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AUPRÈS DE L'ORGANISATION DE COOPÉRATION
ET DE DÉVELOPPEMENT ÉCONOMIQUES

Submission to the OECD Working Party on Private Pensions

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Comments on the Draft OECD Policy Responses to the Crisis

The TUAC welcomes the initiative by the WPPP to prepare a submission to the G20 on the impact of the crisis on pre-funded pension schemes, which regretfully was left unaddressed in the November 2008 statement of the G20 Summit in Washington. The paper which is for discussion at the meeting in Budapest (DAF/AS/PEN/WD(2009)1) addresses important issues which should be shared by the G20. On substance however, we do have concerns with the current version which we highlight in the following comments.

The failures of DC schemes

The majority of the recommendations and issues contained in the paper are specific to DC schemes, which structural failures have been exposed by the crisis: "Improve the design of DC plans, including default investment strategies", "avoid materializing losses by selling at the bottom of the market", "step up disclosure and communication", "Improve financial education", etc. Yet the paper falls short of drawing the necessary conclusions from the crisis and the unintended consequences of the shift from DB to DC schemes as witnessed over the past decade in several OECD countries and as actively promoted by international financial institutions and the OECD. The WPPP should develop guidance on how OECD countries could reverse the trend toward evermore market and longevity risks onto workers, and promote DB and other fair risk-sharing pension regimes.

Flexibility and counter-cyclicality of DB funding rules

Likewise banking prudential rules, pension funding rules applying to DB and hybrid DC schemes need to be counter-cyclical. In fact the TUAC has in the past repeatedly called for the WPPP to investigate further this issue and in particular the impact of employers taking 'pension contribution holidays' during growth times, leaving pension fund at risk of underfunding at any sign of downturn.

Regulation of pension fund investment policy

Increasing monitoring by and cooperation between supervisors is self-justifying and is a priority of the G20. On the other hand, the paper is silent on the role that pension investment policy regulation may play in protecting pension funds against systemic risks and regulatory failures. It is noteworthy that, according to a recent IOPS paper circulated to the WPPP "countries which still use quantitative investment limits have also been sheltered to some extent. For example in Germany qualitative restrictions limit investment in securitized products has helped to contain the exposure of pension funds". Risk diversification is needed and indeed pension funds should be allowed to invest in a relative large investment universe. However, several post-September 2008 initiatives have identified the need to reverse the light regulatory approach to global finance of the past and to prevent "highly regulated investment entities" – including pension funds – from investing in un-regulated products and assets[1]. The Working Party should reconsider the use of quantitative investment restrictions and – alternatively – strengthening prudent person standard and risk management for alternative assets. For DC schemes more conservative portfolio compositions should be enforced for workers approaching retirement.

Risk management of pension funds must be enhanced to 'ESG' investment policies

The current papers' discussion on risk management should be enhanced to acknowledging the need for pension funds to exercise their shareholder responsibilities and have in-house shareholder activism and sustainability reporting expertise on environment, social and governance issues, in line with their fiduciary duties.

Don't attack PAYG systems

There is a case for protecting and improving sustainability of pre-funded schemes without recourse to unfounded attacks against public pay-as-you-go systems. PAYG systems have no relation to the current financial crisis, its causes and dynamics. Nevertheless, the OECD Secretariat believes appropriate to begin the draft discussion paper – which is meant to address the impact of the crisis on pre-funded pensions – by questioning PAYG funding model which sustainability problems are said to be "daunting". Such statement is inaccurate and weakens the credibility of the whole paper. It is based on an article written in 2001 and which data and projections date back to the 90ies. We believe the paper should be focussed on the impact of the crisis on pre-funded schemes and should remain within the mandate of the Working Party[2].

