



KEY FEATURES OF THE OECD WORK ON PRIVATE PENSIONS

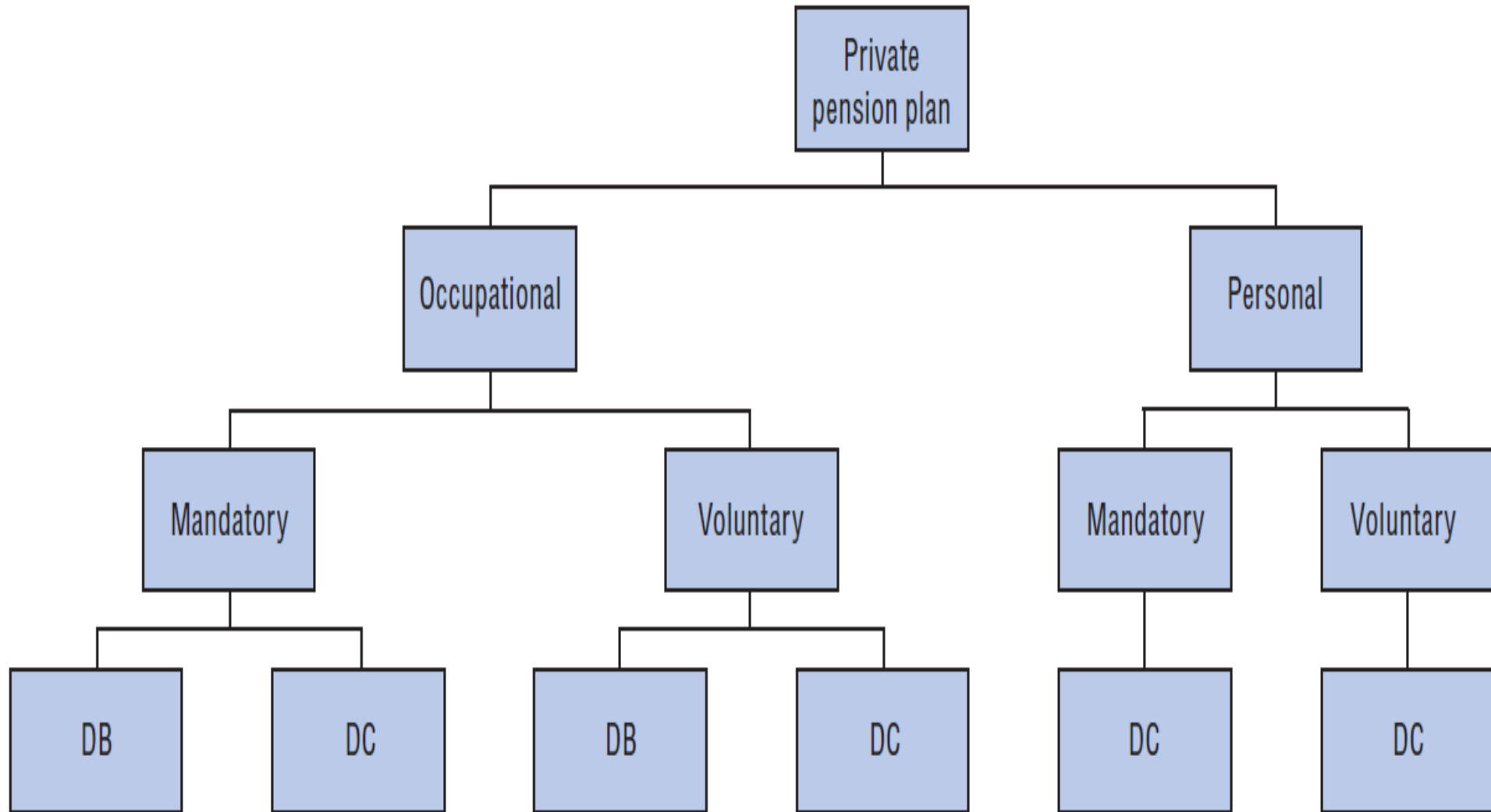
Trends, Challenges and Policy Responses

TUAC ad hoc meeting on Pension Reforms
Paris, 1 December 2014

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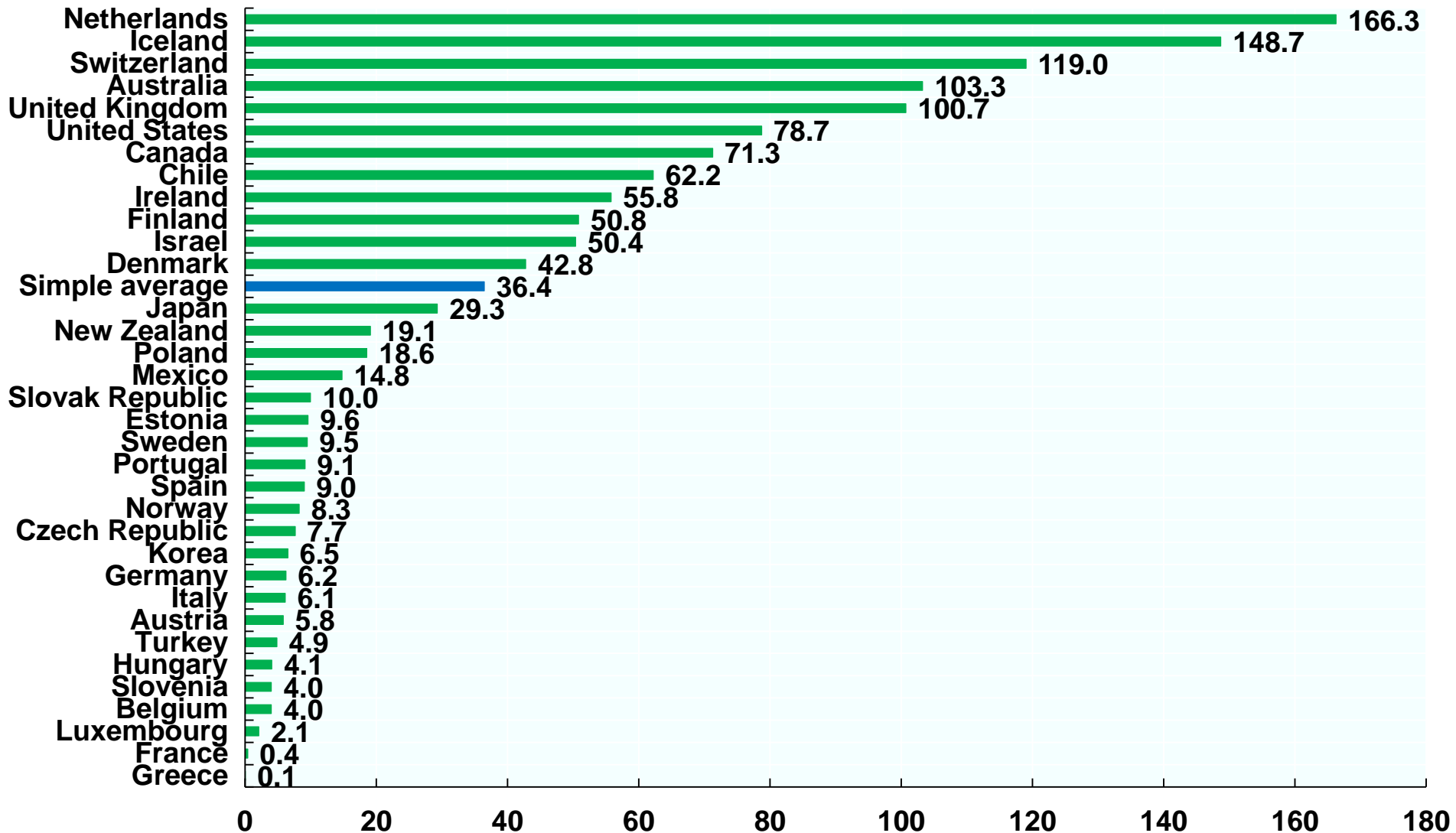
