OECD

PENSION MARKETS IN FOCUS

NEWSLETTER June 2005, Issue 1

A growing need to accurately measure and understand the scope and operation of funded pension arrangements

Recent years have witnessed intense pension reform efforts in countries around the globe, which have often involved an increased use of funded pension programmes managed by the private sector. There is a growing need among policy makers and the regulatory community, as well as among private sector participants, to compare programme developments and experiences to those of other countries. Because funded arrangements are likely to play an increasingly important role in delivering retirement income security in many countries, and because the investment of pension assets will increasingly affect securities markets in future years, the availability of an accurate, comprehensive, comparable and up-to-date body of international statistics is a necessary tool for policy-makers, regulators and market participants.

This first issue of "Pension Markets in Focus" is an important step in that direction. The production of the figures in this yearly newsletter took place on a harmonised basis, thanks to the recently published OECD classification of pension plans and pension funds[1]. The data presented refer to the accounting years 2001-2003, which offers a glimpse of recent trends.

"Pension Markets in Focus" concerns mainly pension funds for public and private sector employees, but is gradually being extended to other funded pension arrangements, including pension insurance contracts and personal plans managed by banks and investment companies. We have also included some tentative data on book reserve systems, which in some countries still account for a significant part of retirement benefits. We also provide comparative information on social security reserve funds, which complement otherwise "Pay As You Go" ("PAYG") systems.

"Pension Markets in Focus" facilitates analysis of the main developments in funded pension systems in the OECD area and selected non-OECD countries. Over time, we hope to extend this monitoring exercise to cover other aspects of funded pension arrangements such as coverage, contributions, and benefits. Through this effort, the OECD hopes to make it possible to examine structural changes in retirement systems and their impact on the financial system, and identify issues that deserve further analysis.

I would wish to take this opportunity to thank the Working Party on Private pensions and especially its Task Force on Pension Statistics for their contribution to the OECD Global Pension Statistics project. Your comments on this first issue are most welcome.

André Laboul

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1. Private Pensions: OECD Classification and Glossary'. The Glossary is available at http://www.oecd.org/daf/pensions/.

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Measuring the Size of Private Pensions across OECD and Non-oecd Countries

The OECD is currently developing a comprehensive system of international pension statistics, collected from primary sources (e.g.: Supervisory Authorities, Central Banks, Statistical Offices and Ministries), using coherent statistical concepts, definitions and methodologies. The extension to non-OECD countries is currently underway.

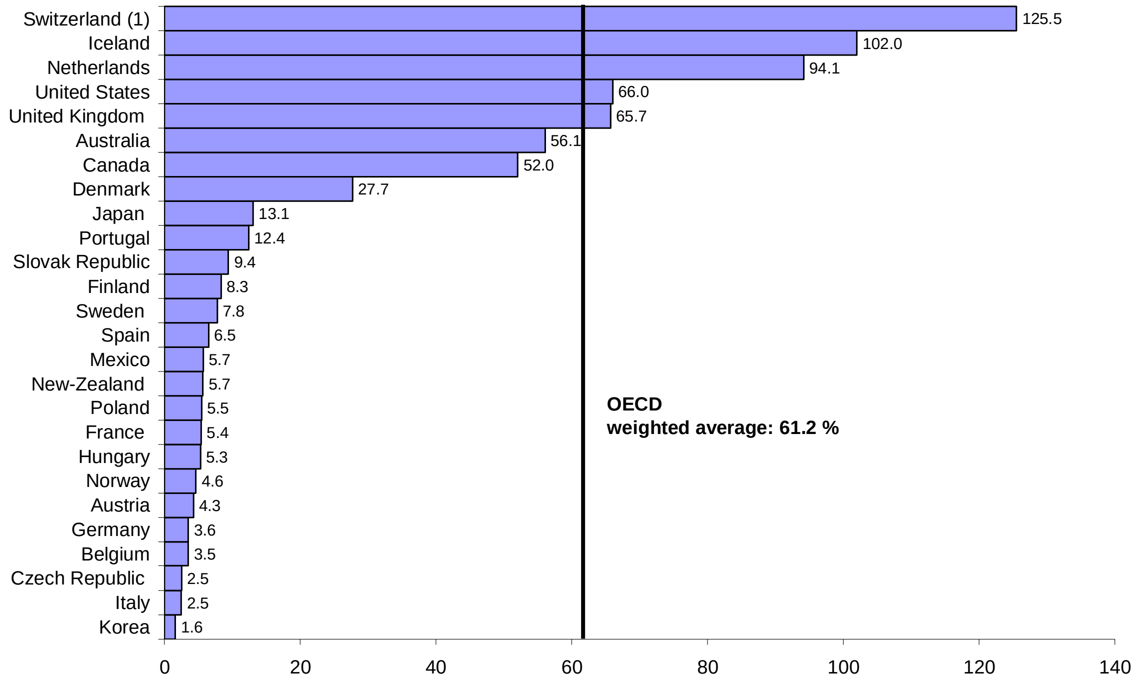
Table 1. Size of pension funds in the world economies, 2001-2003