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[1] Modernizing the American Financial Regulatory System, Congressional Oversight Panel (COP), Special Report on Regulatory Reform, January 2009: http://cop.senate.gov/documents/cop-012909-report-regulatoryreform.pdf ; Principles for a New Financial Architecture, Stiglitz, UN Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System, January 2009; http://www.un.org/ga/president/63/commission/newfinancialarchitecture.pdf

[2] Extract from document [DAFFE/AS(99)3/REV1] "Terms of Reference [...] "The Working Party on private pensions has the following tasks and objectives: - survey and monitoring of private pensions systems in OECD Member countries and analysis of related policy and technical issues; - formulation of appropriate policy conclusions and/or recommendations on the different approaches related to regulation and supervision of private pension systems; - keeping abreast of OECD activities related to private pensions; co-operation and co-ordination on these issues with other relevant OECD bodies as well as with other international bodies; - promotion of policy dialogue with Non Member countries on private pensions issues

Responses by TUAC affiliates to the OECD Questionnaires

Based on the OECD Secretariat questionnaire on "pensions and the crisis" which was circulated in February 2009, the TUAC submits the following country reports from some of our affiliates, including: AFL-CIO (United States), CLC (Canada), CSN (Canada, Québec), TUC (United Kingdom), RENGO (Japan), FNV (Netherlands), CCOO (Spain), FTF (Denmark) and LO (Sweden).

Impact of the crisis on the pension funds' funding levels

United States (AFL-CIO)

Underfunding is a serious concern for pension funds. A recent study by Mercer found that corporate pension plans at the largest companies were underfunded by $409 billion at the end of 2008. Almost every asset class, even those that managers and consultants claimed were uncorrelated to the broader markets, has suffered in the current downturn. Additional problems have arisen from the need to rebalance portfolios when asset allocations fall outside of those approved by Trustee's because of large declines in equity portfolios. This is particularly the case for illiquid investments that may need to be sold at huge discounts in the secondary markets. That said, the resale value may not be as much of a discount as money managers' portfolio valuations would suggest because they are often based on internal modelling. This lack of transparency is also a concern, particularly given the exorbitant fees, largely based on assets under management, charged by alternative investment managers. Several pension funds had investments, directly or indirectly, managed by Bernie Madoff. This scandal has become a major focus of policymakers and regulators as well. As the economy continues to erode and corporate defaults increase, there is a concern that the Pension Benefit Guaranty Corp. (PBGC), the government corporation that insures the pensions of 44 million workers and retirees, will not be able to cover all of its liabilities. The PBGC already has $74 billion in obligations coming due in the coming years but it has only $63 billion in assets.

Netherlands (FNV)

The coverage ratio of Dutch pension funds has fallen to 80-90 %, that is far below the minimum funding ratio of 105% and of 140-150% to ensure full indexation of pension benefits. The funding gap is due to the fall in asset values, but also as a result of the reduction in long term interest rates – currently at 3.5% – which is used as the discount rate for calculating Dutch pension fund liabilities. A 1% increase of the long term interest rates would translate into a 15-17% improvement in the funding ratio. Accordingly, time and for the matter waiting for a rise in long term interest rates, will be crucial to ensure pension funding recovery.

Canada (CLC)

The funding health of Canadian DB pensions has dropped between 15%-20% given the current economic crisis. As is the case elsewhere, this will have the effect of pushing plans (further) into actuarial deficit. At the same time, when determining the genuine health of employers (and their ability to pay for pension funding shortfalls) evidence suggests things are not as dire as many think. A November 2008 report from Desjardins Securities argued most Canadian pension plan sponsors can fund their pension plan shortfalls. The report explained Canadian companies have operating profits 18.3 times their pension liabilities, and an average firm could pay down their pension liabilities with just one to two months of profit, or a year's worth of operating cash flow. This is so because Canadian employers have largely hoarded market windfalls in recent years as cash. In 2006 non-financial employers had a surplus of $80.2 billion on their balance sheets, a trend studies suggest comes from employers seeking to maximize returns in financial investments. A significant chunk of these assets have been lost, but the profitability of many employers remains healthy. The resilience of Canada's five major banks has also provided a useful influence, though they are currently retaining cash, and refusing to rejuvenate stalled credit markets.

