SECP

SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN

REPORT OF ANNUITY WORKING GROUP

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1. Executive Summary

The Securities and Exchange Commission of Pakistan (SECP) established the Annuity Working Group (AWG) to address the underdeveloped retirement income market. While Pension Fund Managers (PFMs) under the Voluntary Pension System (VPS) provide accumulation-phase products, the decumulation phase remains underdeveloped. Retirees largely opt for Income Payment Plans, with limited access to annuities. This gap exposes retirees to longevity and market risks, undermining income security in old age.

The AWG identified several key challenges impeding the development of annuity products:

- **Household financial behavior** is often oriented toward immediate consumption or short-term savings instruments, leaving little appetite for long term products. The lack of understanding of retirement planning and annuity product offerings further curtails the growth of annuity market.
- **Income payment plans** available to the participants at the retirement age, are curtailing the growth of annuity market development as participants tend to take short term perspective and view income payment plans as a cheaper option ignoring the longevity risk.
- **Commercial disincentives** for the Pension Fund Managers to enter into agreements with insurance companies for provision of annuity at the retirement stage as it would lead to transfer of assets under management, thereby, reducing revenue of the Pension Fund Managers.
- **Unavailability of long-term investment instruments** such as 15–20 year PIBs and Sukuks, are a major reason for underdevelopment of the market as the absence of these integral instruments expose the insurers to longevity risk making the annuity product an expensive choice for the participants.
- **Asymmetry of tax incentives** for similar products has put the insurance companies at a commercial disadvantage leading to underdevelopment of annuity market. The accumulation phase under the VPS Rules, 2005 has tax incentives while similar insurance products do not enjoy similar tax incentives.

To address these challenges, the AWG proposed the following recommendations:

- Time bound instructions to Pension Fund Managers to have arrangements with life insurance companies in place to provide annuity at retirement stage and annuity calculators on the website.
- Development of regulatory framework to provide the mechanism that would be followed by the Pension Fund Manager when a participant reaches the retirement age covering the following:

    i. Information sharing regarding options at retirement i.e. income payment plans, annuity and cash withdrawals.
    ii. Obtaining consent regarding the choice of the participant.
    iii. Information to be shared with partner insurance company regarding the retirees.

- The Government should issue long-term fixed-rate Pakistan Investment Bonds (PIBs) and Sukuks with maturities of 15–20 years. The availability of such instruments is crucial for insurers to manage asset–liability mismatches and offer affordable annuity payouts that remain sustainable over the long term.
- In line with international best practices, a minimum portion of accumulated corpus at the time of retirement should be mandatorily used to purchase an annuity. This ensures retirees receive a predictable income stream for life, protecting them against longevity risk while still allowing flexibility for partial lump-sum withdrawals.
- Amendments to the Income Tax Ordinance, 2001 should be made to remove tax asymmetries between pension products. Insurance-based retirement saving products should receive the same tax benefits as VPS products to create a level playing field, encourage competition, and expand retirement income options for participants.

The report further sets out a detailed action plan that translates these recommendations into practical steps, assigning clear responsibilities to stakeholders.

2. Introduction

The Securities and Exchange Commission of Pakistan (SECP) has recognized that while governments are transitioning from defined benefit to defined contribution pension schemes, there remains a significant gap in retirement savings and post-retirement income security. The lack of robust post-retirement income options creates vulnerabilities for retirees, particularly in the face of rising life expectancy and inflation.

Under the SECP-regulated Voluntary Pension System (VPS), PFMs provide a range of products to support the accumulation phase of retirement savings. However, the deaccumulation phase is underdeveloped, leaving retirees primarily reliant on Income Payment Plans offered by PFMs. This narrow choice limits financial security for retirees and exposes them to longevity and market risks. To address this gap, the Commission, in its 11th meeting of FY 2025, directed the formation of an Annuity Working Group (AWG). The mandate of the group is as follows:

- Provide overview of post-retirement income vehicles of products available for formal and informal sector.
- Identify the bottlenecks, regulatory or other, in offering annuity products.
- Propose Annuity Product Framework.
- Recommend actionable steps to develop the annuity product.
- Evaluation of adequacy of payments to retirees under income payment plans.

3. Composition of Working Group:

The Commission in its 11th meeting of FY 2025, held on March 24, 2025 approved the formation of Annuity Working Group (AWG). The group was formed with the objective of fostering collaboration among stakeholders to develop a sustainable pension ecosystem, to recommend legislative reforms and advocacy to promote post retirement savings solutions. As per the scope of AWG, the following individuals were designated as members of the group:

Sr. No.	Name	Organization
1	Mr. Waseem Khan	SECP
2	Mr. Falak Soomro	SECP
3	Mr. Arslan Zafar	SECP
4	Mr. Talal Usmani	SECP
5	Ms. Zahny Amlany	EFU Life Assurance Ltd.
6	Mr. Shan Rabbani	Jubilee Life Insurance Company Ltd
7	Mr. Usama Dangra	Pakistan Society of Actuaries
8	Mr. Faisal Mumtaz	State Life Insurance Company Ltd.
9	Mr. Meraj Mazhar	Pak Qatar Family Takaful Ltd.

