thus rose from 19% to 33% of the available retirement capital.

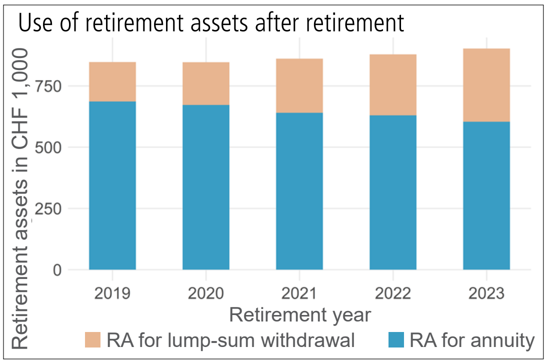


Figure 9:
Amount and use of retirement assets

The observed annuities (excluding those who withdrew 100% as a lump sum) thus declined slightly over the same period. The average new annuity fell slightly, from CHF 37,500 in 2019 to CHF 37,000 in 2023. In other words, observed new annuities have declined since 2019, despite increasing retirement assets and an unchanged conversion rate.

Canton of residence

Lump-sum withdrawals also vary widely depending on the canton in which the insured person lives. Figure 10 shows the average lump-sum withdrawal ratio for each canton of residence. The statistical outlier in the canton of Appenzell-Innerrhoden may be due to the low number of observations. In the cantons of Basel-Stadt, Basel-Land and Geneva, lump-sum withdrawals are relatively low, while in Glarus, Graubünden and Zug they are above average. The chart also indicates in colour the absolute tax liability on a lump-sum withdrawal of CHF 400,000. However, this does not provide any indication of the relative tax burden between lump sum and annuity.

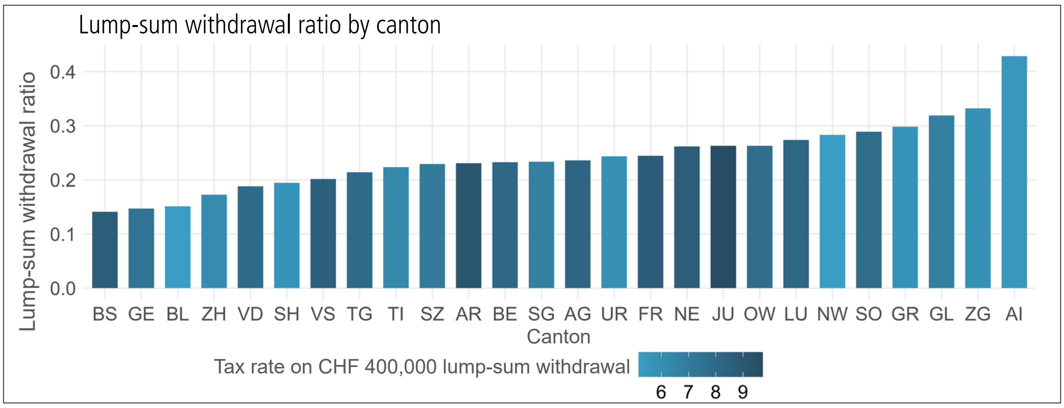


Figure 10: Lump-sum withdrawal ratio by canton

Conversion rate and additional compensation

The average lump-sum withdrawal also varies in relation to the official conversion rate and the guarantees / additional compensation received by members already insured with PUBLICA before the rate was adjusted. Members received additional compensation to cover the reduction in the conversion rate. When the rate was adjusted in 2019, those aged 60 and over received this in the form of a credit to their retirement capital if they drew it as an annuity. As a result, the annuity remained virtually unchanged. However, those who opted for a lump-sum withdrawal did not receive that additional compensation. The data contain information on additional compensation from 2019 onwards. Figure 11 shows the average lump-sum withdrawal ratio for those with and without additional compensation. It is clear that those in the latter category withdraw more capital. The rate is 24% for those with additional compensation and 37% for those without. This means that on average, they have waived 25% of their compensation in order to withdraw capital, or an average of CHF 15,675 in retirement assets.

Life expectancy

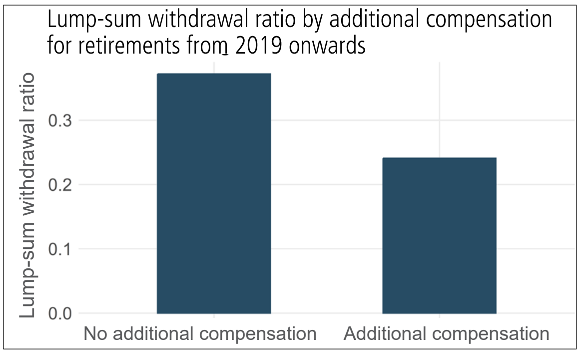


Figure 11:
Lump-sum withdrawal by additional compensation after conversion rate cut

Adverse selection may play a role in the choice of a lump-sum withdrawal. The question is whether those who rate their probability of survival after retirement as lower tend to withdraw more capital. We can only conduct a partial analysis here, because we cannot continue to observe everyone who withdraws their entire retirement assets as a lump sum. However, we do know the death date of those who make only a partial lump-sum withdrawal. Figure 12 shows the average lump-sum withdrawal ratio for people with the same year of birth, with those who have already died indicated in grey and those still alive in dark blue. Those born in the years 1948–1954 and 1959 who have already died exhibit a slightly higher lump-sum withdrawal ratio, whereas for the years 1955–1958, it is higher for those still alive. This does not point to any systematic adverse selection among members who continue to draw at least part of their capital as an annuity.

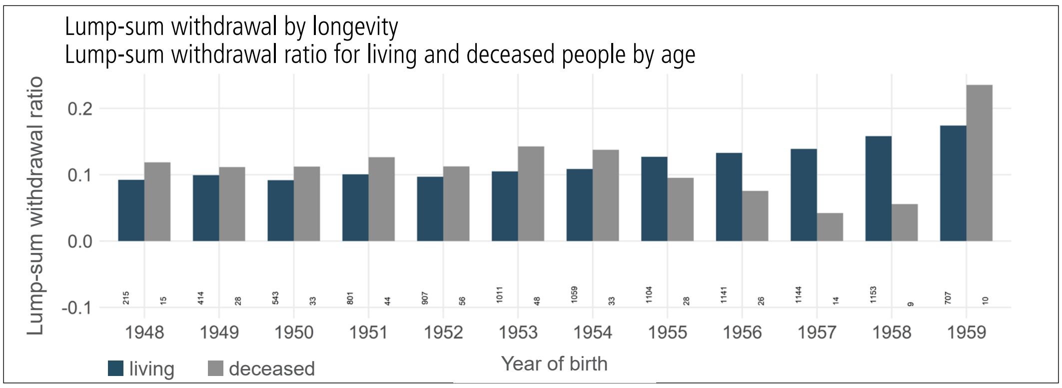


Figure 12: Lump-sum withdrawal by longevity

4.3 Regression analysis: Determinants of lump-sum withdrawal

The previous sections of this study examined factors related to the payout type and the lump-sum withdrawal ratio individually. This section now considers the determinants of the lump-sum withdrawal collectively. This involves estimating regression models in order to analyse the determinants of the lump-sum withdrawal and, ceteris paribus, calculate correlations of the factors with the lump-sum withdrawal ratio.