Canada, Québec (CSN)

According to the *Régie des rentes du Québec* (pension supervisor), the proportion of underfunded schemes has increased from 65% end-2007 to 95% end-2008, while median funding ratio has fallen from 95% to 73% during that period. More worrying is the size of companies' funding of the pensions deficits relative to total payroll. Underfunding amortization payments (ie. payments coming on top of normal employer pension contributions) have moved from 11% of total payroll before the crisis to 25% since the crisis. Over 29% of pension plans are expected to have deficit amortization payments exceeding 30% of the sponsor's payroll by the next actuarial review. For over 10% of companies in Québec, these payments should represent 50% of payroll which is, for many, unsustainable and may lead to bankruptcy.

One of the reasons for these very high percentages is the maturity of the schemes. In some sectors, plant closures and reduction of the workforce as seen in recent years have been associated with retirement programmes. This in turn has meant an increase in pension liabilities of the affected pension plans, poor performances for some of the large pension funds and an increase in amortization payments relative to payroll. As in Canada, in Québec DB plans are declining. DB plans typically are with large groups operating in traditional sectors such as metallurgy, car industry, wood, etc.., which are heavily exposed to the crisis, unlike other sectors such as IT which are dominated by DCs.

Sweden (LO)

So far the DC scheme for blue collar workers in the private sector ("avtalspension SAF-LO") has not suffered too much. Returns on investments have remained above the guaranteed level.

Denmark (FTF)

Danish pension funds have been hit by the crisis in the last quarter of 2008. However, it is understood that comparatively speaking, the damages on their asset values have been less dramatic than in other jurisdictions as a result of regulated investment restrictions in risky assets.

Spain (CC.OO)

An indirect impact of the crisis on Spanish DC pension schemes (which represent a marginal proportion of workers' total pension compared to PAYG system) has been the softening of rules for workers to exist the schemes and cash in their accumulated assets before age of retirement. Two situations can trigger this right: serious illness and long term unemployment. The government has weakened the conditions applying to the latter, and CCOO has agreed to it.

Impact of the crisis on workers' pension under DB and/or DC regimes

United States (AFL-CIO)

DC plans face significant near-term problems as people approaching retirement age cannot retire on time due to declines in the stock markets. This is likely to alter the dynamics of the discussion around social security reform as working people recognize the importance of social security for the provision of retirement income. DB plans have not been immune to the losses suffered in the public equities markets that are the main investments for DC despite their ability to invest in alternative asset classes. Individuals that are the beneficiaries of DB plans, however, have been promised specified levels of retirement incomes by their employers. To the extent that DB plan beneficiaries are employees or retired employees of companies that remain solvent, the financial crisis should not impact their retirement incomes. Something to watch for with regard to DB plans at financially distressed companies is whether and to what extent we see an increase in the applications for distressed terminations of pension funds. In a distressed termination, a pension plan can be terminated if the employer proves to the PBGC or a bankruptcy court that the employer can't stay open unless the plan ends. PBGC pays plan benefits based on legal limits for terminated plans by using plan assets and PBGC guarantee funds. Beneficiaries of DB plans that are terminated due to their company's insolvency may suffer a reduction in benefits due to limits on what the PBGC will pay out.

United Kingdom (TUC)

The near term impacts will be experienced primarily by those in DC schemes nearing retirement age, many of whom have seen the value of their savings wiped out as they were about to purchase annuities. This results in either a significantly reduced retirement income or people having to work longer. There will also be near term impacts on workers whose employers become insolvent, although 90% of their benefits will generally be covered by the Pensions Protection Fund.

Japan (RENGO)

Private enterprises are increasingly shifting from DB to DC. As all the loss in investment should be born by employees in the DC system, many employees have experienced or will experience heavy losses on their pension capital. The government is not taken the issues seriously enough. Both the Ministry of Health, Labour & Welfare and the Government Pension Investment Fund (GPIF) have stated that "companies are given a free hand to choose the balance between DC and DB, in consultation with their employers and/or trade unions. So there is no action or responsibility we should take". Yet employees in Japan lack pension education and knowledge and in particular lack awareness about the underlying transfer of risks under DC schemes from employers onto employees. Employers are pushing hard for greater portion of DC. As a result, obviously, many of workers will loose their post-retirement incomes.