The OECD definition of Private Pensions





The size of the private pension market depends on policies to increase savings as well as performance

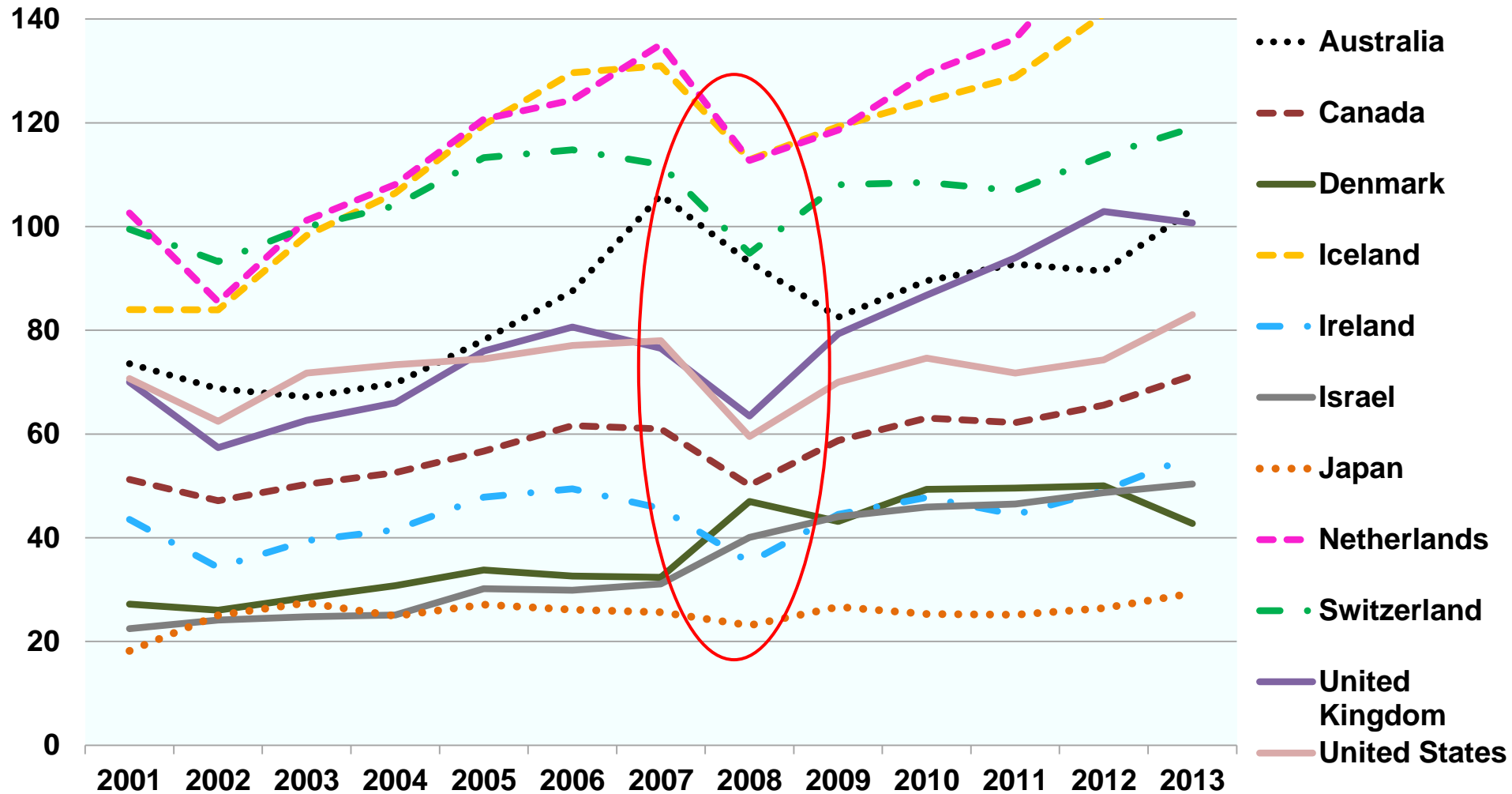
Pension fund assets in OECD countries, % of GDP, 2013





