Editorial

COVID-19 has dealt an unprecedented shock to the labour markets and pension arrangements across the world. Policy makers have acted swiftly to address many of the ensuing challenges. Many countries have extended job retention schemes and unemployment benefits, allowing workers to keep accruing entitlements in public pension schemes and, to some extent, in retirement savings arrangements. Similarly, governments took a range of regulatory measures to ensure the sustainability of retirement savings arrangements, such as flexibility around recovery plans, as well as communication campaigns to encourage people to maintain their investments in retirement portfolios to avoid selling and materialising value losses, and to raise awareness of scams, which COVID-19 may have exacerbated.

Even before the outbreak of the pandemic, retirement savings and old-age pension systems were facing significant challenges. Population ageing, with longer lives to finance in retirement and smaller cohorts entering the labour market, as well as a low economic and wage growth environment, low returns in traditional asset classes and low interest rates, were already weighing heavily on funded and pay-as-you-go, defined benefit and defined contribution, and private and public retirement provisions.

COVID-19 compounds some of these challenges and adds new ones. In addition to the likelihood that economic growth, interest rates and returns will remain low long into the future, the health and economic crisis is increasing the risk that people may be unable to save enough for retirement. Supporting retirement income promises in the current context will add pressure on public finances already strained by demographic changes. Operational disruptions because of working remotely, cyber-attacks, frauds and scams, and calls on assets earmarked for retirement to support the economic recovery are all additional issues to be addressed. Moreover, well-intentioned measures to provide short-term relief by granting people access to their retirement savings before they reach retirement age are likely have a detrimental effect on future retirement incomes, particularly where access is granted widely and unconditionally.

Retirement savings arrangements could be more resilient and address the challenges posed by the need of early withdrawals brought about by COVID-19, if long-term savings arrangements include both a savings account earmarked for retirement and a savings account for emergencies.

The sustainability and resilience of retirement savings arrangements depend largely on their role in complementing retirement income and its adequacy. Assessing their complementary role for adequacy requires a clear framework that would benefit from an open and transparent discussion on the role of governments, policy makers and regulators in establishing the objectives of these arrangements. Regularly assessing the impact of different policies on retirement income adequacy, using appropriate indicators, targets and thoroughly evaluating any shortfalls will also be necessary.

The sustainability and adequacy of pension systems includes making sure that workers in non-standard forms of work have the opportunity to save for retirement. This diverse population, including part-time and temporary employees, self-employed workers and informal workers, has more limited access to public and private retirement schemes and builds up lower retirement entitlements than do full-time permanent employees. Policy makers need to consider targeted measures, including facilitating access to retirement savings plans, offering dedicated or hybrid retirement savings products, allowing workers to keep the same plan upon job changes, allowing flexible contributions, and using nudges to remind people of the importance of saving for retirement.

The OECD is currently revisiting the *OECD Roadmap for the Good Design of Defined Contribution Pension Plans* to update its guidelines. These arrangements provide people with choice. They can for example, choose their preferred investment strategy for placing their retirement savings. However, when designing investment strategies, policy makers need to account for the fact that some people may be unable or unwilling to make choices, and select default investment strategies that protect them. Policy makers also need to establish a solid regulatory framework that ensures that people who change their investment strategies and pension funds are not negatively impacted with respect to their future retirement income. The regulation of financial advice can also be a means to ensure that any change in investment strategies is in their best interest.

Design of the default investment strategy and the provision of alternative investment strategies need to take into account the trade-off between maximising the expected retirement income and limiting the risk of people ending up with a low retirement income. People may end up in the default or may choose a different investment strategy; nevertheless, this calls for clear and consistent communication that presents people with trade-offs according to their risk profile and their level of risk tolerance, as well as their different retirement income arrangements and objectives.

People saving for retirement face longevity risk in addition to investment risk. Sharing these risks among stakeholders improves the sustainability and resilience of retirement savings arrangements. For risk sharing to be sustainable, it is important to have a regulatory framework that supports the objective of fairness in value transfers, the continuity of the arrangement through minimum funding requirements and the security of the promises.

The OECD continues to examine different policies to improve the sustainability and resilience of retirement savings arrangements. Sharing different experiences across countries, and disentangling what works and why, provides policy makers and regulators with concrete options based on international best practice.

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