Netherlands (FNV)

For the coming three or perhaps 5 years, even if we soon recover to a minimum funding ratio of 105%, wage indexation will be interrupted for both retirees and for workers. The indexation shortage in the next three years is estimated by the FNV at -5 to -10% for most pension schemes. For pensioners this will mean reduced purchasing power – although low inflation may mitigate the impact – for active workers, it will mean delaying decision to exercise their right to retirement (current age of retirement is 62 on average).

Canada (CLC)

There is no doubt that DB plans, particularly small DB plans, face significant funding challenges at the moment. This is likely why the federal government (and several provinces) opted to provide temporary solvency funding relief for DB plans. Still, the funding challenges facing DB plans in today's economic crisis pale in comparison to the losses suffered by others in DC plans or individual pension savings schemes. As a pension expert from Watson Wyatt (a consultancy firm) commented recently: "While times are tough for DB plan sponsors at the moment, they are arguably even tougher for DC plan members." This is so because one's pension income in a DC plan depends on the performance of pension investments and the prevailing interest rate when you retire. Risk in Canadian DC plans is not socialized through insurance schemes or other policy instruments as is the case elsewhere. To emphasize this point, the following Table demonstrates what would happen to worker with a $100,000 DC pension if they were invested in indexed Toronto Stock Exchange (TSX) assets. The Table calculates the value of the worker's $100,000 DC pension at two periods in the current economic crisis: May 15, 2008 and February 15, 2009. As the following Table makes plain, the difference in pension income is substantial (a 51% drop in value):

Table: Value of a $100,000 DC plan at two moments of current economic crisis (TSX indexed funds)

Date of retirement	Expected annual pension income
05/15/08	$7,659.20 (or $638.26 per month)
02/15/09	$3,937.33 (or $312.11 per month)

Other issues complicate the ability of DC plans to deliver value for plan members in the current economic environment. Because of their individualized plan design, DC plans are often complex and expensive to run. As a result, it is common for DC plans to have administration charges (so-called "Management Expense Ratios", or MERs) that bleed 20% to 40% of a workers retirement income over an average working life. MERs for group or individual registered pensions are often even worse. Further complicating matters for workers with DC plans is the responsibility to choose an investment strategy (usually from a range of options provided by the plan sponsor). Most people – like most professional money managers – are unable to consistently generate above-average pension investment returns, leading to serious consequences for future pension income.

Canada, Québec (CSN)

In most provincial jurisdictions, in case of termination of a DB plan, pension liabilities are transformed into employer debt, and employer has 5 years to reimburse/fund the deficit. Other than bankruptcy, plan beneficiaries are then protected because underfunding is funded by the employer. Federal law covering sectors such as banking, transport, communication does not enforce employer responsibility in case of termination however. Accordingly, we are seeing a number of terminations of plan by employers who do not wish to finance pension underfunding and whose costs are borne by plan members and retirees in the form of benefit cuts.

Regarding DC schemes, plan members have lost 10 to 30% of their pension capital. Some were wise enough to move their capital into low risk mutual funds just before the crisis. Those who have lost substantial amounts have delayed the decision to exercise their right to retirement in order to work longer and help recover the pension benefits as expected before the crisis. This situation also holds for workers whose DB schemes do not provide adequate pension levels – and there are many them – and who need additional personal savings to reach decent retirement provisions.

On the longer run, and unless financial markets recover soon, these revenue losses will impact future workers who are nearing retirement, via changes in taxation and/or economic activity.

Sweden (LO)

The crisis will not affect the expected level of retirement income under DB scheme, but it will for those who have full DC schemes. We cannot specify how this will happen, since they vary between individuals according to their age and their financial choices.