Mature markets have a long tradition of private pension savings but grow at a slower pace

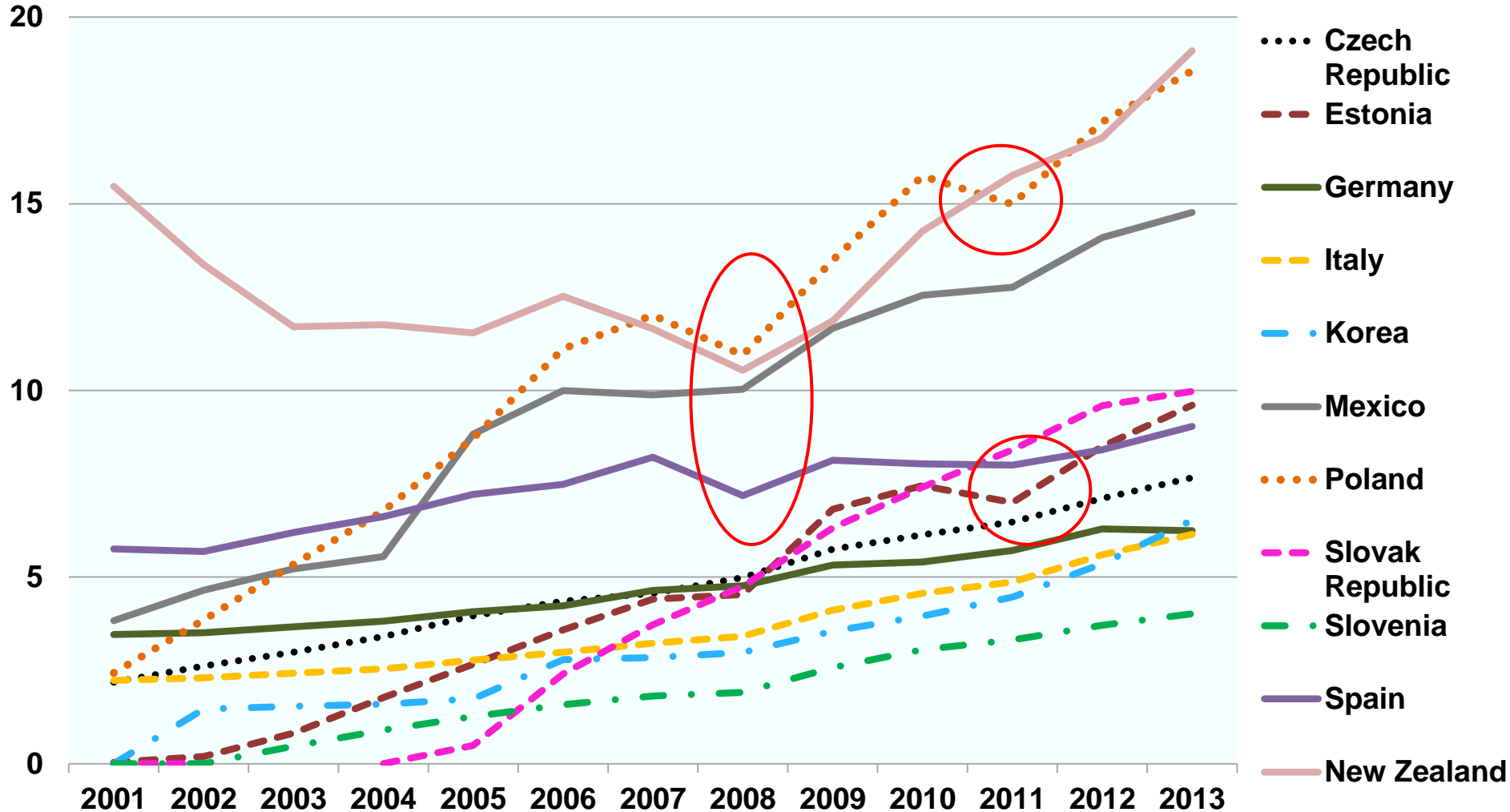
Pension fund assets: Selected OECD countries with mature markets, 2001-2013, % of GDP





Growing markets have introduced policies to encourage or mandate participation in private pension schemes