	Total Investment (Millions of U.S. Dollars)			Total Investment (Millions of Euros)			Share of GDP (9) (10) (percent)		
OECD Countries	2001	2002	2003	2001	2002	2003	2001	2002	2003
Australia	212,860	239,290	295,670	237,685	253,903	263,146	57.7	58.1	56.1
Austria	7,555	8,099	10,869	8,436	8,594	9,673	4.0	3.9	4.3
Belgium	12,639	12,428	10,756	14,113	13,187	9,573	5.6	5.1	3.5
Canada	375,565	346,341	445,761	419,365	367,491	396,727	53.3	47.8	52.0
Czech Republic (1)	1,503	2,294	2,294	1,678	2,434	2,042	2.6	3.3	2.5
Denmark	43,639	44,324	58,717	48,729	47,030	52,258	27.4	25.7	27.7
Finland	9,991	10,606	13,406	11,157	11,254	11,866	8.2	8.1	8.3
France (1)	51,388	95,395	95,395	57,381	101,220	84,902	3.9	6.6	5.4
Germany	62,621	75,466	85,335	69,924	80,074	75,948	3.4	3.8	3.6
Greece	_	_	_	_	_	_	_	_	_
Hungary	2,071	2,976	4,397	2,313	3,158	3,913	4.0	4.5	5.3
Iceland	6,636	7,481	10,781	7,410	7,937	9,595	87.3	88.0	102.0
Ireland	..	..	..	..	..	..	..	..	..
Italy	19,582	21,751	36,787	21,865	23,079	32,741	1.8	1.8	2.5
Japan (2)	566,881	561,437	561,437	632,994	595,722	499,679	13.6	14.1	13.1
Korea	..	8,438	9,884	..	8,954	8,797	..	1.5	1.6
Luxembourg	..	..	..	..	..	..	..	..	..
Mexico	27,204	31,456	35,743	30,377	33,377	31,811	4.4	4.9	5.7
Netherlands	411,460	374,875	545,239	459,446	397,767	482,623	107.2	89.6	94.1
New-Zealand (2)	4,382	4,549	4,549	4,893	4,827	4,049	8.4	7.6	5.7
Norway	6,831	7,652	10,227	7,627	8,119	9,102	4.0	4.0	4.6
Poland	4,622	7,588	11,487	5,161	8,052	10,223	2.6	4.2	5.5
Portugal	13,278	14,657	18,243	14,826	15,552	16,236	12.1	12.0	12.4
Slovak Republic	2,244	4,037	3,077	2,505	4,284	2,723	10.7	16.7	9.4
Spain	35,072	39,061	54,778	39,162	41,447	48,487	6.0	6.0	6.5
Sweden (3)	18,254	18,542	23,457	20,383	19,675	20,877	8.3	7.7	7.8
Switzerland (4)	269,010	335,605	..	300,383	356,099	..	109.4	125.5	..
Turkey	..	..	..	..	..	..	..	..	..
United Kingdom (5)	1,040,472	1,040,472	1,179,718	1,161,817	1,104,010	1,049,949	72.7	66.5	65.7
United States	6,723,627	6,027,275	7,227,959	7,507,770	6,395,341	6,432,884	66.9	57.8	66.0
Total OECD	**9,929,386**	**9,342,095**	**10,755,967**	**11,087,401**	**9,912,586**	**9,572,810**	**64.7**	**57.3**	**61.2**
Selected non-OECD countries (6)									
Argentina	..	11,650	16,139	..	12,361	14,364	..	11.3	13.5
Bolivia	..	1,144	1,493	..	1,214	1,329	..	15.5	20.9
Brazil	..	47,317	64,444	..	50,207	57,355	..	9.3	13.1
Bulgaria	83	174	458	93	185	408	0.5	1.0	2.3
Chile	..	35,515	49,690	..	37,684	44,224	..	55.8	64.5
China	..	..	..	..	..	..	..	..	..
Colombia	4,942	6,260	7,069	5,519	6,642	6,291	0.1	0.1	0.1
Costa Rica	..	138	305	..	146	271	..	0.9	1.8
El Salvador	..	1,061	1,572	..	1,126	1,399	..	7.4	11.0
Estonia	124	909	81	139	965	72	2.0	14.7	..
Fiji	..	..	1,561	..	..	1,389	..	..	69.3
Hong Kong (1)	24,495	27,524	27,524	27,352	29,205	24,497	15.0	17.0	17.6
India	..	..	1,315	..	..	1,170	..	..	0.2
Indonesia (1)	3,219	4,437	4,437	3,594	4,708	3,949	2.3	2.6	2.1
Israel	..	..	..	..	..	..	..	..	..
Kazakhstan	1,210	1,727	2,631	1,351	1,833	2,342	5.6	7.1	8.8
Malaysia	..	..	58,476	..	..	52,044	..	..	56.7
Pakistan	..	..	1,143	..	..	1,017	..	..	1.7
Panama	..	..	464	..	..	413	..	..	3.6
Peru	..	4,484	6,311	..	4,758	5,617	..	8.1	10.6
Philippines	..	..	3,077	..	..	2,739	..	..	3.8
Russia	..	..	2,737	..	..	2,436	..	..	0.6
Singapore (1)	..	56,497	56,497	..	59,947	50,282	..	64.0	61.9
Slovenia	20	83	59	22	88	53	0.1	0.4	0.2
South Africa	..	..	50,328	..	..	44,792	..	..	30.4
Sri Lanka	2,698	..	..	3,013	..	..	14.6	...	..
Thaïland (1)	8,676	10,176	10,176	9,688	10,798	9,057	7.5	8.0	7.1
Ukraine	..	..	5	..	..	4	..	..	0.0
Uruguay	..	893	1,232	..	948	1,096	..	9.3	11.4
Regional Indicators (7)									
Total G10 (8)	**9,551,499**	**8,909,586**	**10,211,845**	**10,665,442**	**9,453,665**	**9,085,902**	**40.6**	**38.8**	**31.4**
Euro area	**623,585**	**652,338**	**870,809**	**696,311**	**692,174**	**772,050**	**16.9**	**15.2**	**15.6**
Latin America	**32,147**	**139,918**	**184,462**	**35,896**	**148,462**	**164,171**	**2.2**	**12.3**	**14.2**
Total World	**9,974,854**	**9,552,086**	**11,125,192**	**11,138,171**	**10,135,400**	**9,898,436**	**21.6**	**21.1**	**19.7**

Source: OECD, Global Pension Statistics project.

Conventional sign: "..': not available and '_' close to zero.