Measures taken to address the crisis

United States (AFL-CIO)

There have not been any federal measure to directly support DB or DC plans as a result of the crisis. Government guarantees, including guarantees for money market mutual funds and mortgage-backed securities issued by Fannie Mae and Freddie Mac, helped protect individual's retirement funds to the extent they were invested in these assets either through a DB plan or a DC plan if the investor was lucky enough to have selected these relatively safe asset classes.

United Kingdom (TUC)

The Pensions Regulator has issued a series of statements: one to trustees (in October), one to employers (issued today), and one reporting on deficits and recovery plans. Their message is that there is sufficient flexibility in the existing regulatory system for them to allow a pragmatic and risk-based response to the crisis and that there is not a need for regulatory change, although they are keeping this under review. The TUC has supported this position.

The Netherlands (FNV)

Although regulation required the funds restore funding level at 105% within three years (and 125% within 15 years), it is very unlikely that this will happen for funds which have a ratio below 95%. FNV is asking for extending the 3-year period.

Canada (CLC)

Several pension regulators in Canada (we have both a federal pension system and several provincial pension jurisdictions) have introduced temporary solvency relief (allowing special payments for current solvency deficiencies to be amortized over an extra five years). Many workplace pensions will also mitigate the short term impact of the current crisis by the use of new asset smoothing techniques in actuarial valuations. This means, of course that the 2008 losses will be carried forward into future years and there are risks associated with the possibility of plans being wound up before then. No comprehensive plans to ensure greater protection of pensions has happened outside Quebec where, as the CSN explains, the government has announced its commitment to assume ownership of abandoned pension plans.

Canada, Québec (CSN)

In Québec, as in the rest of Canada, the government has taken measures to soften DB funding rules aiming at smoothing contributions for underfunding purpose: (i) longer period for payment of the deficits, (ii) valuation rules moving away from mark-to-market, (iii) higher interest rates used as discount rates to calculate actuarial pension liabilities.
For retirees under DB schemes and whose employer is bankrupt, the law requires a buy-out by an insurance company. The retirees endure a reduction in pension benefit to adjust to the solvency level of the pension plan. Among the measures taken, and as a result of trade union

pressures, the government of Québec agreed to finance underfunding of these retirees in order to avoid realisation of their losses. This government guarantee corresponds to a minimum pension level that would result from a purchase of an annuity with an insurance company. On the other hand, if financial markets recover, these retirees would access upside gains corresponding to the value of their capital pensions.

Sweden (LO)

Guaranteed levels of return on investment for (hybrid) DC schemes have been lowered. Pension insurance companies have also changed their solvency standards, to allow longer periods for measurement (for example from three to six months, or even from six to twelve months) of the solvency level. This would help mitigate / delay the impact of the crisis on pension insurance contracts. Surveillance of pension insurance groups has also been intensified.

Spain (CCOO)

DC plan members and beneficiaries are worried about the fall of the last year's returns as seen in the numerous requests received by the supervisory boards of the pension funds regarding the level of accumulated assets. CC.OO. has prepared a document which explains that the system is still sustainable on the long term, despite the current crisis. The document shows how the volatility and the returns vary over different time period, one year, ten years, fifteen years and thirty years.

Other policy measures that are being considered

United States (AFL-CIO)

Some senior Democratic congressmen are considering a proposal that would give companies with active DB plans a break from funding requirements imposed by the 2006 Pension Protection Act. The proposal being considers would require employers not to freeze their plans to new employees or terminate existing plans for a period of time in order to be eligible for the temporary reprieve from funding requirements. Another proposal, being pushed by DB plan sponsors would give sponsors more flexibility over how to smooth assets, and amortize and calculate funding liabilities. The Pension Rights Center has been advocating a five-year ban on plan freezes as a condition for funding relief. It is also recommending legislation that would require any employer that freezes a DB plan to also freeze its supplemental retirement benefit plans for company executives.