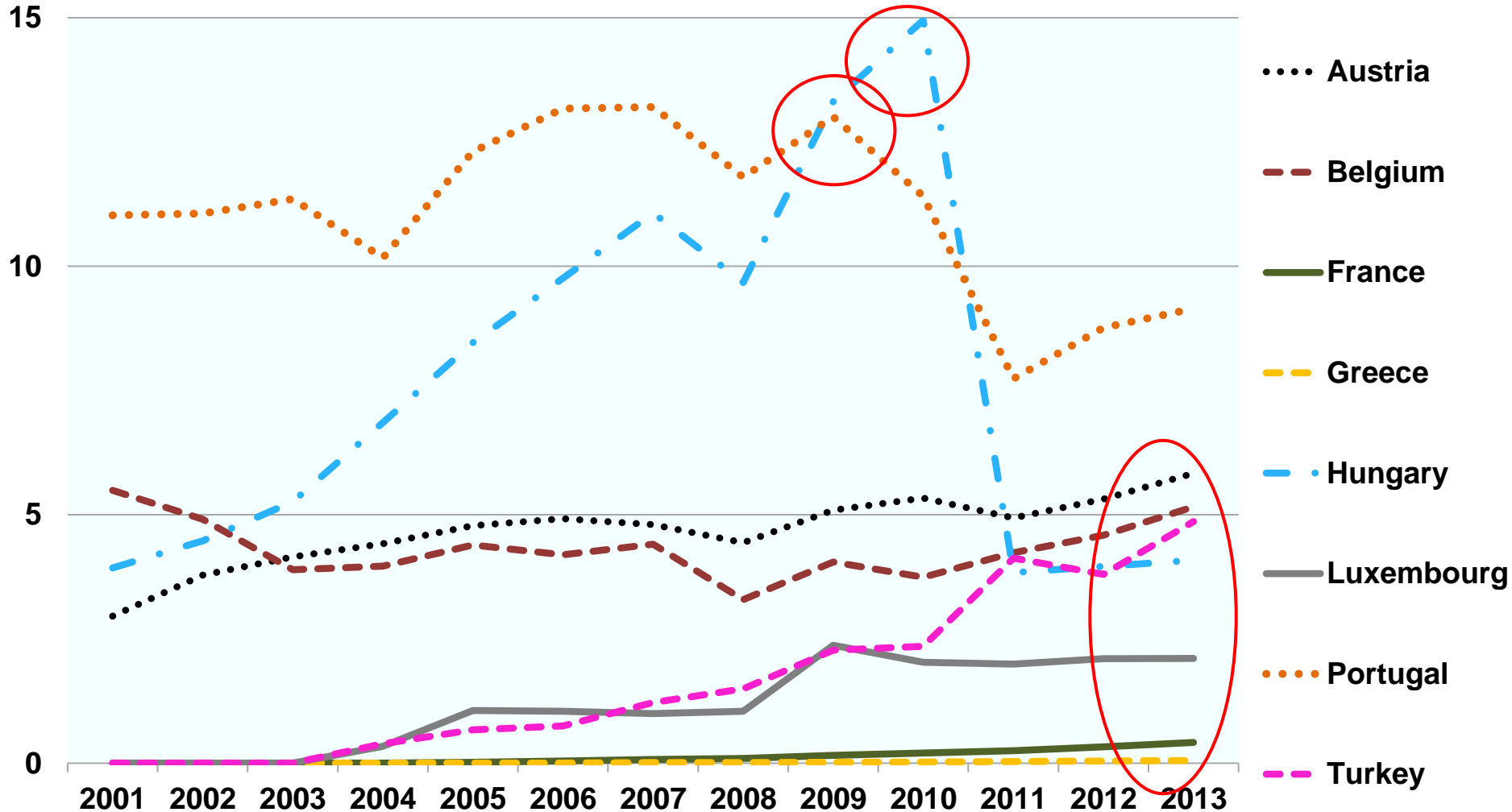
Pension fund assets: Selected OECD countries with growing markets, 2001-2013, % of GDP





Undeveloped markets are not geared towards increasing diversity in retirement savings