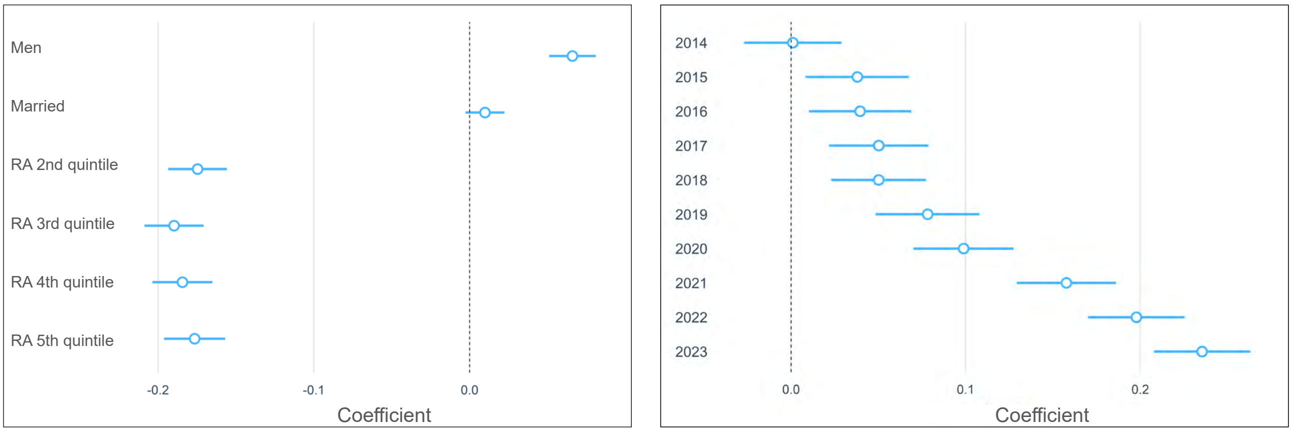
The model looks like this:

$$KAP_i = \beta_0 + \alpha \mathbf{X}_i + \beta_1 f(PensZeitpunkt_i) + \beta_2 f(AGH_i) + \beta_3 f(PensJahr_i) + \epsilon_i$$

How do we read the results of the regressions?

The tables list the empirically calculated coefficients of the various variables in the models. The coefficients indicate the amount by which the lump-sum withdrawal ratio changes given a one-unit change in the variable, assuming that all other variables remain constant. In the case of the binary variables (e.g. gender), the coefficient corresponds to the difference between the two groups in the lump-sum withdrawal ratio in percentage points (pp). The standard errors in the estimate are represented in brackets, while the asterisks mark the significance level, which indicates the probability of the estimated coefficient being other than zero.

The model explains the lump-sum withdrawal ratio via the time of retirement in relation to the reference age, retirement assets, year of retirement and a range of other factors in X_i. Different variants of the model show various specifications for the functions f() and the selection of factors in X_i. The preferred models use a non-parametric specification for f() and the variables in X in order to minimise the predefined structure (compare models (1) to (3)). This kind of specification also makes it easier to compare the various influencing factors directly. In principle, we use indicators for 5 quantiles of equal size for the retirement capital, 4 quantiles for the time of retirement, and one factor for each year of retirement. In the case of models (4) and (5), the quantiles for the retirement assets, time of retirement and year of retirement are replaced with second-degree polynomials. For all specifications, X comprises an indicator for gender (men are coded 1), marital status (married is coded 1), language (German, French and English) and canton. For model (5), an indicator for the conversion rate is added.



Figures 13 a, b: Selected coefficients for model (1)

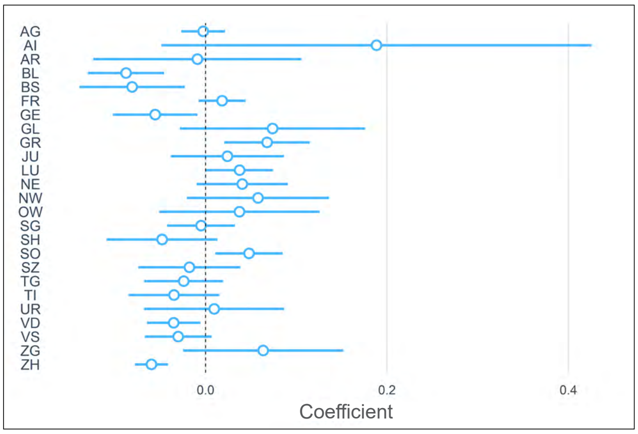


Figure 13 c:
Selected coefficients for model (1)

Table 2 shows the results of a selection of specifications. Model (1) shows the values for the non-parametric specification for the retirement year over the entire period. Model (2) covers only the years before the first conversion rate cut, while model (3) relates only to the last three years, since 2021. Model (4) corresponds to model (1), but uses a second-degree polynomial for the year of retirement. Model (5) adds the conversion rate as an independent variable. A selection of results for the preferred model (1) are also presented as a chart in figure 13. The points in the charts represent the estimated coefficient in each case, and the blue lines the range of the 95% confidence interval (where the probability that the estimated coefficient lies is 95%). Where the blue line does not intersect the zero line, the coefficient is termed "significant".

The strongest correlations and the biggest effects can be seen in the retirement assets and retirement year. Those with the lowest retirement assets draw a significantly larger percentage of them as a lump sum. From the first to the second quintile, the lump-sum withdrawal ratio declines by 17.5 pp. The first quintile comprises those with retirement assets of less than CHF 425,000. There are no further major differences between the second and fifth quintiles.
These observed differences in the lump-sum withdrawal ratio in relation to retirement assets have grown over time. Compared with the first quintile (< CHF 425,000), the decline in the lump-sum withdrawal ratio in the second quintile was 13.3 pp in 2013–2014 and 21.8 pp in the years 2021–2023. The decline in the lump-sum withdrawal ratio at higher levels of wealth is stronger today than in the past. The difference in terms of lump-sum withdrawal between the highest and lowest levels of retirement assets rises to –28.6 pp in 2021–2023.

The second major factor is the rise in the lump-sum withdrawal ratio over time. The coefficients show the change compared with 2013. The first significant rise (3.8 pp) takes place in 2015. The rate stays at a similar level from 2016 to 2018 (4.0 pp to 5.0 pp). There is then a sharp rise in the annual coefficients from 2019 onwards. Compared with 2013, the increase in 2019 is 7.8 pp. From this point on, the rate rises markedly every year, with the coefficient reaching 23.5 pp in 2023.

The results across all models reveal that on average and over the entire period, the lump-sum withdrawal ratio is 6.6 pp higher for men than for women. Looking only at the years since 2021, this figure rises to 11.3 pp. There are no significant differences between married and unmarried people or between the various languages; the sole exception here is the years 2013–2014, where the rate for French speakers is slightly lower. Over recent years especially, earlier retirements have been linked to higher lump-sum withdrawals.

The correlations are robust with regard to the use of a second-degree polynomial in comparison with the annual indicators. The value for men, for example, remains completely unchanged. When the conversion rate is added in, however, the reduction in 2015 correlates with a 4.8 pp rise in the lump-sum withdrawal ratio.