Figure 1. Pension Fund Assets in OECD Countries, 2003
(as a % of GDP)



Source: OECD, Global Pension Statistics.

Pension funds are experiencing different rates of growth around the world

Although, in most countries, pension funds are the most important financing vehicle of funded pension plans[2], the economic size of pension funds varies significantly across countries. In most countries, total investments amount to around 5% or less of GDP. In Canada, the United Kingdom, the United States and the Netherlands it amounts to 50% or more of GDP. It even exceeds GDP in Switzerland and Iceland. Denmark, where pension funds amount to almost half of the market capitalisation of domestic shares, is in an intermediate position with 27.7% of GDP.

In 2003, total investment of pension funds increased by almost 20% in OECD countries. Accordingly, the average ratio of total investment to GDP increased to 61.2%. Those countries that have started from a relatively small base like Spain, Norway, Hungary, Czech Republic and Italy are experiencing the fastest growth in pension fund assets. Pension funds in these countries had an average growth rate ranging from 24% to 58% over the period 2001-2003 (see Table 1). On the other hand, countries with more mature pension systems, like the United States, United Kingdom, the Netherlands and Canada have seen a less rapid, but still positive evolution, with growth rates ranging from 4% to 15%. In between are countries like Denmark, Austria, Portugal and Germany that have exhibited an average growth rate between 16% and 20%. In most other countries, investment growth rates amounted to less that 10%.

As a percentage of GDP, Switzerland and Iceland tops the table in 2003 with the highest accumulation of pension fund assets (125.5 and 102.2% – see Figure 1) of GDP, followed by the Netherlands (94.1% of GDP) and the United States and the United Kingdom (respectively, 66.0% and 65.7%). Most countries experienced a substantial increase in the ratio of pension fund assets to GDP between 2002 and 2003, the main exceptions being Belgium and the Slovak Republic where this ratio fell (see Table 1). Outside the OECD area, the pension fund systems in Chile, Malaysia and Singapore are noteworthy as they have all accumulated pension fund assets at around or above 60 percent of GDP, comparable to the best performers in the OECD area.

The growth rate of pension fund assets is expected to accelerate further over the coming decade as both the public and private sectors intensify efforts to prepare themselves for the rapid ageing of the population. It is also expected that pension reform efforts will raise awareness regarding the implications of increasing life expectancy and promote more savings. While part of the adjustment to ageing will and, in the OECD's view, should come through later retirement, higher savings is expected to help diversify risks, especially in countries that have traditionally relied largely on "Pay As You Go" ("PAYG") systems for retirement income provision. Some OECD countries have even gone as far as replacing part (e.g. Hungary, Poland) or most (e.g.

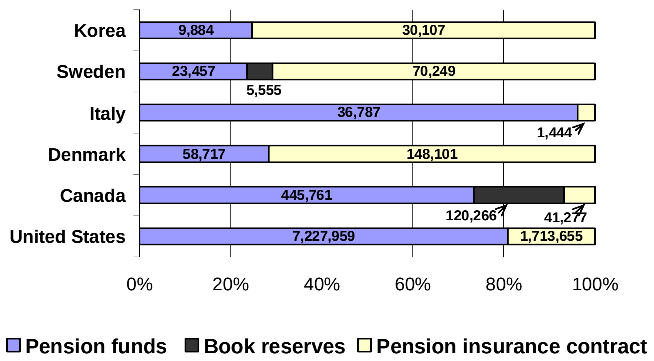
2. Pension plans are defined by the OECD as arrangements or contracts that have a retirement income purpose. See the OECD (2004), Private Pensions Classification and Glossary.

Mexico) of the "insurance" or income replacement part[3] of their social security system by funded pension arrangements.

Other funded pension arrangements are rapidly developing in some OECD countries

In addition to pension funds, in some countries funded pension arrangements include pension insurance contracts and pension plans managed by other financial institutions such as banks or investment companies. Information on these other arrangements, however, is not readily available, especially for products sold in the retail market (personal pension plans). Information on the specific size of the proportion of life insurance investments that correspond to pension plans is available for a few OECD countries (see Figure 2). Following the OECD classification, these plans are referred to as pension insurance contracts (for definitions see Table 7). Pension insurance contracts account for over 70% of the total assets of funded pension arrangements in Denmark, Korea and Sweden and represent, 70, 5 and 34% of their respective GDP.

Figure 2. Private Pension Plans Assets by Type of Financing Vehicle, 2003
(in Millions of USD and as a share of total)



Source: OECD, Global Pension Statistics.

A rough estimate of the size of the overall funded pensions market in other OECD countries is provided by looking at the combination of pension fund and life insurance investments (see Table 2) as pension and long-term investment saving products are a substantial part of the life insurance market. It can be seen that in some countries like France the relatively small pension fund sector is compensated by a highly developed life insurance industry, leading to a combined asset to GDP ratio that is similar to that of other OECD countries like Canada and Japan with much larger pension fund systems.

3. This part complements the other main objective of statutory retirement income systems carried out by social security arrangements, namely poverty prevention or "redistribution". These two objectives, "redistribution" and "insurance" can be met through different pension arrangements. While for obvious reasons only PAYG-financed, public pension systems are mandated to meet the "redistribution" goal, OECD countries vary in the extent to which funded pension arrangements, as opposed to PAYG-financed, public pension plans, are relied upon to meet the insurance goal. See "Pensions at a Glance", OECD, March 2005, for a description of the different mandatory pension arrangements in OECD countries.