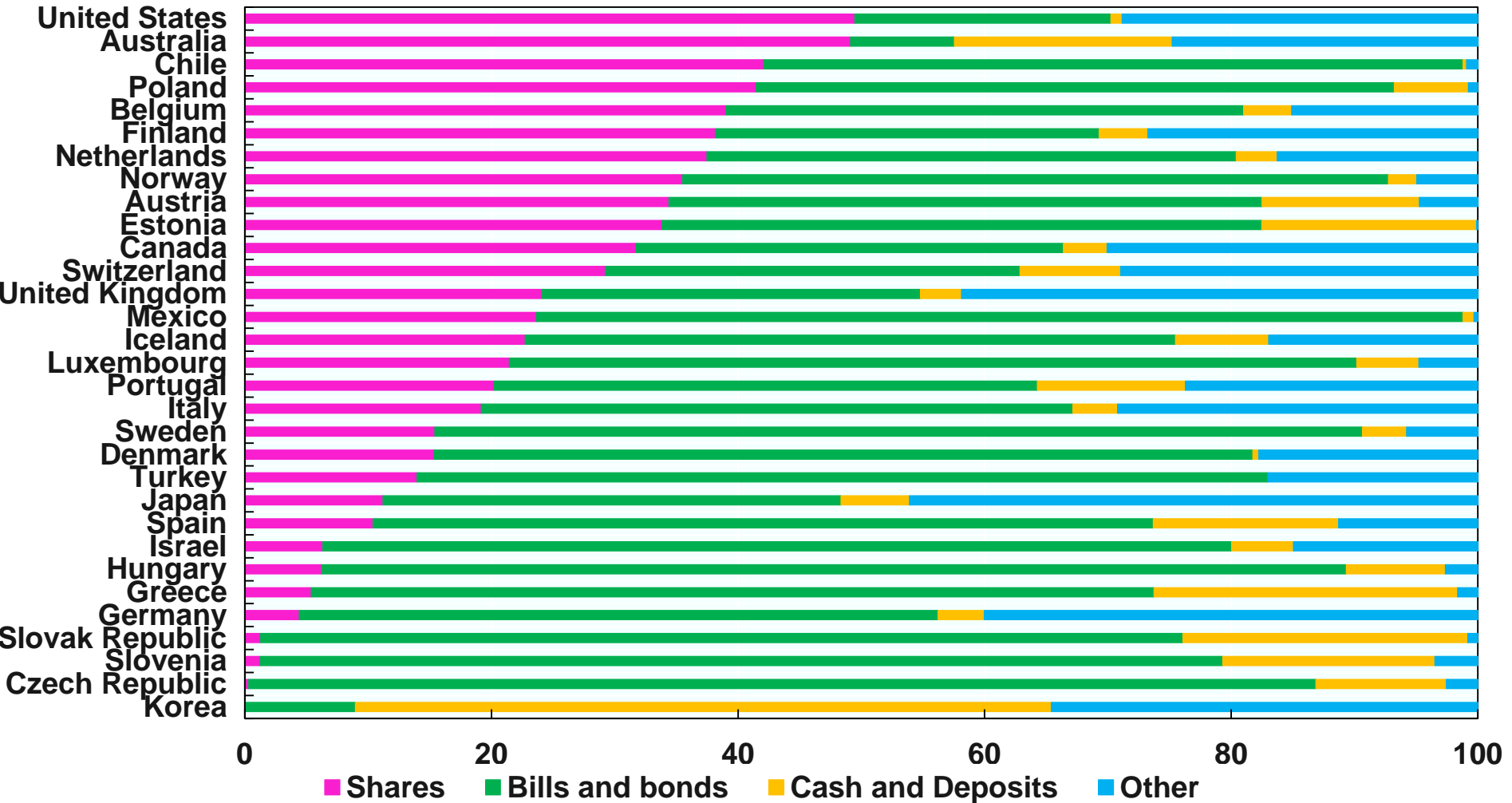
Pension fund assets: Selected OECD countries with sluggish markets, 2001-2013, % of GDP





Portfolio diversification - pension funds generally invest in bonds and equities.

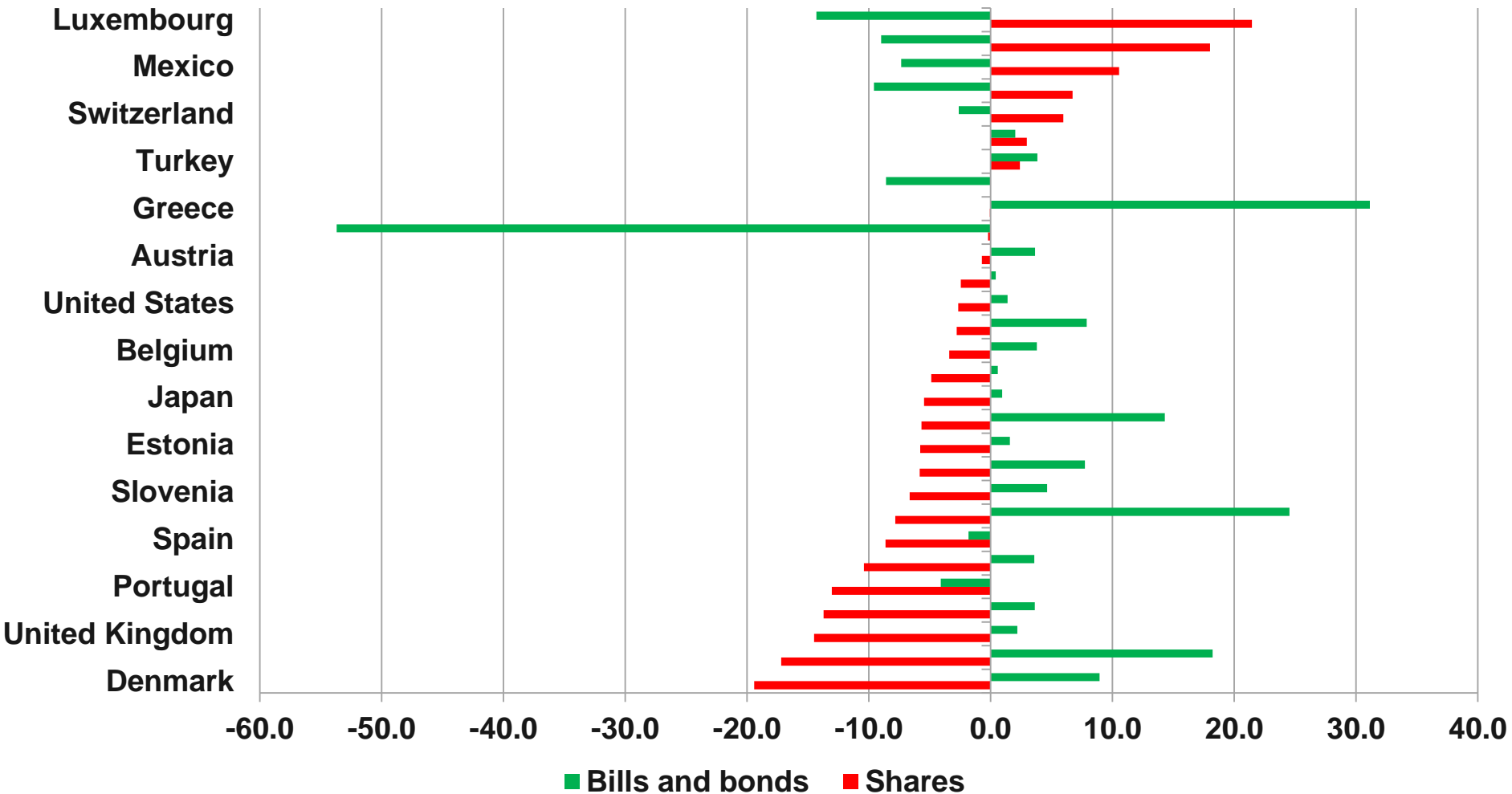
Pension fund asset allocation for selected investment categories in selected OECD countries, As % of total investment, 2013