The cantons are always compared with the canton of Bern. On this measure, Basel-Stadt, Basel-Land, Geneva, Schaffhausen, Vaud, Valais and Zurich have significantly lower ratios, while Graubünden, Nidwalden, Solothurn and Lucerne are higher.

Table 2:
Regression results

	Dependent variable: lump-sum withdrawal as a proportion of RA				
	(1) All	(2) 2013 - 2014	(3) 2021 - 2023	(4) All & RY	(5) All & RY & CR
Dummy (men)	0.066***	0.049**	0.113***	0.065***	0.066***
	(0.008)	(0.019)	(0.016)	(0.008)	(0.008)
Language					
French	−0.013	−0.054**	−0.031	−0.013	−0.013
	(0.011)	(0.024)	(0.023)	(0.011)	(0.011)
Italian	0.011	0.028	−0.006	0.011	0.010
	(0.027)	(0.051)	(0.065)	(0.027)	(0.027)
Dummy (married)	0.010	0.011	0.015	0.010	0.010
	(0.007)	(0.014)	(0.013)	(0.007)	(0.007)
Retirement assets					
2nd quintile (> 425k)	−0.175***	−0.133***	−0.218***	−0.175***	−0.175***
	(0.011)	(0.020)	(0.024)	(0.011)	(0.011)
3rd quintile (> 635k)	−0.190***	−0.137***	−0.276***	−0.189***	−0.190***
	(0.011)	(0.022)	(0.023)	(0.011)	(0.011)
4th quintile (> 845k)	−0.184***	−0.122***	−0.290***	−0.184***	−0.184***
	(0.011)	(0.022)	(0.022)	(0.011)	(0.011)
5th quintile (> 1188k)	−0.176***	−0.084***	−0.286***	−0.175***	−0.176***
	(0.011)	(0.025)	(0.022)	(0.011)	(0.011)
Time of retirement					
2nd quartile (> −3)	0.005	0.053***	−0.051***	0.005	0.005
	(0.008)	(0.016)	(0.018)	(0.008)	(0.008)
3rd quartile (> −1)	−0.026***	0.044***	−0.114***	−0.025***	−0.026***
	(0.007)	(0.014)	(0.016)	(0.007)	(0.007)
4th quartile (> 0)	−0.021	0.075	−0.105***	−0.020	−0.020
	(0.017)	(0.046)	(0.030)	(0.017)	(0.017)
Cantons (ref: BE)					
BL	−0.088***	−0.073**	−0.139***	−0.088***	−0.088***
	(0.018)	(0.036)	(0.038)	(0.018)	(0.018)
BS	−0.081***	−0.047	−0.132**	−0.082***	−0.081***
	(0.026)	(0.060)	(0.057)	(0.026)	(0.026)
GE	−0.056***	−0.054	−0.142***	−0.056***	−0.056***
	(0.021)	(0.037)	(0.041)	(0.021)	(0.021)
GR	0.068***	0.055	0.112**	0.067***	0.067***
	(0.025)	(0.054)	(0.054)	(0.025)	(0.025)
LU	0.038*	0.013	0.035	0.038**	0.037*
	(0.019)	(0.039)	(0.043)	(0.019)	(0.019)
NW	0.058	0.094	0.170**	0.057	0.059
	(0.039)	(0.080)	(0.083)	(0.039)	(0.039)
SH	−0.048*	−0.091**	−0.060	−0.049*	−0.048*
	(0.027)	(0.036)	(0.060)	(0.027)	(0.027)
SO	0.048**	−0.028	0.044	0.047**	0.048**
	(0.022)	(0.039)	(0.041)	(0.022)	(0.022)
VD	−0.035**	0.022	−0.033	−0.035**	−0.035**
	(0.014)	(0.030)	(0.030)	(0.014)	(0.014)
VS	−0.030*	0.034	−0.0001	−0.032*	−0.031*
	(0.018)	(0.038)	(0.040)	(0.018)	(0.018)
ZH	−0.060***	−0.042**	−0.093***	−0.060***	−0.060***
	(0.009)	(0.018)	(0.019)	(0.009)	(0.009)
remaining cantons	Yes	Yes	Yes	Yes	Yes
CR					
Dummy 0.0509					0.048**
					(0.023)
Dummy 0.0565					0.048***
					(0.016)
Retirement year					
2014	0.001	0.0004			
	(0.012)	(0.012)			
2015	0.038***				
	(0.013)				
2016	0.040***				
	(0.013)				
2017	0.050***				
	(0.013)				
2018	0.050***				
	(0.012)				
2019	0.078***				
	(0.014)				
2020	0.099***				
	(0.014)				
2021	0.158***				
	(0.014)				
2022	0.198***		0.045***		
	(0.014)		(0.015)		
2023	0.235***		0.078***		
	(0.014)		(0.015)		
Polynomial for retirement year	No	No	No	Yes	Yes
Constant	Yes	Yes	Yes	Yes	Yes
Observations	12,375	2,076	3,805	12,375	12,375

Note: Note: Coefficients for 5 different variants of the model. Model (1) is based on the entire period and year indicators to capture the trend over time. Model (2) considers only the years 2013–2014 and model (3) only 2021–2023. Model (4) replaces the year indicators with a second-degree polynomial as a comparison with model (1), and model (5) adds indicators for the levels of the conversion rate. The dependent variable in all models is the lump-sum withdrawal ratio. Robust standard errors in brackets. The resulting significance level is represented as follows: *p<0.1; **p<0.05; ***p<0.01. Data PUBLICA.

5 Background to the choice of payout option

This section considers the results of the survey of PUBLICA retirees. An evaluation of the observed retirements over the last 10 years enables a detailed analysis of the trend in lump-sum withdrawals at PUBLICA. However, it does not allow us to draw any conclusions about the reasons and motivations for retirees' decisions on how to draw their retirement assets. We therefore conducted a survey of people who had retired from PUBLICA during that period to learn more about the background to their retirement decisions.

Between May and July 2024, a selection of individuals who retired over the last 10 years were invited to take part in an anonymous survey. We wrote to all German speakers for whom we had an e-mail address (response rate over 40%), along with a randomised selection of the remaining German speakers who were contacted by post (response rate over 10%). In total, 1,400 completed the survey, corresponding to around 10% of all insured members who retired over the last 10 years.

5.1 Sample and descriptive statistics

In all, 1,400 people answered the anonymous survey. The average time taken to answer the questions was just under 30 minutes. There was a disproportionately large number of responses for the last two retirement years (2022 and 2023), partly because we were able to use an e-mail address for a relatively large number of those participants. Overall, however, we have responses covering the entire period of the last 10 years (see figure 14).