President Obama has proposed an expansion to the existing "savers tax credit" program, which reduces the tax liabilities of individuals who choose to participate in 401(k) or IRA plans by families that earn up to $55,000. The President's proposal would provide a 50% federal match on the first $1,000 of retirement savings for families earning less than $65,000 annually. The match would be in the form of a fully refundable tax credit.

Japan (RENGO)

In principle companies are required to ensure that employees have access to adequate pensions under the corporate schemes; this stems from the fact that pensions are considered as deferred wages. In reality the situation is far from satisfactory and RENGO has called upon the government to strengthen regulation, particularly in the area of education and awareness.

Policy changes that are considered include tightening the investment restrictions to pension fund investment in equity and by opposition increasing exposure to secured assets such as government bonds.

United Kingdom (TUC)

Suggestions from sponsoring employers and the pensions industry include: (i) Relaxing the rules on indexation, (ii) Reviewing the 'section 75' rules on employer debt to make company restructuring easier, (iii) Extending the 'trigger point' used by the Pensions Regulator (currently if a scheme has a recovery plan to address deficits that will take over 10 years this triggers an investigation by the regulator – the industry is pushing for 15-20 years). The regulator has resisted all of these calls, and the TUC has supported that approach. There is sufficient flexibility within the existing regulatory system and we do not want to see the crisis used to weaken regulatory protection for members.

Canada (CLC)

Like our colleagues from the CSN, we have attempted to encourage some changes in bankruptcy law (which falls under the federal government's jurisdiction). We have had minor success in doing so, and succeeded in convincing the federal government to enact a Wage Earners Protection Program that safeguards $3000 in unpaid wages, severance pay, and vacation pay for a period of three months prior an to employer declaring bankruptcy. This legislation also clarifies the fact that collective bargaining agreements remain in force during bankruptcy proceedings, and can only be amended with the consent of the bargaining agent (the union).

We have recently submitted a brief to the federal government making a case for two key policy reforms to provide adequate pension income, protect pension benefits, and promote fair pension outcomes. These are: 1) a federal system of pension insurance financed by levies from pension plan sponsors, and designed to prevent against fraudulent claims; 2) a 15% increase in Old Age Security pensions ($110 CAD per month), and a doubling of benefits levels paid out by the Canada Pension Plan (our mandatory pension plan in English Canada that pays out benefits based on 25% of the average industrial wage). We are costing various models to pre-fund CPP reforms.

Canada, Québec (CSN)

The main concern of policymakers is to reduce pressure from funding rules to avoid bankruptcy. Monitoring measures will apply for companies benefiting from these measures. Trade unions have supported these measures to avoid bankruptcy or termination of plans with funding ratios below 100% which would translate into lower benefit levels.

Sweden (LO)

The crisis has made plan members more aware of the underlying risk under DC schemes, and that they realize that DC means "no defined benefit". But more financial education has to be spread among the people concerned.

Spain (CCOO)

Some pension supervisory boards are considering ways to mitigate pro-cyclicality of pension investments as is the case under cash balance DC plans. There have been calls to adapt rules for portfolio composition in function of the age of plan members (proposal which we have opposed because of its negative impact on final pension levels). Other proposals would see changes in the valuation rules for the fixed income. An old proposal by CCOO is for fixed assets to be valued at maturity and not at current market value. The regulator has constantly refused to consider that proposal in the past, but appears to be willing to engaging discussion about it now.

Medium and longer term issues that may affect structure of the pension system

United States (AFL-CIO)

One could expect a greater focus on long-term, value or growth investment strategies, as opposed to financial engineering. Optimistically, pension funds should take a more holistic view of the impact of their investments by increasing the focus on environmental, social and corporate governance issues. In our opinion, pension funds that have in the past been reluctant to engage in shareholder activism should begin to understand that it could be part of the pension trustees' fiduciary duties to beneficiaries to engage with corporate boards of directors to ensure they are focused on long-term strategies that build strong, value creating enterprises. Also, we may see more public reporting requirements for pension funds related to assets under management, activities in the derivatives markets and other opaque financial markets, investment strategies, and fees and expenses.