Table 2. Pension Funds and Life-Insurance Assets in OECD Economies

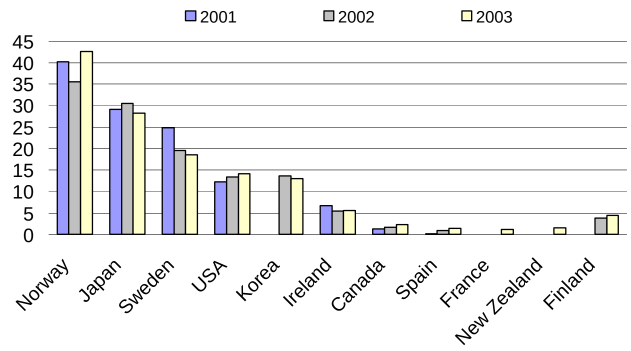
	Total assets for funded pension plans + Life Insurance Investments (6)	
OECD Countries	Millions of Dollars	Share of GDP (7)
Australia	337,385	82
Austria	45,973	23
Belgium	89,978	37
Canada	501,153	69
Czech Republic (1)	5,432	8
Denmark	163,950	95
Finland	33,119	25
France (1)	813,085	57
Germany	..	..
Greece	..	..
Hungary	5,968	9
Iceland	7,512	89
Ireland	..	..
Italy	258,071	22
Japan (2)	1,949,909	49
Korea	124,213	26
Luxembourg	..	..
Mexico	..	..
Netherlands	539,343	129
New-Zealand (2)	..	..
Norway	58,271	31
Poland	14,895	8
Portugal	27,106	22
Slovak Republic	4,904	20
Spain	..	..
Sweden (3)	..	..
Switzerland (4)	497,241	186
Turkey	..	..
United Kingdom (5)	2,004,478	128
United States	8,450,761	81
Total	**15,932,747**	**88**

Sources: OECD, Global Pension Statistics project and Insurance Statistics database.

Funding initiatives within PAYG systems are intensifying

Funding is also growing in what have been traditionally exclusively PAYG-financed, social security systems. Funding in these systems takes the form of reserve funds, which in most cases are institutions with their own governing board and resemble pension funds in many aspects. Reserve funds have been growing at a rapid pace in a few OECD countries as a result of transfers of privatisation proceeds (see Figure 3). In Norway, the petroleum fund is not formally a social security reserve fund, but its investments are likely to be used to meet the liabilities of the Norwegian public pension system. In Finland, social security assets include also the statutory pension funds (58.3% of GDP), while in Sweden they include the assets of the premium pension system (PPM) (3.0% of GDP), but those are not shown in Figures 3 and 4.

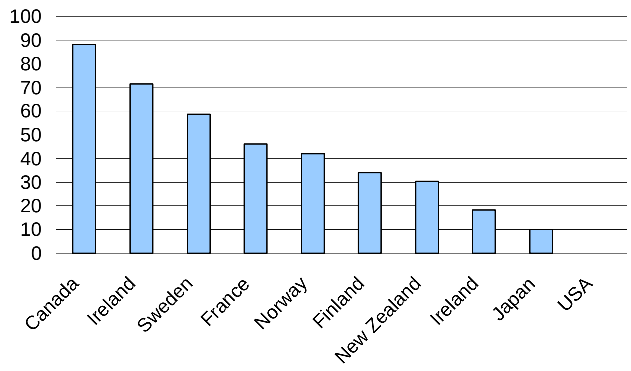
Figure 3. Social Security Reserves for Selected OECD countries, 2001-2003
(as a % of GDP)



Sources: OECD calculations and national sources.

The asset allocation of reserve funds varies significantly across countries (see Figure 4). At one extreme is the Canadian Pension Plan (CPP), which invests nearly all its assets in equities. At the other extreme, the US social security trust fund has a portfolio consisting exclusively of U.S. government securities. In between are countries like Norway, Finland, New Zealand and Sweden where the reserve funds invest between 30% and 60% of their portfolio in equities.

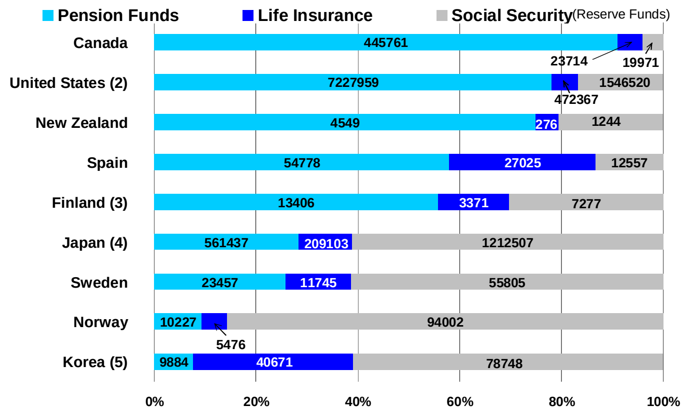
Figure 4. Social Security Reserve Fund Equity Investment, 2003
(as a % total assets)



Sources: OECD, staff calculations and national sources.

In some OECD countries, such Japan, Norway and Korea, reserve funds actually manage more assets than the combined total assets of pension funds and life insurance companies (see Figure 5). Unlike pension funds, however, the future evolution of reserve funds is subject to some uncertainty. In some countries, the recent build-up of assets is expected to be used primarily for meeting the cost of the baby-boom in the coming years. However, as some degree of funding seems advisable for social security systems, further government effort to promote the continuation of reserve funds may be expected.

Figure 5. Contractual Savings in Selected OECD countries, 2003 (1)
(in Millions of USD and as a share of total)

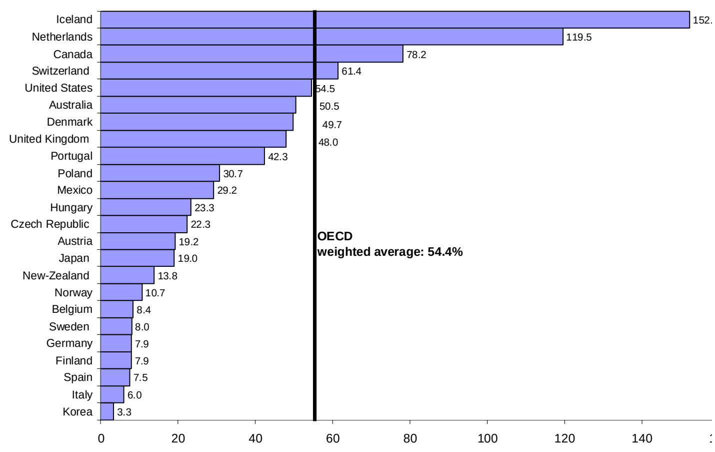


Source: OECD, Global Pension Statistics.