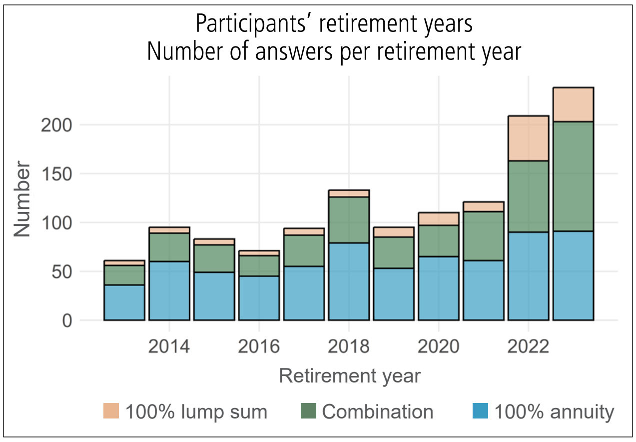


Figure 14:
Distribution of answers according to retirement year

Survey respondents indicated whether they had opted for an annuity only, a mix of annuity and lump sum, or a lump sum only, when they retired. Many of the results are therefore presented on the basis of these three groups.

The results were: 51% annuity only, 37% mix, and 12% lump sum only. This distribution mirrors quite closely the observed distribution in the retirement data from the previous section. Some 82% of participants are men, and 70% state that they have children. 71% of participants are married, and the median of the stated range of retirement assets at retirement is between CHF 750,000 and CHF 1,000,000.

Satisfaction with decision and financial circumstances

The vast majority of those surveyed remain happy with their decision, with 94% saying they would make the same choice again today. This response is very stable over the observed period, and is above 90% for every year from 2013 to 2023. Nor are there any material differences between the options chosen.

The bulk of respondents indicate that they have been able to maintain their accustomed standard of living following retirement. This figure has declined slightly over time (see figure 15). The largest percentage agreeing (83%) was in those who retired in 2014. The lowest figure was for 2020, with 71%. The figures for the most recent years are somewhat higher. Essentially, the figures for those who opted for an annuity only are somewhat lower than for those who chose a combination, while the highest proportion of positive responses come from those who went for a lump sum only.

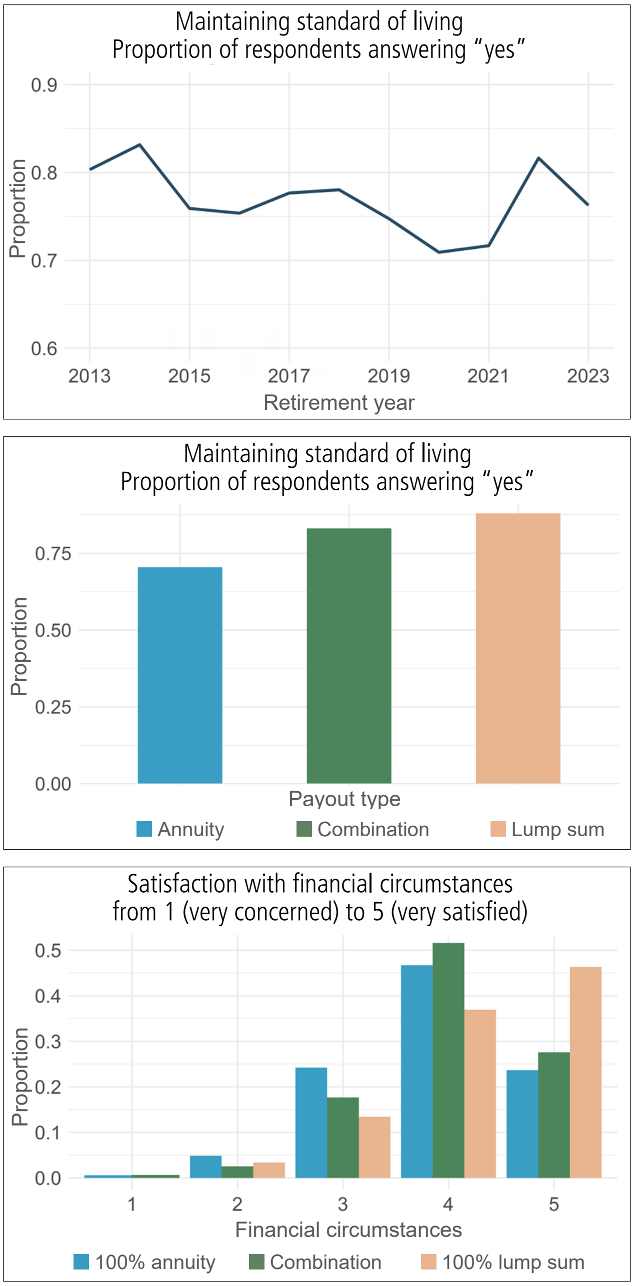


Figure 15:
Standard of living and financial circumstances

Viewed over the entire period, the average is 70% for annuity only, 83% for combination of annuity and lump sum, and 88% for lump sum only. This ranking has remained unchanged over time.

The responses to the question regarding general financial circumstances are in line with this. Respondents were invited to rate their financial circumstances on a scale from 1 (very concerned) to 5 (very satisfied). On average, those opting for a combination or lump sum only state that they are better off (see figure 15). The average ratings are 3.9 for the annuity group, 4.0 for the combination group, and 4.3 for the lump-sum group.

The vast majority of retirees are happy with their decision and would make the same choice again. Most also have a positive assessment of their financial circumstances.

5.2 Motivations and background to payout decision

Respondents were asked about the motivations for choosing an annuity, combination or lump sum by means of an open question. They were not given any suggested responses, and the question was asked before all other questions on motivation. Our aim was to obtain as unbiased a picture as possible by ensuring that we did not influence the respondents' answers.

The responses reveal clear differences for the various payout types. These are reflected in the word clouds in figure 16, showing the words most often cited in the three categories. The bigger the word, the more often it was mentioned.

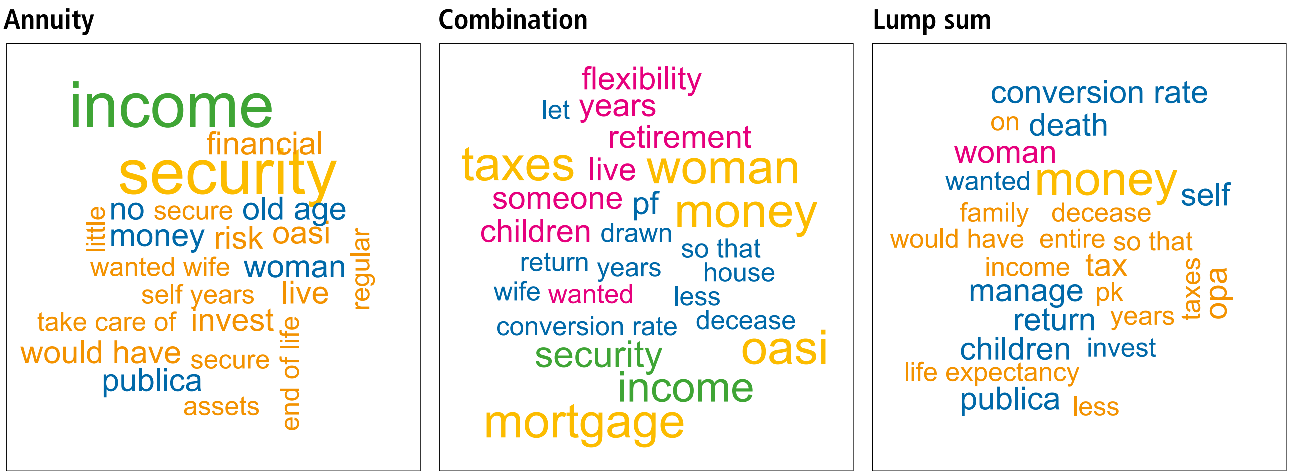


Figure 16: Motivations for payout decision (open question)

For annuities, frequent considerations are security, a regular income, and not being interested in investing. For those choosing a combination, taxes, a stable income and repaying a mortgage play an important role. In the case of those taking everything as a lump sum, investing their own money, the possibility of dying early and the conversion rate become more significant. Interestingly, relatives or survivors are cited as a motivation in all three scenarios: security via survivors' benefits for those choosing an annuity, and by preserving the full capital for the partner and children for those choosing a lump sum.