4. Outline of Annuity System in Pakistan

The annuity system in Pakistan is still at nascent stages of development and remains highly underpenetrated compared to global markets. At present, annuities are primarily offered by the following institutions:

Institution	Product	Description
State Life Insurance Company	1. Immediate Annuity 2. Deferred Annuity 3. Retirement Annuity Plan	• Flexible Contributions (one-time lump sum or regular payments) • Life-time stream of payments • Option for a fixed or variable annuity.
Jubilee Life Insurance	Immediate Annuity	
Pak Qatar Family Takaful	Lifetime Kafalat Plan	
EFU Life Assurance	Immediate Annuity	

The uptake of annuities remains modest, influenced by both cultural and structural factors. A limited savings culture and the low priority given to retirement planning reduces individuals' willingness to secure annuity products. At the same time, structural challenges further constrain market growth, including the absence of a clear framework for the transition of assets from Pension Fund Managers (PFMs) to insurers and the limited availability of long-term bonds that insurers need to effectively manage longevity risk. As of 30 June 2025, total assets under the Voluntary Pension System (VPS) amounted to approximately PKR 111 billion, for which PFMs themselves provide Income Payment Plans. In this context, PFMs face little commercial incentive to partner with insurance companies to offer annuity, resulting in limited product development and weak demand.

4.1. Limitations and Key Challenges

a. Savings culture and low financial literacy

One of the fundamental constraints to the growth of annuity products in Pakistan is the weak culture of long-term savings, coupled with limited levels of financial literacy. Household financial behaviour is often oriented toward immediate consumption or short-term savings instruments, leaving little appetite for products that require committing funds over an extended horizon. At the same time, public understanding of retirement planning and annuity mechanisms remains low. Many individuals are unfamiliar with how annuities can provide a predictable stream of income in old age or how they differ from traditional savings accounts and investment products. This lack of awareness not only reduces demand but also creates misconceptions about the value and flexibility of annuity arrangements.

b. Limited Availability of Long-Term Investment Instruments

There is a notable shortage of long-term fixed-rate government securities, such as 15, 20, and 30-year Pakistan Investment Bonds (PIBs), which constrains insurers' ability to adequately match annuity liabilities and manage longevity risk. Similarly, the current offering of Ijarah Sukuk is limited to shorter tenors of 1, 3, 5 and 10 years, and the absence of long-dated, Shariah-compliant fixed-rate instruments further restricts the development of Islamic retirement income solutions.

Inflation-linked PIBs and Sukuks are also absent from the market, limiting the ability to offer sustainable, inflation-protected payouts during the decumulation phase.

c. **Regulatory misalignment in supporting annuity products**

a. **Absence of a defined mechanism for asset transfer**

PFMs are reluctant to transfer assets to insurers because such transfers reduce their assets under management and the associated fee income. Since the business model of PFMs is directly tied to the size of their asset base, any movement of funds away from them is perceived as a revenue loss, creating a structural disincentive for such transfers. In the absence of a clear and transparent framework to manage this process, PFMs continue to retain assets rather than redirect them to insurers. This limited flow of funds has direct implications for the annuity market, without access to large and predictable asset pools, insurers are unable to build the necessary scale to support competitive annuity products. As a result, demand for annuities remains weak, product innovation is restricted, and the overall range of offerings available to retirees in the market is narrow.

b. **Current design of Voluntary Pension System**

The current design of the Voluntary Pension System (VPS) includes an Income Payment Plan (IPP) clause that limits the effective use of annuities, whose primary purpose is to provide retirees with secure and predictable income streams. Under Rule 18, sub-rules 1(b) and 1(c) of the VPS Rules, 2005, participants at retirement have the option to either purchase an annuity from a life insurance company or a PFM, or to enter into an agreement with a PFM to receive their retirement corpus in monthly installments through an Income Payment Plan.

