Editorial

Policy makers should continue to strengthen pension systems. The current financial and economic uncertainty as well as the rising cost of living may lead policy makers, regulators and supervisors to postpone reforms that could improve their pension systems. However, delaying needed reforms would put at risk the well-being of current and future pensioners.

Pension arrangements in which retirement savings are invested to accumulate assets that will finance pensions (asset-backed pension arrangements) have been growing in the last two decades in most OECD member countries. Total assets earmarked for retirement represented just over 100% of total OECD GDP at the end of 2021 (Pension Markets in Focus). The development of these asset-backed pension arrangements has contributed to multi-pillar pension systems where they complement, rather than substitute, pay-as-you-go public pensions. This allows for the diversification of the sources to finance retirement, making pension systems more resilient to the challenges they face, such as ageing populations.

Continuing with reforms to asset-backed pensions arrangements is therefore essential to improve retirement outcomes and the sustainability of retirement incomes for pensioners, and build more inclusive pension systems. The February 2022 OECD Recommendation of the Council for the Good Design of Defined Contribution Pension Plans provides guidelines to policy makers, regulators and supervisors to design asset-backed pension arrangements.

To help countries improve the robustness of asset-backed pension systems and build people's trust that their best interest is considered, the present edition of the *OECD Pensions Outlook* provides a series of recommendations on how to introduce, develop and strengthen such arrangements. The report highlights the importance of the institutional, legal and regulatory framework, the role that employers can play in the development of these arrangements, how fees can be charged to protect retirement assets and align them with the cost of the services provided, the need for regulators and supervisors to ensure the appropriateness of mortality assumptions, and the design of non-guaranteed lifetime retirement income arrangements.

Employers can play an important role in the provision of asset-backed pension arrangements. Reinforcing their role requires balancing the advantages (e.g. designing plans that fit the needs of their employees) with the potential challenges (e.g. cost, complexity and administrative burden). Improving the design of asset-backed pension arrangements also requires promoting low-cost and cost-efficient arrangements that will be reflected in the fees charged. However, policy makers and regulators need to consider the impact that different ways of charging fees may have on individuals saving for retirement, as well as the impact on providers.

The use of appropriate mortality assumptions is crucial to ensure the sustainability of retirement income for pensioners. Non-guaranteed lifetime retirement income arrangements can protect members from the longevity risk of outliving their savings without obliging further contributions from the sponsor to maintain benefit levels. However, accommodating these arrangements requires overcoming many practical challenges in the legislative and regulatory environment.

The OECD continues to examine different policies to improve the sustainability and resilience of asset-backed pension arrangements. Ongoing and future work will look at, among other subjects, how to incorporate Environment, Social and Governance factors in the investment strategies of pension funds, improve access for diverse populations, and improve individual outcomes for retirement income. As such, the OECD will continue to serve as an international forum to share different experiences across countries to identify good practices and provide policy makers and regulators with concrete options to address the policy challenges they are facing in improving their pension systems.

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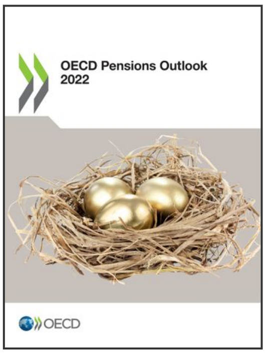

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