Pension funds: a powerful actor in financial markets

Five countries (United States, United Kingdom, Canada, Netherlands, Switzerland) continue to dominate the pension fund market, with a combined market share of more than 90% of the total for the OECD. OECD pension funds assets rose from 29% of GDP in 1987 to 61% in 2003. (USD 10,756 bn). OECD pension funds assets represent an aggregate of 54.4% of OECD domestic listed shares' market capitalisation (see Figure 6). The ratio of pension fund assets to market capitalisation is highest in Iceland and the Netherlands (respectively, 152% and 120%), followed by Canada (78%), the United States (55%) and Austria (51%).

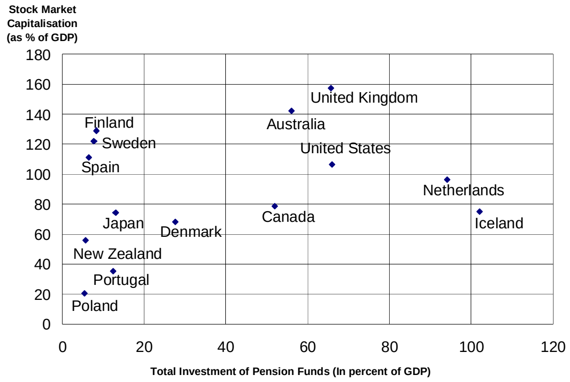
Figure 6. Pension Fund Assets as a % of Stock Market Capitalisation, 2003



Source: OECD, Global Pension Statistics.

Several countries showing high ratios of total pension funds investment to GDP tend also to exhibit high ratios of market capitalisation to GDP, as evidenced in Figure 7. While large pension funds and developed capital markets are to some extent both a result of a market oriented financial system, the preference for shares amongst pension funds in some OECD countries like the Netherlands, the United Kingdom and the United States has certainly contributed to the growth of the stock market in these countries. However, countries in which big listed companies have developed an international shareholder basis, such as Sweden and Finland, have also witnessed strong growth in their local stock exchange.

Figure 7. Weight of Total Investment as Compared to the Size of Stock Markets in selected Economies, 2003



Source: OECD, Global Pension Statistics.

Pension fund portfolios are becoming increasingly diversified, but wide disparities between countries remain

In the past, changes in asset allocation have fluctuated slowly. The increase in equity investments during the 90s was not only driven by the high performance of worldwide stock markets, but also by the phasing out of investments limits in several OECD countries (e.g. Japan).

About one third of OECD countries with pension funds place limits by asset type[4]. The most common are limits in equities and foreign securities. Equity limits are applied by eighteen of the 30 OECD countries with pension funds. These limits range from 70% in Denmark and Greece to 0% in Mexico. Australia, Canada (real estates), Ireland, Italy (real estates, investments funds and bank deposits), Japan, Luxembourg, Netherlands, New-Zealand, United States (only on loans) and United Kingdom (only on loans) have no limit on any asset classes except for those products specified in brackets. Limits in equity investment in other OECD countries are shown in Table 4.

After 2000, the trend toward equities has been reversed. The decreasing proportion of assets held in equities has resulted from both the poor overall performance of stock markets as well as the consequent outflow from equities towards alternative investments (such as private equity and hedge funds, included under other investments).

Between 2002 and 2003, the average allocation to fixed income securities (the largest asset class) decreased to 46.9% at end-2003 compared to 49.5% one year earlier. For the OECD as a whole, the second largest asset class, held by pension funds, consists of shares (21.1 %), followed by mutual funds (11.2 %).

4. Other than self-investment limits (ie. Investment in the sponsoring company,

The breakdown of assets according to the type of investment product varies widely across countries (see Table 3):

- In the majority of countries, bills and bonds rank first in asset allocation. In Denmark, Hungary, Iceland, Mexico, Poland, Bulgaria, Estonia and Slovenia, it accounts for over one half of total investments.
- In two countries, equity shares account for 44% or more of assets: the Netherlands and the United Kingdom (where they account for 53.8% despite the stock market's downturn).
- In Belgium and Canada, mutual fund shares are predominant in the asset structure.

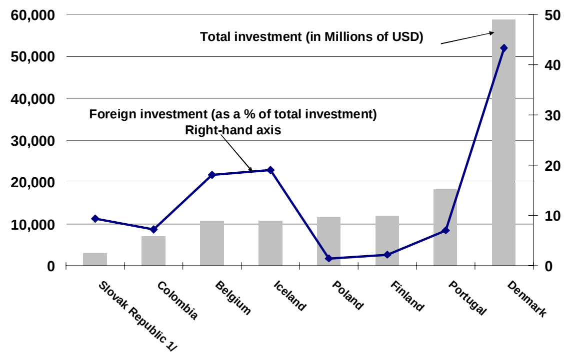
In most countries, cash and deposits, loans, and real estate (lands and buildings) only account for relatively small amounts. Real estate, however is a significant component of pension fund portfolios in Finland, Italy and Switzerland (over 10% of total assets). Similarly, Cash and deposits is a major component for Brazil and Indonesia (respectively accounting for 44.2 and 70.9% of total assets).