The financial crisis has however led to a shift towards less risky assets

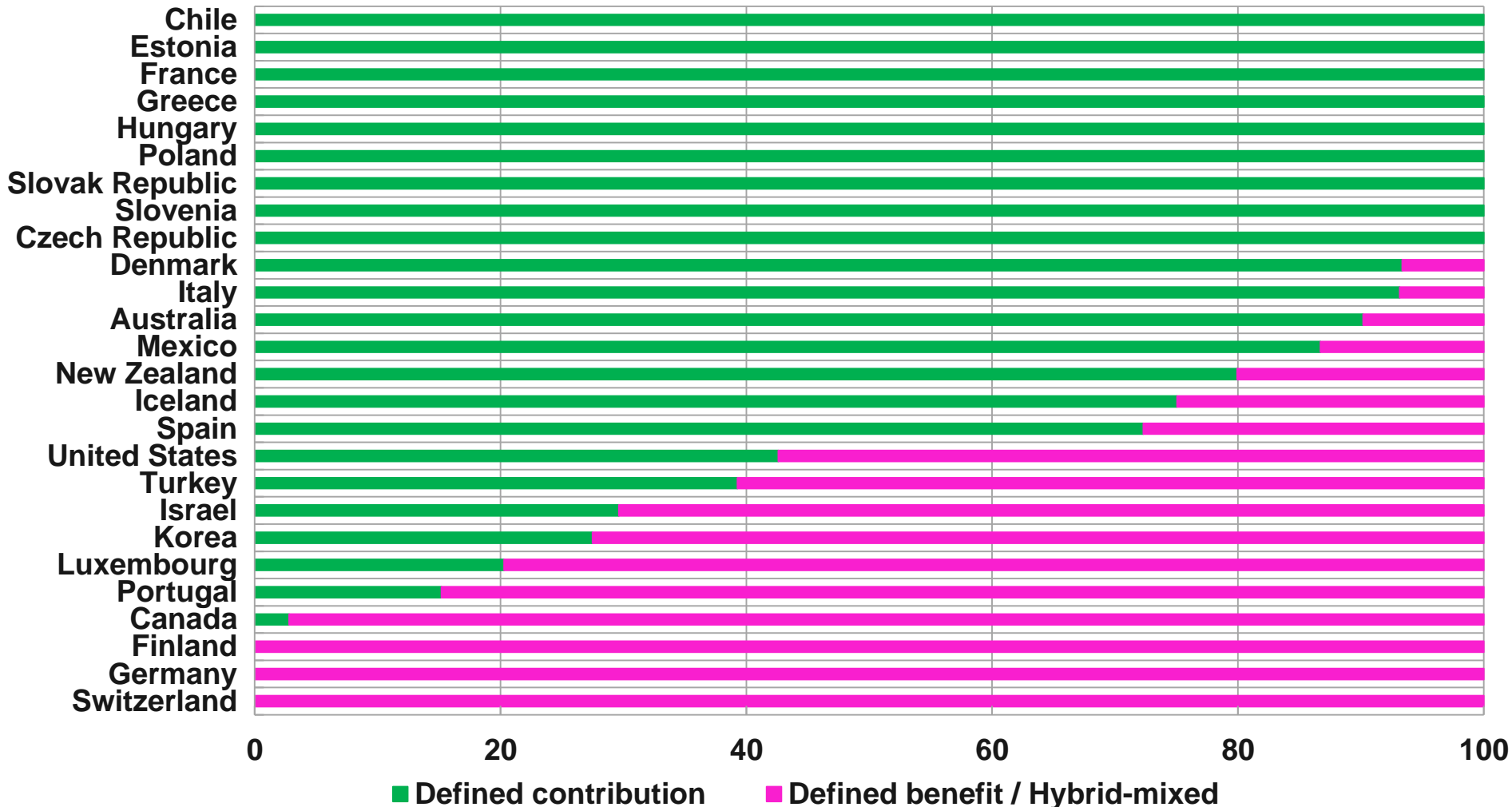
Variation in asset allocation for certain investment categories in selected OECD countries, percentage points, 2007-2013





DC plans are growing in importance and risks are shifted onto the individual

Relative shares of assets in DB and DC plans in selected OECD countries, % of total assets, 2013