Japan (RENGO)

Some politicians have suggested redirecting public pension fund assets to Sovereign Wealth Funds for the purpose of stabilizing markets. RENGO is opposed to this proposal. In addition we are calling for governance reforms of the GPIF on the ground that pension funds are workers' capital and therefore their investment policy should be governed not by the government but by an independent body with the participation of workers' representatives.
On the longer term, there may be more considerations for corporate governance issues (e.g. disclosure of foreseeable risks) and activist shareholders (for good or for bad for the sustainability of the invested companies). However, much of this debate will be dependent on whether current pressures to reduce pension fund exposure to equity and increasing investment in domestic bonds will materialize in the pension portfolio compositions in the medium term.

United Kingdom (TUC)

The crisis is likely to be seen as a test of the regulatory regime established in the UK by the 2004 Pensions Act. If the new architecture survives it will be well-placed for the future. On the positive side, there seems to be a growing increase in corporate governance and engagement activity by pension funds as investors. Companies that provide engagement and voting services including Hermes and F&C have reported record rises in interest. However, the crisis may speed up the shift from DB to DC. It is also being used as an excuse by many to attack public sector pensions, as the differential widens between those with good final salary schemes, and the DC schemes that are more common in the private sector. The Conservative opposition and the CBI (Confederation of British Industry) have been calling for reforms to public sector pensions, despite the fact that renegotiation of most public sector pensions have been completed in the last couple of years. Unions negotiated changes including risk-sharing arrangements and raising retirement ages.
There is a danger that the crisis and the media coverage of plummeting values may dent the confidence of members and workers to the extent that people become less likely to save in pensions. Communications by government, unions, pensions industry and employers will be vital in reminding people that pensions are for the long term and now is not the time to stop saving.
It might spell the end of – or at least a pause in – the trend towards pension buyouts that had been emerging over 2007-8. Whilst this course of action might still be attractive for many schemes, it has become very expensive and so buyout activity has slowed significantly. This is a mixed blessing – whilst unions have opposed non-insured buyouts that seek to make

profit from pension schemes, sometimes a fully insured buyout is the best option for member security where a scheme is mature and the employer covenant is weak.

Canada (CLC)

Three provincially based commissions on pensions have added to the pension debate in Canada, and we are currently in the midst of a federal review. All have expressed concern about the declining coverage of workplace pensions and opened up a wide ranging debate on the possible use of various forms of mandatory pension coverage, including the possibility of expanding the role of the DB-styled Canada Pension Plan (93% of workers are members). The current crisis is likely to aggravate the declining coverage problem. Two of the provincial commissions express scepticism about the governance of single employer defined benefit pension plans in which the employer dominates the governance structure. All three express concern about the financial viability of these plans and tacitly support plan designs in which financial risk sharing is explicitly shared between employers and plan members.

Canada, Québec (CSN)

Several working groups might be created in the near future to review existing pension regimes and find ways to better take account of market volatility in order to ensure fair risk-sharing between workers and sponsors. These committees might also consider pay-out options after retirement for workers under DC scheme.
One can also expect improved pension fund investment policies, a reduction in their exposure to alternative assets, if not a full review of investment regulation. One can already see changes in portfolio composition from equity to bonds and to less risky assets.

Sweden (LO)

Regarding the supplementary individual DC scheme, one may expect a shift toward more secure portfolio compositions and in favour of default options that have guaranteed minimum returns. More generally, the crisis has made people more aware of the market risk of DC pension schemes, and more aware of the consequences of their own decisions under individualized schemes.

Netherlands (FNV)

On the long run FNV is calling for a review of current supervisory rules. Employers are now pushing for increasing legal age of retirement beyond 65.

Denmark (FTF)

Among others, FTF believes that there is a need for guidelines on pension fund investment in alternative assets and structured products.

Spain (CC.OO)

One should expect a tightening of pension supervision, including more regular controls of pension portfolios, although such measures have already been enacted.