

Choice Guidance for Lump-Sum Withdrawal

“Choosing a lump-sum pension withdrawal can have large and unpredictable effects on taxes and benefits, making careful and realistic guidance essential.”

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What is the focus of the paper?

This paper examines the financial, practical, and legal consequences of taking a lump-sum payment at retirement in the Netherlands. The study is motivated by a proposed change in Dutch legislation that allows participants to withdraw up to 10% of their pension capital at retirement. The aim is to assess the impact on net income, both in the year of withdrawal and over the entire payout phase. The authors combine quantitative simulations with sensitivity analyses that explicitly account for alternative assumptions that affect taxes and housing and healthcare benefits. In addition, the paper discusses the legal framework and practical limitations faced by pension providers when offering choice guidance. The analysis is limited to the lump-sum option and does not cover other pension choices.

What are the key findings?

The net amount remaining after the withdrawal year from a lump-sum withdrawal can be much lower than expected, especially for low-income participants who receive income-related benefits. In some cases, only 20-40% of the gross amount remains after taxes and benefit reductions. Outcomes are highly sensitive to personal characteristics such as rent, additional income, and partner income—information typically unavailable to pension providers. When considering the full payout period, higher taxes and lower benefits in the withdrawal year are largely offset by lower taxes and higher benefits in later years. Overall attractiveness therefore mainly depends on life expectancy, although effects are modest.

What are the implications?

- Pension providers' choice guidance is inherently incomplete due to missing personal financial information.
- There is a real risk of offering misleading information and creating false certainty for participants.
- Clearer definitions of responsibilities and obligations for pension providers are needed.

Want to know more? Read the paper (in Dutch):

Keuzebegeleiding bij bedrag ineens