Background to choice of lump sum

When asked why they chose to withdraw a lump sum, either taking all their retirement assets this way or in combination with an annuity (multiple answers possible), the survey respondents most often cite taxes (56%). Figure 17 shows the proportion of respondents selecting each category. Other, less frequently mentioned reasons include implementing their own investment strategy (32%), needing funds after retirement, for example to repay a mortgage (30%), and the conversion rate (29%). Their personal wealth situation and inheritance considerations come further down the list.

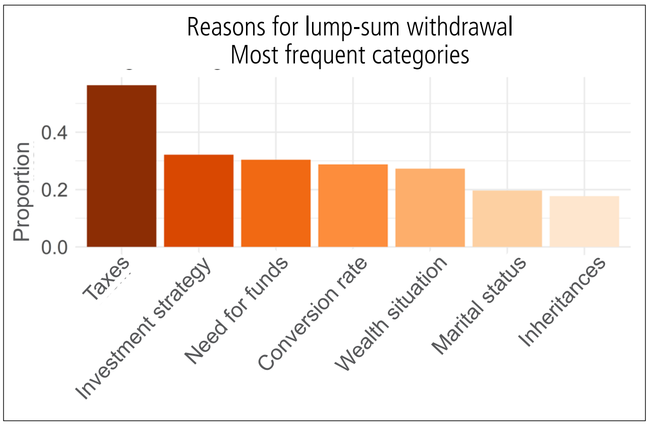


Figure 17:
Reasons for partial or full lump-sum withdrawal

Dimensions by payout type

Risk appetite when investing and the importance of inheritances correlate positively with higher levels of lump-sum withdrawals. On a scale from 1 (totally disagree) to 5 (totally agree), the average risk appetite ranges from annuity only (2.1) to combination (2.5) to lump sum only (2.9) in response to the statement: "I am prepared to take risks when investing my own money". Overall, however, those in all groups regard themselves as fairly risk-averse. The same applies in respect to the importance of inheritances. In response to the question "How important to you is it to leave an inheritance or gift to your partner, children or others?", the averages are annuity 3.0, combination 3.2, and lump sum 3.4.

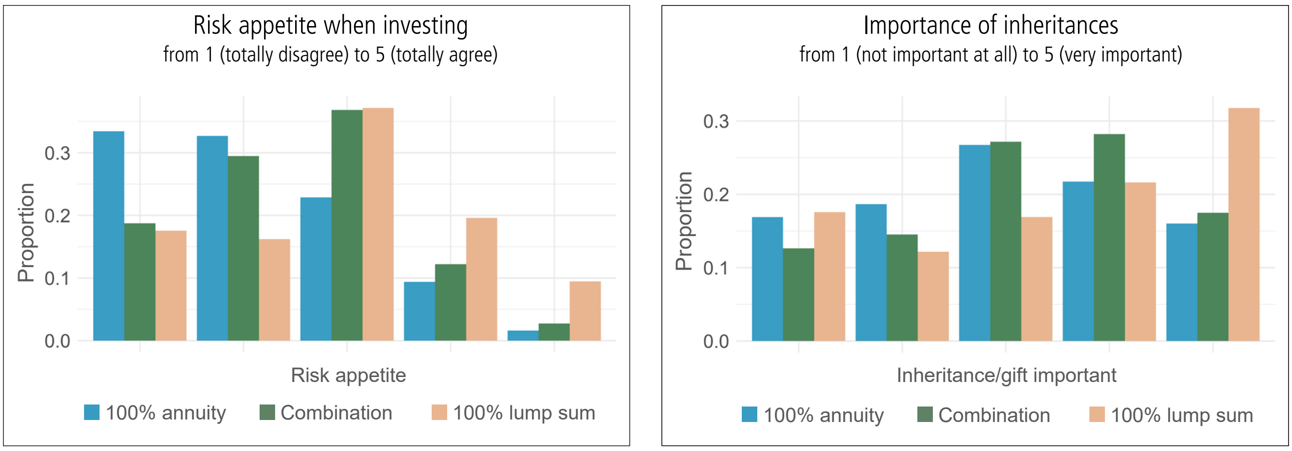


Figure 18: Risk appetite and inheritance by payout type

This distribution of answers can be seen in figure 18.
Those opting for a lump sum only rate their own health slightly worse than those choosing an annuity or combination. Again on a scale from 1 to 5, the averages are 4.2 for annuity or combination, and 4.1 for lump sum.

On the subject of financial literacy, we see that on average, those choosing a combination or lump sum answer the three questions correctly more often than those who opted for an annuity only: the figures for lump sum (75%) and combination (74%) are noticeably higher than annuity (66%). To test their knowledge of pension funds, respondents were also asked whether PUBLICA still needs a return in order to fund a lifetime annuity. The lump sum-only group come off slightly worse than the annuity or combination groups, with 75% answering correctly as against 80% (see figure 19).

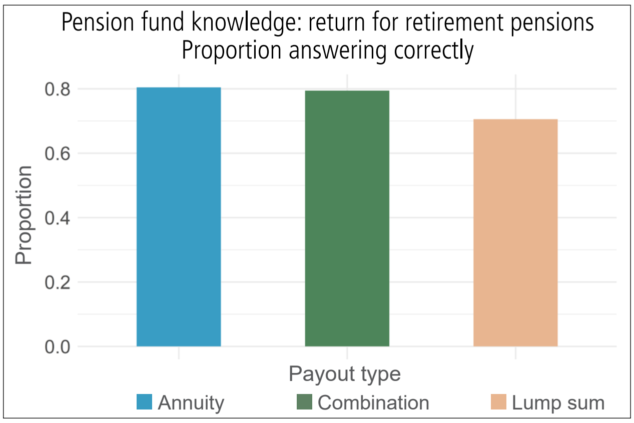
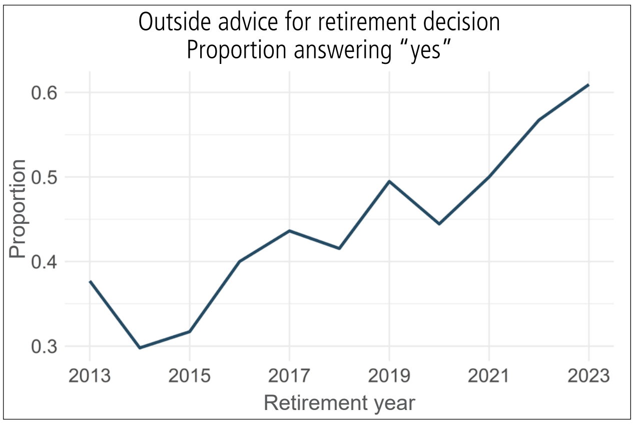


Figure 19:
Pension fund knowledge

As with the results from the evaluation of the data, the survey reveals no clear pattern for payout types in terms of marital status (the percentages indicating they are married are 70% annuity, 76% combination and 67% lump sum) but a higher proportion of men who opted for a combination (86%) or lump sum (82%) than for an annuity (77%).