Key challenges affecting the development of private pension systems

1. **The crisis** has led to reduction governments' revenues to finance retirement promises and a loss of confidence in private pensions
2. **Population ageing** creates challenges for the financial sustainability, solvency and adequacy of pension schemes
3. **Economic stagnation**: The Global economic environment characterised by low returns, low interest rates and low growth are compounding the situation



Main OECD policy messages related to private pensions

- 1. Diversify sources to finance retirement**
- 2. Funded private pensions are a good complement to public pensions**
- 3. Saving for retirement is for the long-term**



Policy Response: Strengthening private pension regulation and supervision

1. Strengthen the OECD international standard-setting instrument the OECD Core Principles of Occupational Pension Regulation

- Expand their scope to better apply to all types of private pension plans
- Regulation should focus on protecting members rights
- Effective private pension governance and supervision



OECD Principles
of Occupational
Pension Regulation

METHODOLOGY FOR ASSESSMENT
AND IMPLEMENTATION



Policy Response: A roadmap to improve the design of DC plans

1. Consider that the individual bears more risk in funded DC plans
2. The DC scheme needs to be globally and internally coherent
3. The overall adequacy goal of the DC scheme needs to be established
4. The DC scheme needs to be efficient in the accumulation phase and in the pay out phase
 - Transparency and disclosure
 - Cost efficiency
 - Optimizing returns



THE OECD ROADMAP FOR THE GOOD DESIGN OF DEFINED CONTRIBUTION PENSION PLANS

This roadmap has been approved and endorsed by the OECD Working Party on Private Pensions in June 2012

Defined contribution, private pension plans are increasingly an integral part of most countries' overall pension system, while for some countries they are the main component of their pension system. Therefore, overall retirement income adequacy depends importantly on the pension benefits stemming from these plans.

In seeking to assist countries to strengthen retirement income adequacy in a defined contribution environment, the OECD Working Party on Private Pensions has identified elements of good design and public policy. This roadmap for the good design of defined contribution plans consists of the following recommendations:

1. **Ensure the design of DC pension plans is internally coherent between the accumulation and payout phases and with the overall pension system.** Consequently, the target retirement income in DC plans should be determined consistently with the benefits provided by the other components of the pension system. To define and achieve this target, all possible risks (*i.e.*, labour, financial and demographic risks) affecting retirement income of DC pension plans should be monitored.
2. **Encourage people to enrol, to contribute and contribute for long periods.** Where mandatory enrolment is not considered opportune, mechanisms such as automatic enrolment, with the possibility for individuals to opt out, are particularly useful, together with setting adequate default contribution rates. Making sure people contribute for long periods with sufficiently high contribution rates is the most effective way to improve their chances of obtaining an adequate replacement rate from DC pension plans. This goal needs to be complemented with "work longer" policies.
3. **Improve the design of incentives to save for retirement, particularly where participation and contributions to DC pension plans are voluntary.** An appropriate structure of tax incentives (including financial subsidies for those who pay low or no income taxes) and/or matching contributions can both be efficient mechanisms to encourage participation and increase contributions.
4. **Promote low-cost retirement savings instruments.** Policymakers need to ensure that there are incentives in place to improve efficiency and reduce costs in the pensions industry. Disclosure-based initiatives should be promoted, but may need to be complemented with more effective solutions such as appropriate tender mechanisms or default allocation to low-cost providers, especially in compulsory or auto enrolment systems. In certain pension's structures, cost issues can be addressed by establishing large pension schemes, run on a non-profit base.



Policy response: Providing evidence-based policy responses to specific challenges in the Pensions Outlook

1. Responding to the challenges posed by population ageing and longevity risk
2. Post-crisis pension reforms
3. Saving for retirement and the role of private pension provision
4. Increasing private pension coverage and automatic enrolment
5. Pension communication



OECD Pensions Outlook
2014





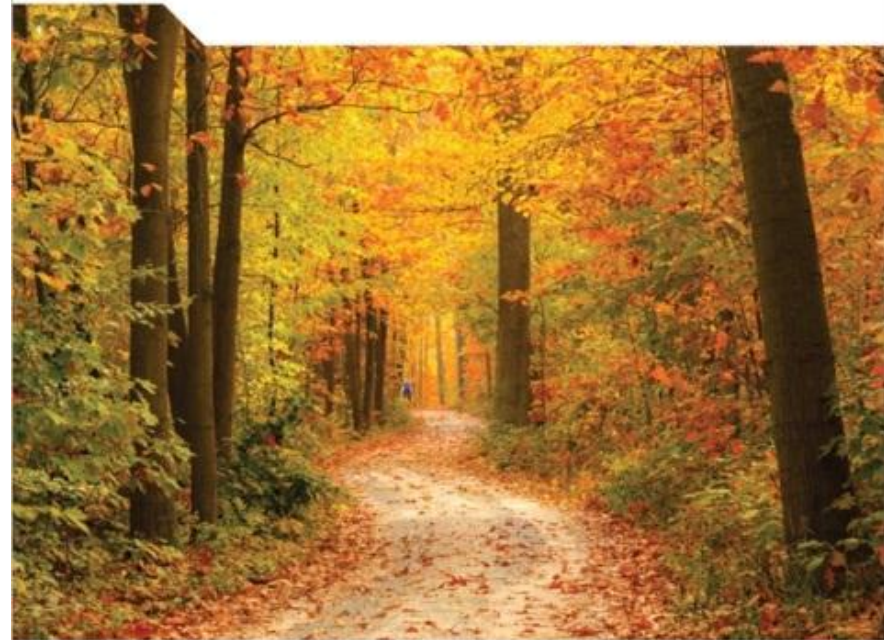
Policy focus: Annuitisation and managing longevity risk (Pensions Outlook Ch.1)