Pension funds have also increased their diversification in foreign markets in recent years

Euro-land based pension funds have benefited from the elimination of currency risk, but even in other countries that have their own currency a move towards greater international diversification of pension fund portfolios has been observed, especially in those countries where pension funds are oversized in relation to the domestic capital market. Questions remain, however, as to the extent of home bias in investment strategies. Investment limits and currency matching requirements also account for the relatively low investment abroad in some countries, though, in a few cases, these rules are being relaxed. For example, Canada eliminated the 30% cap in February 2005.

While specific information on investment by issuing location is not available, the data on investment by currency paints a largely positive picture of the extent of diversification in some OECD countries like Denmark. (see Figure 8). On the other hand, a number of OECD countries invest with their own currency (e.g. Poland and Slovak Republic) invest relatively little in foreign currency denominated securities (less than 10% of total assets).

Figure 8. Relative and Absolute Size of Foreign Currency Investment of Pension Funds, 2003



Source: OECD, Global Pension Statistics project.

Table 3. Structure of assets of pension funds, 2003

OECD Countries	Cash and Deposits	Bills and bonds issued by public administration	Corporate bonds	Loans	Shares	Land and Buildings	Mutual funds (CIS)	Unallocated insurance contracts	Other investments
Austria	2.3	73.6	0.0	0.7	16.5	0.7	..	..	6.1
Belgium	4.4	13.6	3.2	0.3	14.6	1.1	55.8	2.6	4.1
Canada	4.9	18.7	5.4	..	23.6	3.5	36.7	..	7.2
Czech Republic	7.9	60.1	24.8	0.0	4.9	0.4	0.0	..	1.9
Denmark	0.3	25.6	39.9	0.5	21.1	2.7	7.8	..	1.7
Finland	0.0	0.0	33.3	0.2	27.0	15.4	0.0	0.0	22.6
France	..	..	..	..	..	..	..	..	..
Germany	2.6	36.3	0.0	27.0	12.7	6.2	7.8	..	7.4
Hungary	4.4	68.1	5.2	0.0	8.7	0.0	5.8	0.0	7.8
Iceland	2.5	35.4	14.9	12.8	30.4	0.2			2.0
Italy	9.1	33.0	0.5	0.0	5.8	11.0	4.3	20.4	15.9
Korea	4.4	34.6	30.6	13.3	2.3	1.8	4.0	..	6.1
Mexico	0.2	85.4	14.4	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	2.2	25.5	13.8	5.3	44.6	5.0	..	..	3.5
Norway	4.6	28.8	33.8	3.9	19.2	5.8	..	..	3.9
Poland	4.8	61.0	1.7	0.0	32.1	..	0.0	..	0.4
Portugal	9.0	21.4	21.6	0.0	19.3	8.8	16.5	0.0	3.4
Spain	4.2	20.0	35.0	0.0	15.9	0.3	6.7	..	17.9
Switzerland	7.1	26.8	..	4.9	26.5	10.5	15.2	..	2.8
United Kingdom	2.6	14.5	4.7	0.5	53.8	4.3	11.4	6.2	2.0
United States	7.1	4.9	4.8	0.2	29.3	0.8	21.3	8.7	22.9
Selected non-OECD countries									
Brazil	44.2	14.9	2.2	3.9	15.9	6.7	11.6	0.0	0.6
Bulgaria	19.9	62.5	11.5	..	2.8	1.8	..	..	1.5
Estonia	8.2	32.6	23.3	0.0	33.5	0.0	1.8	4.8	0.6
Slovenia	21.9	54.7	19.5	0.0	2.5	0.0	1.4	0.0	0.0
Indonesia	70.9	0.1	11.9	0.7	4.1	6.0	1.3	0.0	6.9
Kazakhstan	9.7	48.8	33.7	..	5.0	..	..	..	..
Singapore	2.7	96.4	0.0	0.0	0.0	0.2	0.0	0.0	0.7

Source: OECD, Global Pension Statistics project.

Glossary of selected pension terms

Term	Definition
Fund member	An individual who is either an active (working or contributing, and hence actively accumulating assets) or passive (retired, andhence receiving benefits), or deferred (holding deferred benefits) participant in apension plan.
Funded pension plans	Occupational or personal pension plans thataccumulate dedicated assets to cover theplan's liabilities.
Mandatory occupational plans	Participation in these plans is mandatory foremployers. Employers are obliged by law toparticipate in a pension plan. Employers must set up (and make contributions to) occupational pension plans which employees will normally be required to join. Where employers are obliged to offer an occupational pension plan, but the employees' membership is on a voluntary basis, these plans are also considered mandatory.
Pension plan sponsor	An institution (e.g.company, industry/ employment association) that designs, negotiates, and normally helps to administer an occupational pension plan for its employees ormembers.
Trust	A legal scheme, whereby named people (termed trustees) hold property on behalf ofother people (termed beneficiaries).
Trustee	A person or a company appointed to carry out the tasks of the trust.
Voluntary occupational pension plans	The establishment of these plans is voluntary for employers (including those in which there is automatic enrolment as part of an employment contract or where the law requires employees to join plans set up on a voluntary basis by their employers). In some countries, employers can on a voluntary basis establish occupational plans that provide benefits that replace at least partly those of the social security system. These plans are classified asvoluntary, even though employers must continue sponsoring these plans in order tobeexempted (at least partly) from social security contributions.

Source: OECD, 'Private Pensions: OECD Classification and Glossary'.