The absence of a default annuitization mechanism means that participants are not automatically guided toward converting their accumulated savings into income-generating products, which contributes to the underutilization of available annuity options. The lack of a regulatory push for PFMs to offer annuities in collaboration with insurance companies further weakens the decumulation pathway.

d. **Unfavourable Tax Treatment of Insurance-Based Pension**

The current tax framework places insurance-based pensions at a disadvantage. Contributions and capital gains are fully taxable, which reduces their appeal. In contrast, PFMs under SECP regulated defined contribution scheme benefit from preferential tax treatment, creating an uneven playing field. Legislative limitations such as specific reference to the VPS Rules, 2005 in Section 2(3)(C) and the exclusion of annuity products in Section 63(1) of the Income Tax Ordinance discourage insurers and takaful operators from offering competitive retirement products.

	Pension scheme offered under VPS Rules, 2005	Retirement annuity scheme offered under Insurance Ordinance, 2000
First Stage *Contributions*	Contributions qualify for tax credit under Section 63 of the Income Tax Ordinance, 2001.	Contributions do not qualify for tax credit.
Second Stage *Accumulation phase*	Any income of a Pension Fund approved by SECP under VPS Rules, 2005 is tax exempt as per clause 57 (3)(viii) of Part I of the Second schedule of Income Tax Ordinance, 2001.	Income is taxable at normal rates.
Third Stage *Monthly pension payouts*	The entire pension receipts are taxable at normal tax rates.	

4.2. Recommendations

a. Time-bound arrangements between PFMs and insurers

To ensure retirees have access to annuity products, PFMs should be required to establish formal arrangements with registered life insurance companies within a specified timeframe. These arrangements will guarantee that annuity options are available at the point of retirement rather than leaving participants with only income payment plans. In addition, PFMs should be mandated to provide annuity calculators on their websites, enabling participants to project their retirement income and compare choices in advance. This measure will not only improve transparency but also foster demand for annuities by helping participants understand their long-term financial security.

b. Development of a regulatory framework for retirement transition

A clear regulatory framework should be developed to guide how PFMs manage participants' transition from the accumulation phase to retirement. This framework should set minimum standards, requiring PFMs to:

- Provide balanced information about all available retirement options (income payment plans, annuities, and cash withdrawals), ensuring participants are fully informed;
- Obtain and document participants' consent on their selected retirement option, reducing the risk of mis-selling or disputes; and
- Share relevant retiree information with partner insurers in a secure and timely manner to ensure annuity arrangements can be seamlessly activated.

This structure would bring greater discipline to the retirement process, reduce information gaps, and create a more consistent experience for retirees across the pension system.

c. Mandatory Annuity Purchase

To support the development of a sustainable annuity market, the regulatory framework should incorporate mandatory annuity purchase as a portion of accumulated corpus at the time of retirement. A structured, minimum threshold for annuity purchase would ensure that individuals receive a predictable stream of post-retirement income, while still preserving flexibility for discretionary withdrawals. The table below shows the international practices for mandatory annuitization:

Jurisdiction	Mandatory annuitization	Primary legal reference
Singapore (CPF LIFE)	Retirement Account savings must be converted into CPF LIFE (a lifelong annuity) when they meet prescribed age and balance thresholds.	Central Provident Fund Act and; CPF (Lifelong Income Scheme) Regulations 2009.
India (National Pension System)	On exit/retirement, a portion of pension wealth must be used to purchase an annuity (40% at normal exit; 80% on premature exit).	PFRDA Act 2013 and; PFRDA (Exits & Withdrawals under NPS) Regulations, 2015.
South Africa (Provident funds)	Retirement benefits from provident funds are subject to annuitization, at least two-thirds must be taken as an annuity.	Taxation Laws Amendment Act, 2020 (amending Income Tax Act, 1962); administered under Pension Funds Act 1956.
Denmark (ATP)	Contributions to ATP are mandatory, and benefits are paid only as lifelong pensions (annuities).	ATP Act (Arbejdsmarkedets Tillægspension Act).

A similar model could be adopted in Pakistan to strike a balance between income security and individual choice.

Income payment plans, while useful for flexibility, are not designed to provide lifetime coverage and therefore cannot on their own address longevity risk. Introducing a mandatory annuity element alongside existing options under Rule 18 of the VPS Rules, 2005 would reinforce the role of annuities in retirement planning without removing participant choice entirely.

d. Issuance of Long-Term Fixed-Rate Instruments to Support Annuity Products

To support effective risk management by annuity providers, the government should prioritize the issuance of long-term, fixed-rate debt instruments, such as Pakistan Investment Bonds (PIBs) and Sukuks, with maturities of 15, 20, and 30 years. The availability of such instruments is essential for ensuring the sustainability of annuity payouts and enabling prudent management of long-term retirement liabilities. At present, the scarcity of long-dated instruments significantly constrains insurers and takaful operators in their ability to match liabilities and hedge investment risks effectively.

e. Ensuring Tax Parity Across Pension Instruments

To ensure neutrality and encourage broader participation, the asymmetry of taxation should be revisited. Specifically, insurance and takaful-based retirement products should be granted tax treatment on par with other retirement savings instruments.