5.3 Advice and sources of information

Turning to the decision-making process when preparing for retirement, participants were first asked if they had sought outside advice.



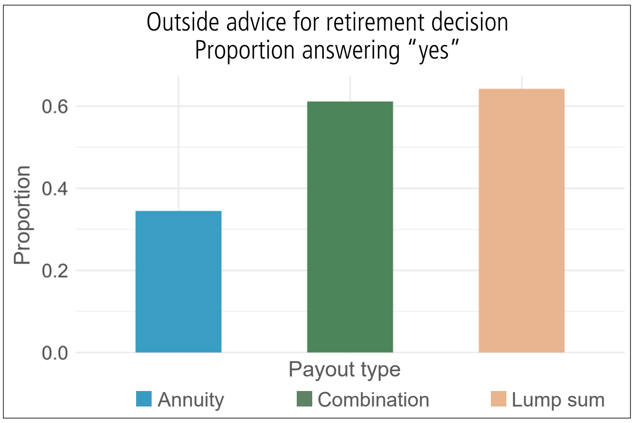


Figure 20: Outside advice for retirement decision

The importance of this has risen sharply over the last 10 years, with the proportion seeking outside guidance almost doubling from just over 30% to 60% (see figure 20). Those withdrawing a lump sum obtained advice almost twice as often as those drawing an annuity only. Here, the averages for the whole period are: lump sum 64%, combination 61% and annuity 34%. The rise can be seen across all three groups. Comparing 2013–2015 with 2021–2023, the percentage seeking guidance increased from 27% to 39% for annuity-only retirees, from 41% to 70% for those with a combination, and as much as 35% to 70% for those taking the full lump sum. Interestingly, there are no major differences when it comes to the available retirement assets: Overall, 47% of those with less than CHF 1 million sought outside advice, compared with 51% for those with over CHF 1 million. The difference between men and women is also minor: 49% for the former, and a slightly lower 43% for the latter.

Some sources of information (pension experts, bank advisors, pension fund advisors) correlate clearly with the combination or lump-sum options, while others (employer, friends/family, work colleagues) are mentioned more frequently in connection with annuities (see figure 21). The following charts show the proportions of those citing the information source concerned in connection with retirement.

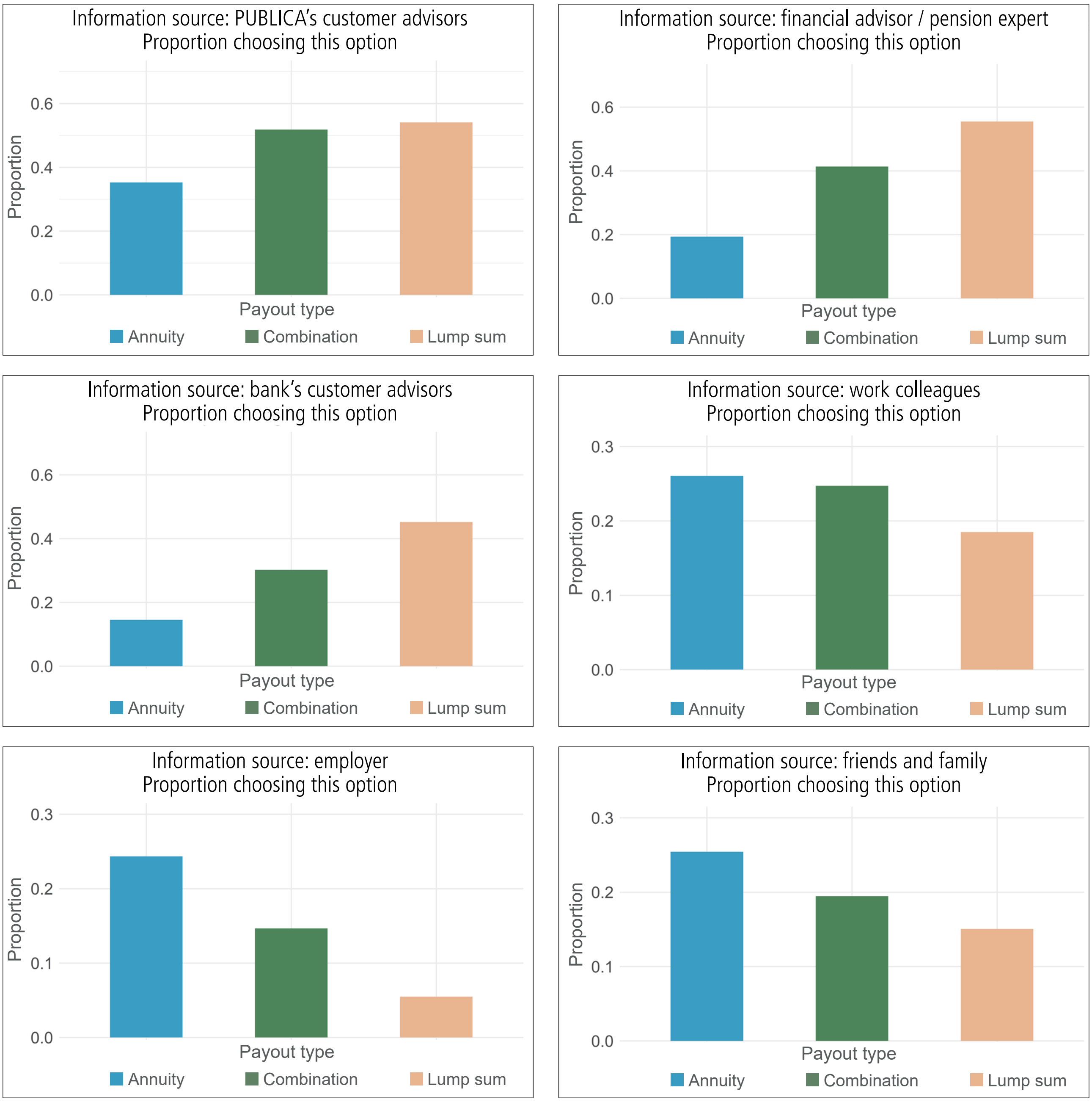
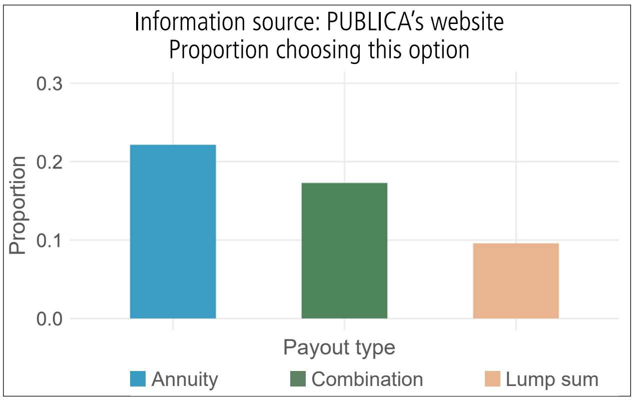
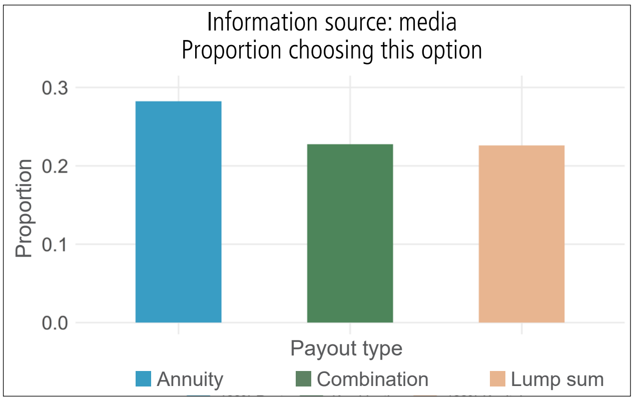