Table 4. Portfolio Limits on OECD Pension Funds Investment in Domestic Equity, 2004

Country		*Equity*
Austria		50%
Belgium		No limit (if listed) 10% (if non-listed)
Denmark		70%
Finland		50% (if listed) 10% (if non-listed)
Germany	Pensions-kassen	35% (listed) 10% (non-listed)
	Pensionsfonds	No limit
Greece		70% of technical provisions
Hungary[1]		50% (if MPF) No limit (VPF)
Iceland		50% (joint limit with units or shares of other collective investment undertaking) 10% (if non-listed - joint limit with Bonds and Units or shares of other collective investment undertaking)
Korea		10% (if non-listed)
Mexico		0%
Norway		35%
Poland[2]	OPF	40% (listed on primary market + National Investment Funds) 10 (on secondary market or unlisted)
	EPF	No limit
Portugal		55%, but maximum 15% joint limit in non-listed and non-OECD equities and bonds
Slovak Republic		25%
Spain		No limit 30% in securities not admitted to trading on a regulated market
Sweden[4]		FSR: 0 % IR: 25 % (if quoted), 10 % (if unquoted)
Switzerland		There is an overall limit in equities of 50% and the following sub-limits: 30% domestic 25% foreign
Turkey		76%

Source: OECD, Financial Affairs Division.

The on-going shift from defined benefit to defined contribution

The shift from defined benefit to defined contribution pension plans is a phenomenon spread throughout most of the OECD. The changing design of pension plans has led to the growth of a new type of pension funds that has much in common with investment funds and other collective investment schemes. The pension fund in the Czech republic, Hungary, Italy, Poland, Portugal, the Slovak Republic and Spain are all largely or solely supporting defined contribution arrangements.

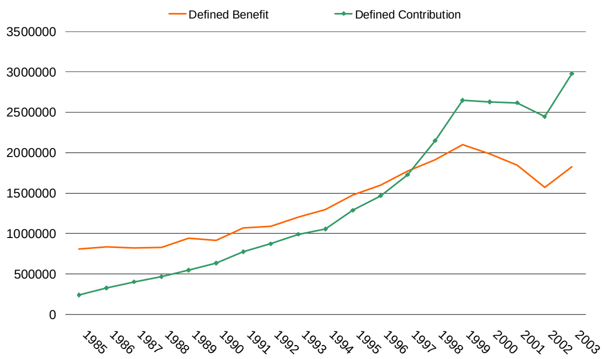
Table 5. Total Members in DB vs. DC plans, 2004
(in % of total members)

	Total Members (in %)	
	DB (1)	DC
Austria	25	75
Belgium (2)	100	0
Czech Republic	0	100
Denmark (3)	50	50
Estonia	0	100
Finland	79	21
France	60	40
Germany	95	5
Greece	50	50
Hungary	0	100
Iceland	8	92
Ireland	64	34
Italy	8	92
Japan	94	6
Korea	46	54
Luxembourg	80	20
Netherlands	95	5
Poland	0	100
Portugal	46	54
Slovak Republic	0	100
Spain	10	90
Sweden	50	50
United Kingdom (4)	84	16
United States	30	70

Source: OECD staff estimates.

DC plans have been growing fast in the United States where by 1997, they had overtaken DB plans in assets under management (see Figure 8). The United Kingdom is likely to experience a similar shift over the next decade, as many DB plans have been recently closed to new entrants and replaced by DC arrangements.

Figure 8. United States - Shift in Defined Benefit vs. Defined Contribution Pension Plans, 1985-2003
(In Millions of USD)



Source: OECD, Global Pension Statistics.

OECD Global Pension Statistics[5]: toward further harmonisation in pension statistics

In 2002, the OECD launched, through the Working Party on Private Pensions and the Task Force on Pension Statistics[6], a project to establish a harmonized set of statistics and indicators related to funded pensions. There were various reasons behind this effort:

- Funded pension arrangements are playing an increasingly important role in retirement income systems.
- Although significant strides have already been made in pension data collection and reporting, great variability remains across, and even, within OECD countries.
- Some of the key pension data quality issues that the statistical project will address, are:
  - the lack of comprehensive administrative data for key indicators;
  - the lack of timely data to monitor the financial activities of the international pension industry;
  - the lack of uniformity and transparency in data sources and measures.

Further improvements in the statistics are already in sight

To further harmonise and standardise the information, the OECD will continue to investigate and review, among other topics, assets' and liabilities' valuations methods across countries, the calculation of return on investment and costs and fees.

- the OECD will collect micro-data to develop additional indicators, and to enlarge the project progressively to include all funded pension plans,.
- With a view to improve the completeness of the set of indicators, and as autonomous pension funds do not represent the totality of pension plan activity in other OECD countries, the OECD will continue its efforts to obtain additional information on non-autonomous pension funds, pension insurance contracts and other financing vehicles for pension plans.
- To extend the project's geographical coverage, additional countries will be invited to join this unique dataset in cooperation with the IOPS organisation.

5 This project is currently financially supported by voluntary contributions both from the public and private sectors, namely ABI (American Benefits Institute), Allianz Global Investors, COVIP, the European Bond Commission, ING Group, Pioneer Investments and the Portuguese Pension Supervisory Authority.

6 These bodies are subsidiary bodies of the Insurance and private pensions Committee.

OECD pension plan and pension funds classification

The OECD dataset, following the OECD classification, considers both funded and book reserved pension plans that are workplace-based (occupational pension plans) or accessed directly in retail markets (personal pension plans). Both mandatory and voluntary arrangements are included. The data includes plans where benefits are paid by a private sector entity (classified as private pension plans by the OECD) as well as those paid by a funded public sector entity (see Table 7). Data collected within the framework of this project pertain to assets, liabilities, income, expenditure and membership.

Funded pension arrangements have developed heterogeneously across OECD countries. When comparing the data it is therefore important that users be aware of the institutional differences between countries. Moreover the recorded differences can reflect real differences but they can also be due to methodological differences between countries. For that reason a significant effort has been made to achieve comparability among countries. Definitions, classifications, calculation methods, and units have been standardised as far as possible.