1. OECD Roadmap recommends annuitisation of accumulated assets to protect against LR
2. Use regularly updated mortality tables
3. Regulation could help ensure that capital markets offer additional capacity to mitigate longevity risk
 - Encourage standardised, index-based longevity hedges
 - Longevity swaps
 - Publication of a longevity index



Mortality Assumptions and Longevity Risk

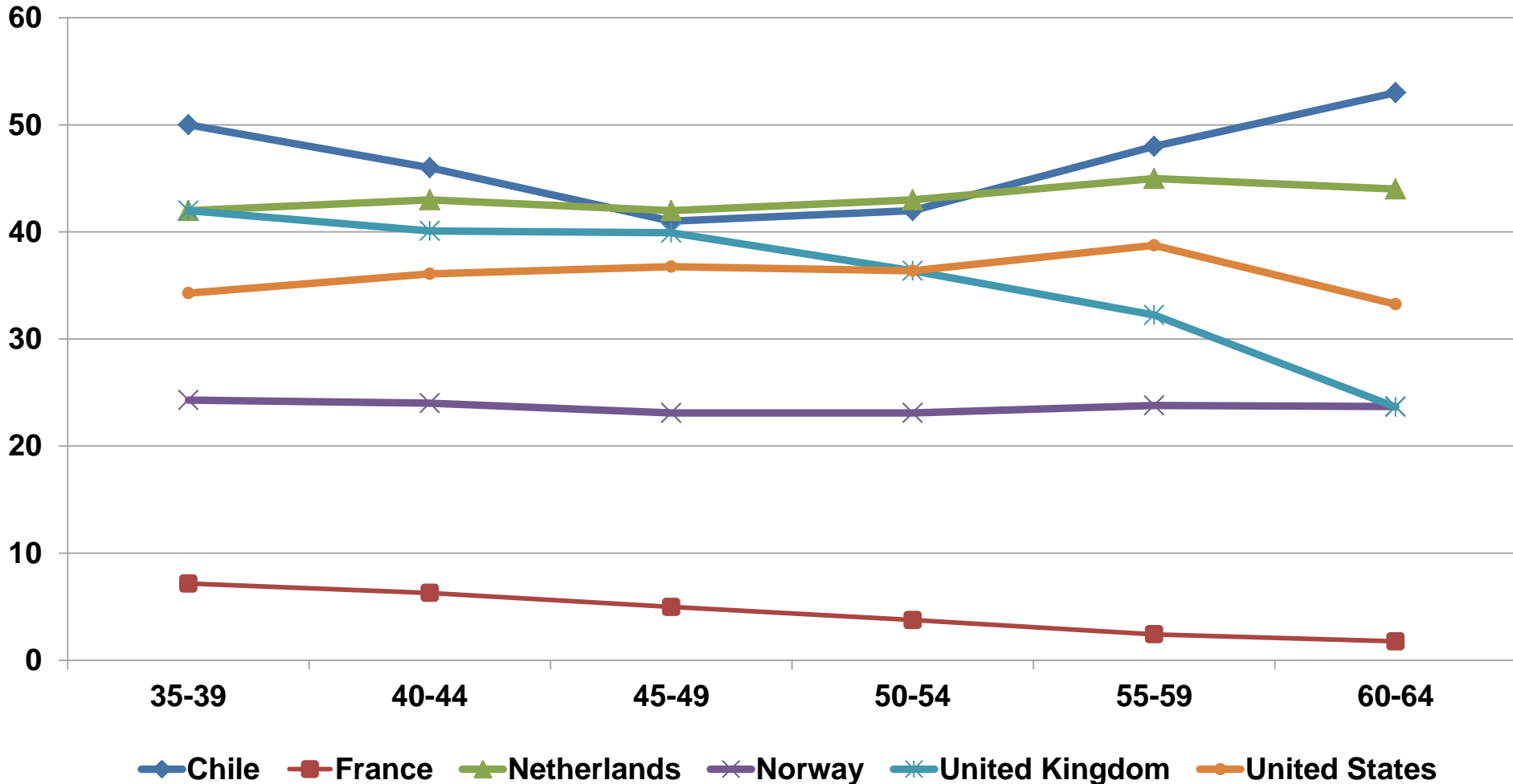
IMPLICATIONS FOR PENSION FUNDS AND ANNUITY PROVIDERS





Policy focus: Increasing the complementary role of private pensions and coverage (Pensions Outlook Ch.3, 4 and 5)

Average share of private pensions in the total pension income at retirement, by age group





Thank you!

Questions or comments?

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Recommended reading

– OECD Pensions Outlook 2014

– <http://www.oecd.org/finance/private-pensions/>

**OECD Principles
of Occupational
Pension Regulation**
METHODOLOGY FOR ASSESSMENT
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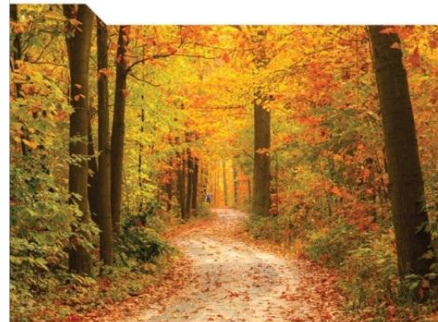
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www.oecd.org/da/pensions



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**OECD Pensions Outlook
2014**