Figure 21: Sources of information





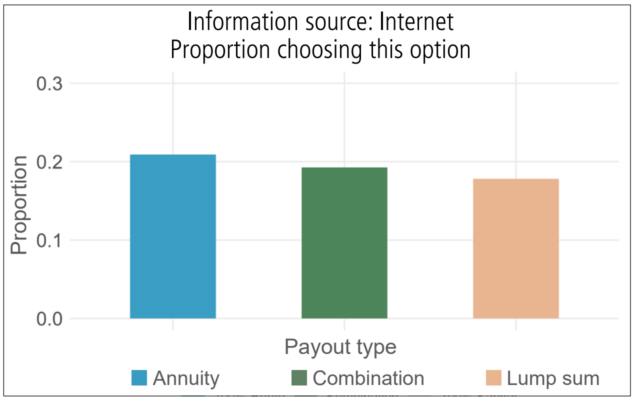


Figure 21:
Sources of information

Multiple answers were possible. Those taking all their assets as a lump sum sought advice from their bank's customer advisors almost twice as often, and financial advisors or pension experts almost three times more. Those choosing a lump sum or a combination with an annuity are also more likely to use the services of PUBLICA's customer advisors, though in this case the difference compared with annuity recipients is smaller.

5.4 How the lump sum is used

Finally, those who had chosen a combination or lump sum were asked a series of questions on how they used the capital they had withdrawn.
Asked when they would use it, the largest proportion state that they want to spread it out evenly over time (see figure 22): 43% in the combination group and a markedly higher 57% for the lump sum. Of those indicating they planned to use the money in the first years following their retirement, the

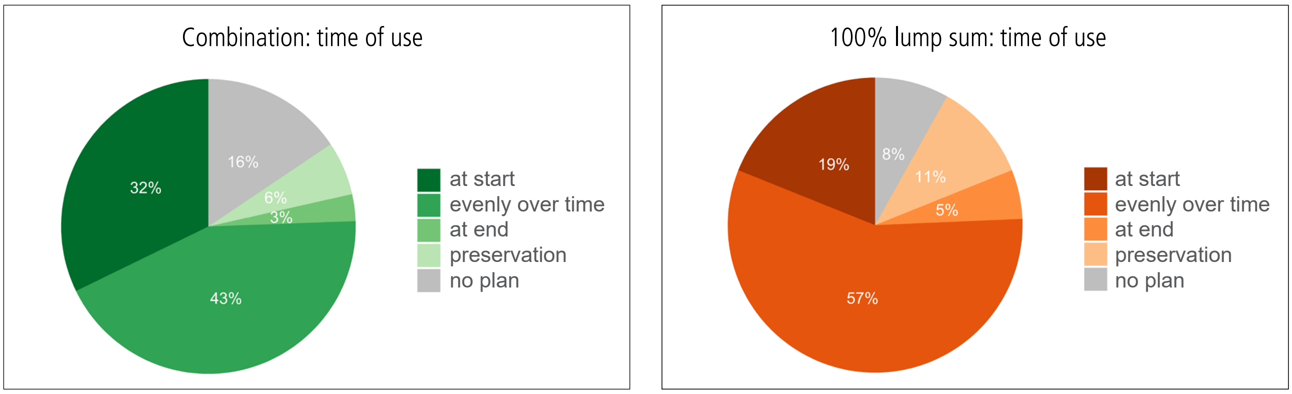


Figure 22: Time of use of capital

proportion is larger (32%) in the combination group than in the lump sum-only group (19%). There are not many in either group saying they would postpone it towards the end of their retirement. Capital preservation is a bigger consideration for those taking their payout entirely as a lump sum (11%) than for those choosing the combination (6%). Additionally, 16% in the combination group say they have no precise use planned, compared with just 8% for the lump-sum group.

A large proportion of those surveyed state that they have invested or saved the capital they withdrew. The reasons given for spending the money include maintaining a standard of living or leisure, followed by loan repayments, for example in connection with a mortgage. In all, 70% state that they manage the money they have withdrawn themselves. They most often invest it in bank and savings accounts, closely followed by investment funds: just under 50% in each case. This is followed by equities, at one third, and real estate at one quarter (see figure 23). Multiple answers were possible.