The following amendments to the Income Tax Ordinance, 2001 are necessary to create a level playing field between pension fund managers and insurance-based annuity providers, thereby fostering a more inclusive and competitive retirement savings environment:

i. Amendment to the definition of **“Approved Pension Fund”** under Section 2(3)(c) to explicitly include annuity products, thereby extending tax credits on contributions to insurance-based retirement schemes;

ii. Revision of **Clause 57(3)(viii) in Part I of the Second Schedule** to grant equivalent tax exemptions to annuity-based retirement schemes, ensuring parity with existing VPS arrangements.

Annexure A – Discussions of the Annuity Working Group

The Annuity Working Group (AWG) has convened four times since its establishment to deliberate on the development of an enabling framework for annuity products in Pakistan. Each meeting built on earlier discussions, moving from preliminary scoping to detailed consideration of policy measures and the formulation of a cohesive roadmap.

First Meeting

The first meeting introduced the TORs and provided an overview of the issues to be addressed by the Group. Members reviewed the types of annuity and income replacement products currently available in Pakistan and assessed the extent of coverage in both the formal and informal sectors. The discussions highlighted regulatory, market, and operational challenges that limit the development and uptake of annuity products. Participants were invited to share their views on the key bottlenecks impeding growth and to suggest initial ideas for a framework that could support a viable annuity market in the country.

Second Meeting

The second meeting was dedicated to identifying and analysing the constraints that continue to restrict annuity market development. Members noted gaps in the regulatory framework, uncertainties in taxation treatment, structural barriers in the financial sector, and the limited level of consumer awareness as significant impediments. International best practices were considered to assess how successful approaches in other jurisdictions might inform local reforms. Based on these discussions, stakeholders put forward suggestions on how a sustainable and consumer-oriented framework could be structured, including the potential role of regulatory flexibility and targeted tax incentives.

Third Meeting

In the third meeting, the Group examined the policy suggestions received in earlier sessions and considered their feasibility in the domestic context. Deliberations covered the introduction of more diverse product structures to cater to varying retirement needs, the development of long-term investment avenues to support annuity liabilities, and the design of fiscal incentives to encourage both providers and retirees to participate. The discussions underscored the need for close coordination with other government entities, particularly the Federal Board of Revenue for tax alignment and the Debt Office for the issuance of long-term bonds. These linkages were viewed as essential to ensuring both market viability and long-term security of annuity commitments.

Fourth Meeting

The fourth meeting consolidated the deliberations into a coherent set of recommendations. Building on the earlier work, members prioritised the introduction of enabling regulations for annuity products, the availability of long-term investment instruments to match annuity liabilities, and the alignment of tax policy with retirement income objectives. The session also emphasised the importance of sequencing reforms and setting clear milestones. The meeting concluded with consensus on a roadmap of actionable measures, which will be presented to the Commission for consideration as the basis for annuity market development in Pakistan.

Annexure B – Action Plan based on Annuity Working Group Report

S.No.	Reform/ Task	Description	Responsibility	
			SECP	**Others**
1.	Development of regulatory framework for asset transition mechanism at retirement	a) All PFMs to have time bound arrangements/MOUs with life insurance companies for annuity offerings, ensuring appropriate disclosures and the availability of an annuity calculator on their websites. b) PFMs to manage participants' asset transition from the accumulation phase to retirement by: • Providing information about all available retirement options to participants • Sharing relevant retiree information with partner insurance companies • Obtaining and documenting participants' consent on their selected retirement option.	To develop a clear regulatory framework, in consultation with relevant stakeholders, to guide asset transfers from PFMs to insurers at retirement.	Stakeholders to provide input during the consultation sessions.
2.	Mandatory Annuitization	a) To introduce mandatory annuitization at retirement.	a) To hold consultation with the industry stakeholders (PFMs and	Stakeholders to provide input during the
3.	Issuance of Long-term fixed rate instruments	To support effective risk management by annuity providers and reduce asset–liability mismatches.	To evaluate the need for long-term instruments based on the data provided by the insurance industry, and to engage with the Debt Office if deemed necessary	The insurance industry should provide liability projections and a weighted average maturity analysis to determine the volume of long-term debt instruments required.

4.	Tax parity across pension products	Amendments in Section 2(3)(C) and Clause 57(3)(viii) in Part I of the Second Schedule of Income Tax Ordinance, 2001 to ensure tax parity across products.	To formally request the Federal Minister for Finance, Finance Secretary, and Chairman FBR to maintain consistency in tax treatment across pension products.	The final decision will rest with the Federal Government.

For comments and feedback, please email at: pension@secp.gov.pk

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