

Payout phase in DC pension funds – policy option - Theoretical considerations and Albanian available options

Enkeleda Shehi

Albanian Financial Supervisory Authority

Abstract

The aim of this paper is to provide a brief overview of the third pillar of pensions in Albania and what are the different alternatives related to the payout.

Referring to the actual development of this market in Albania, experience of the actors involved, I find it indispensable and necessary to provide some theoretical background and considerations, and then build up a simple model of projection of a pension scheme cost and a model for payout alternatives for the Albanian pension funds. A great deal of importance is shown towards posing the assumptions.

Also, the paper gives an explanation about the differences among different payout options and suggests the best option for the existing pension funds in Albania. The best option represents my conclusion and recommendation for the actual third pillar of pensions and the others that might join latter.

To sum up, the first conclusion of the paper is that the annuity option is the best alternative for the payout phase of the pensions. It has the advantage of providing the highest protection against the risk of longevity. The second conclusion is that based on other countries experiences, the annuity market have to be developed hand in hand with the pension system development. Therefore Albania should rely on and follow this experience.

Keywords: Voluntary Pension Funds, Life annuities, Longevity risk.

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