Executive summary

To help countries to improve 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 asset-backed pension arrangements, 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, how to ensure the appropriateness of mortality assumptions, and the design and introduction of non-guaranteed lifetime retirement income arrangements.

Policy makers need to plan, implement, and monitor the development of asset-backed pension arrangements in accordance with the OECD Core Principles of Private Pension Regulation.

Planning: policy makers need to make sure that there is an adequate institutional and legal structure in place and that governance regulation and supervisory structures are set up, especially fit and proper rules for the members of the governing body. They also need to manage risks related to incomplete capital markets and inflation, have mechanisms in place to protect assets, and build support for change.

Implementing: policy makers should make sure regulators and supervisors have the right operations, powers and functions in place to regulate and oversee the new asset-backed pension arrangements, while clarifying to pension providers what their role will be. They should address issues like licensing requirements, contribution collection, record keeping and data reporting. They should also consider the different costs of reform and communicate about the reform to individuals.

Monitoring: policy makers need to address shortcomings of governance as they come along, implement measures to improve investment performance, foster competition to better align fees with the costs of the services provided, address the potential loss of trust of people in the pension system and the low financial knowledge of the population, and implement risk management processes.

Reinforcing the role of employers in the provision of asset-backed pension arrangement requires considering their motivations and the advantages and potential challenges that their involvement brings.

Employers' involvement in the provision of asset-backed pension arrangements is already important as they pay a significant share of the total contributions. The share of employer contributions exceeds 50% of total contributions in most OECD countries and 70% in ten countries. Beyond this role, the main motivation for employers to establish an occupational pension plan is to attract and retain employees.

Employer involvement has many advantages. They can bear some of the costs, design plans that match the preferences of their employees and implement behavioural strategies to increase employee savings. However, it is not without challenges. Some employers, in particular smaller ones, may be unwilling to establish pension plans because of the costs, complexity and administrative burden involved. Moreover, workers in non-standard forms of work may have more limited access to employer-sponsored plans.

Policy guidance to optimise employer involvement includes taking into account the structure of the labour market and labour force mobility; ensuring good conditions in regulations and financial markets; reducing barriers preventing employers from establishing pension plans; providing flexibility for employers to tailor the design of the plan within a regulatory framework that ensures non-discriminatory treatment across workers; promoting the use of behavioural strategies to foster participation and savings; facilitating the delivery of financial education in the workplace; and providing a framework for good governance.

Policy makers need to consider the distinct impacts that different fee structures may have on individuals and providers when setting or changing their fee structure.

Fees can be charged on contributions, assets, or investment returns. Different fee structures may be designed in such a way that the impact on individuals, through the assets accumulated at retirement and the net return achieved, will be identical. However, while the choice between different fee structures may be neutral in terms of cost for individuals, it may not be neutral for providers.

Providers may have an incentive to levy fees on assets or on returns rather than on contributions, except in the early stages of introducing asset-backed pension arrangements. Performance fees may help to align the interest of providers and individuals. Yet, they need to balance positive and negative performance.

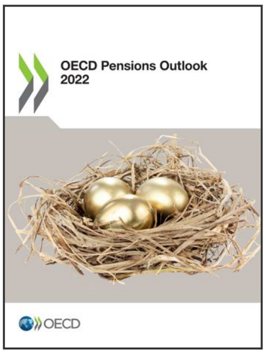
Regulators and supervisors need to ensure the appropriateness of mortality assumptions, as adequate assumptions are crucial to ensure the sustainability of lifetime retirement income for pensioners.

Mortality assumptions are a key factor in determining the amount of assets that are needed to finance a retirement income for life. However, setting mortality assumptions is a complex process that involves many uncertainties. The appropriate model will need to consider economic and social contexts to better understand observed and expected trends. The assumptions should also be tailored to the population for which they will be used, and make sure that pensioners of all ages will be covered. Assumptions regarding future improvements in mortality need to be accounted for to avoid underestimating the life expectancies of pensioners. Sense checks and disclosure can help to ensure that the assumptions are reasonable and consistent. Regulators and supervisors will be able to use the guidelines put forward in this report to develop or assess the mortality assumptions used in the context of retirement income provision and ensure that pensioners will be able to receive their retirement incomes throughout their lifetime.

Introducing non-guaranteed lifetime retirement income arrangements has the potential to overcome challenges relating to adequacy, sustainability, and longevity protection, but requires overcoming many practical challenges.

Non-guaranteed lifetime retirement income arrangements provide retirement income payments for life by pooling the longevity risk of the members, but do not require any guarantees from the sponsor. As such, they have the potential to invest to earn higher returns – with the understanding that benefits will be adjusted to align with the assets available to finance them – while still mitigating the longevity risk that individuals face in retirement.

Nevertheless, experience in OECD member countries shows that there are many practical challenges that must be overcome to introduce these types of arrangements. Numerous different designs are possible, some involving significant complexity, and the appropriate choice will depend on the policy objectives prioritised. The legislative and regulatory environment also needs to accommodate such arrangements and promote them to both providers and participants. The implementation of these arrangements will need to address considerations around their introduction, operations and scale, and strong governance and effective communication are crucial for their long-term success.



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