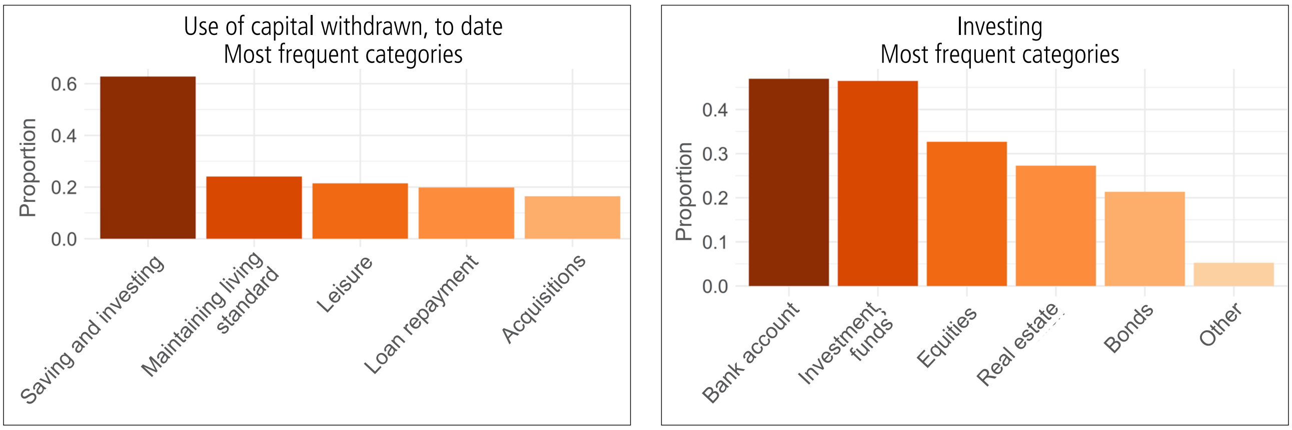


Figure 23: Use and investment of the capital withdrawn

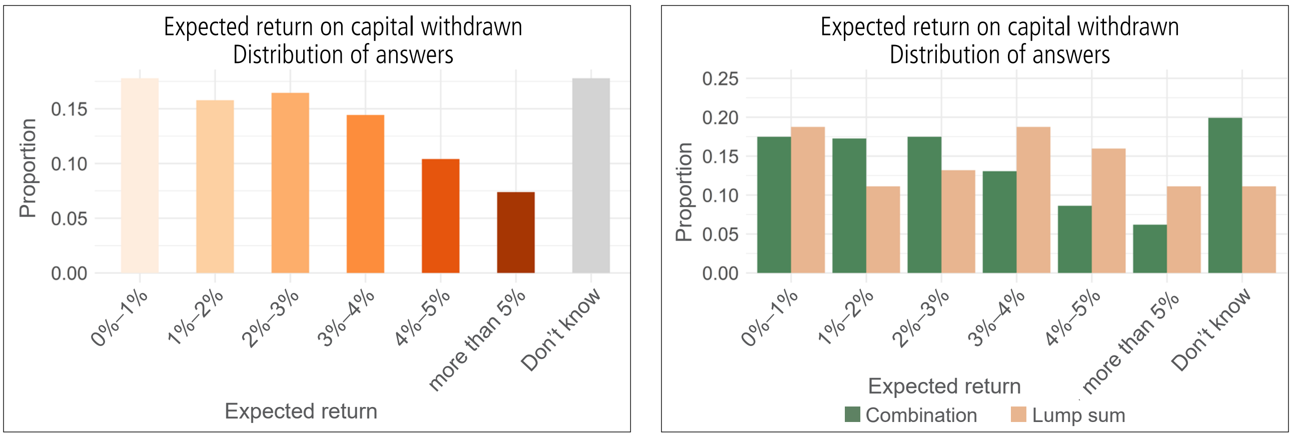
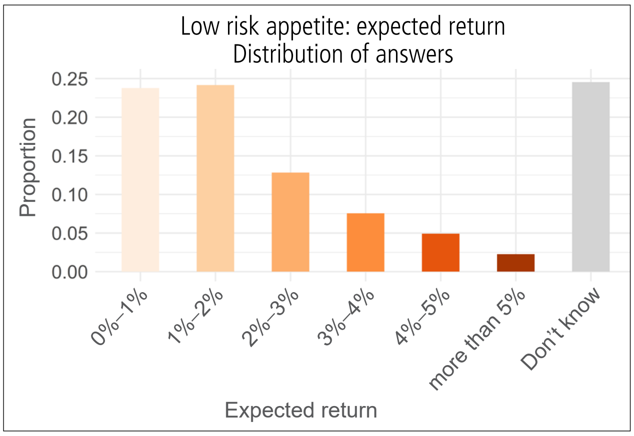
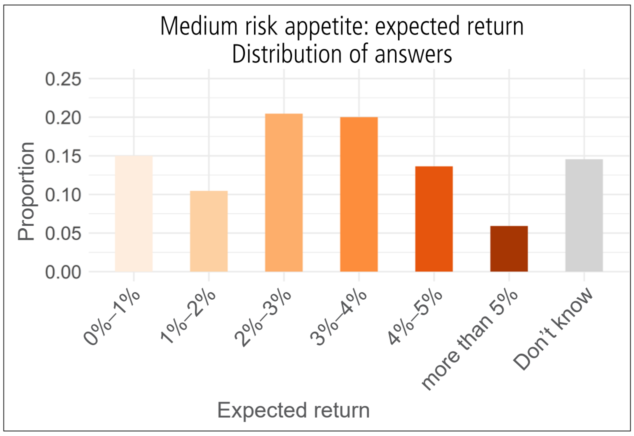


Figure 24: Expected return on capital withdrawn

The (expected) return on the capital withdrawn is between 0% and 2% for one third of respondents, and between 2% and 4% for just under a third more. A total of 18% expect more than 4%, while 17% don't know (see figure 24). These figures correlate relatively well with the observed investment form: the proportion held in bank and savings accounts aligns with the lower return expectations, real estate and investment funds and then equities with the (less frequently mentioned) higher returns. In all, 23% of respondents state that the return achieved was lower than they had expected prior to or at retirement. This means that many of those taking a lump-sum withdrawal expect a return lower than the implicit return they would have been guaranteed by the conversion rate (currently 2.4%).

In figure 24 on the right, it can also be seen that those withdrawing everything as a lump sum factor in higher returns and are much less likely to state that they do not know the expected figure. The expected returns also mirror the respondents' willingness to take risks. Those with a lower risk appetite (level 1 or 2) expect markedly lower returns than those with a medium risk appetite (level 3). Those most inclined to accept risks (level 4 or 5) mention the highest expected returns.
Figure 25 shows how these expected returns are distributed across the three groups.





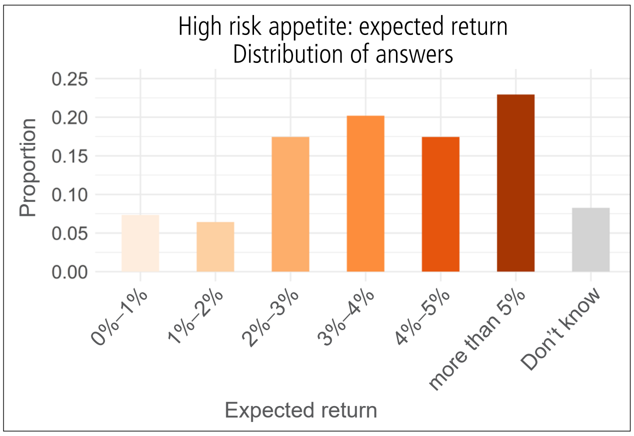


Figure 25:
Expected return by risk appetite

6 Summary

The increasing trend towards lump-sum withdrawals on retirement is progressively weakening the insurance element that is a central part of the pension system. When retirees withdraw all or part of their retirement assets as a lump sum, they forgo the insurance protection offered by a pension fund for the money that is paid out, and thus take on by themselves the longevity and financial market risks that would otherwise be borne by the fund.

Lump-sum withdrawals on retirement are becoming increasingly prevalent, and the rate has not yet stabilised at a new level. This trend can be seen both across Switzerland and at PUBLICA. Pension funds can only influence some of the reasons why people opt for a lump sum. While the conversion rate is one of them, another that is far more often cited is tax considerations. In terms of frequency of mentions, the conversion rate is on a par with the need for liquidity following retirement or a wish to implement an independent investment strategy. PUBLICA's ability as a pension fund to influence these factors via its offering is limited.

One clear development is the rise in those seeking outside advice and sources of information about retirement. Advisory offerings are becoming more and more popular. Looking ahead, it will be increasingly important for pension funds to operate a good information policy, so as to help their members make well-founded decisions in this key area.

The long-term consequences of the increase in lump-sum withdrawals cannot be fully assessed until a future date. In the snapshot provided by the survey, those taking all or part of their retirement assets as a lump sum appear to rate their financial circumstances somewhat better than those opting for an annuity only. It will be the task of future analyses to investigate how this progresses over the entire course of retirement.

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8 Thanks

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