The original data sources are administrative sources

Within the framework of pension regulation and supervision, pension funds are required to submit comprehensive sets of published and non-published data to pension authorities. In some countries, pension authority also collect information on other funded pension arrangements, such as pension insurance contracts and personal plans administered by banks or investment companies. In several Member countries the relevant pension authority also assume the statistical functions of compiling aggregated data on pension funds and analyses the national pension market. In some other countries this role is taken over by the national statistical offices (see Table 8) or by relevant Ministries. The coverage of the statistics follows the regulatory and supervisory framework. All authorised pension funds are therefore normally covered by the Global Pension Statistics exercise. The main exceptions are pension funds established or treated as social security institutions by a country's legislation. This is the case of the statutory pension funds in Finland and the Premium Pension System in Sweden.

The information collected relates primarily to pension funds for both private and public sector employees. For Japan and the United States, detailed data on public sector pension funds is not currently available.

A few countries (Canada, Denmark, Iceland, Italy, Korea, Portugal, Sweden and the United States) have also provided information on pension insurance contracts or/and personal pension plans managed by banks and investment companies (see Table 6). Data on these plans in other OECD countries is contained in the statistics of insurance companies and other financial institutions but cannot be separated at this stage.

In addition to funded pension arrangements, only a few OECD countries (Austria, Canada, Germany, Luxembourg and Sweden) allow book reserves to be used as financing vehicles of tax-advantaged occupational pension plans. Only two of these countries, Canada and Sweden, currently collect administrative data on these plans.

Funded pension plans, including "Pay As You Go" ("PAYG") financed social security systems will be examined

A pilot project has been launched to collect micro-data on social security reserve funds, the "funded" part of otherwise PAYG systems. Preliminary data on the reserve funds of selected OECD countries is provided in this newsletter. The aggregate sum of assets held by reserve funds, funded and book reserved pension arrangements equal the total funded pension wealth of a country that is accounted by claims on financial securities, real assets, and company profits (the case of book reserves).

It is also expected that the exercise will be gradually extended to non-OECD countries. Data on some countries has already been included in this newsletter. In the future, more detailed information will be collected from these countries.

Table 6. Total Investments by Type of Plans in USD

Pension Plans	Canada	Denmark	Iceland	Italy	Korea	Portugal	Spain	Sweden	United States
Occupational pension plans, total	607,304	206,818	9,908	35,054	14,573	17,765	23,282	5,555	4,238,784
Defined benefit, total	555,203	5,615	1,851	7,021	14,573	17,505	802	5,555	1,828,912
Pension funds (autonomous)	409,654	5,615	1,851	7,021		17,505			
Book reserves (non-autonomous)	120,266							5,555	
Pension insurance contracts	25,282				14,573				
Defined contribution (protected), total	52,101	53,103	8,057	8,628	14,573				
Pension funds (autonomous)	36,107	53,103	8,057	8,628					
Pension insurance contracts	15,994				12,526				
Banks managed funds					2,047				
Defined contribution (unprotected), total		148,101		19,405		260			
Pension funds (autonomous)				19,405		260			
Pension insurance contracts		148,101							
Personal pension plans, total	287,939		1,084	3,177	25,417	2,656	31,496	3,316	2,979,000
Defined contribution (protected),total			1,084	646	25,417			3,316	
Pension funds (autonomous)			873	128					
Pension insurance contracts				517	17,581				
Banks managed funds			211		7,836			3,316	
Defined contribution (unprotected), total				2,531		2,656			
Pension funds (autonomous)				1,605		478			
Pension insurance contracts				926					
Investment companies managed funds						2,178			
Total all plans	895,243	206,818	10,992	38,231	39,990	20,421	54,778	8,871	7,217,784

Source: OECD, Global Pension Statistics project.

Table 7. OECD Classification of Pension Plans by Financing Vehicles

FINANCING TYPES	
Pension funds (autonomous)	The pool of assets forming an independent legal entity that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits. The plan/fund members have a legal or beneficial right or some other contractual claim against the assets of the pension fund. Pension funds take the form of either a special purpose entity with legal personality (such as a trust, foundation, or corporate entity) or a legally separated fund without legal personality managed by a dedicated provider (pension fund management company) or other financial institution on behalf of the plan/fund members.
Book reserves (non-autonomous)	Book reserves are sums entered in the balance sheet of the plan sponsor as reserves or provisions for pension benefits. Some assets may be held in separate accounts for the purpose of financing benefits, but are not legally or contractually pension plan assets.
Pension insurance contracts	An insurance contract that specifies pension plan contributions to an insurance undertaking in exchange for which the pension plan benefits will be paid when the members reach a specified retirement age or on earlier exit of members from the plan.
Other	Other type of financing vehicle not included in the above categories.

Source: OECD, 'Private Pensions: OECD Classification and Glossary'.

Table 8. List of Administrative Sources

OECD countries	Statistical source(s) by country
Austria	FMA Financial Market Authority
Belgium	Commission Bancaire, Financière et des Assurances
Canada	Statistics Canada
Czech Republic	Ministry of Finance
Denmark	Danish Financial Supervisory Authority
Finland	Insurance Supervision Authority
Germany	Federal Financial Supervisory Authority
Hungary	Hungarian Financial Services Agency
Iceland	Financial Supervisory Authority
Italy	Commissione vigilanza fondi pensione (COVIP)
Japan	Ministry of Foreign Affairs
Korea	Korea Life Insurance Association
Mexico	CONSAR
Netherlands	Statistics Netherlands
Norway	Kredittilsynet
Poland	Insurance and Pension Funds Supervisory Commission of Poland
Portugal	Instituto de Seguros de Portugal
Spain	Banco de Espana
Spain	Ministry of Economy
Slovak Republic	Ministry of Finance of the Slovak Republic
Switzerland	Office fédéral de la statistique
Sweden	Finansinspektionen (the Swedish Financial Supervisory Authority)
United Kingdom	National Statistical Office (ONS)
United States	Department of Treasury
United States	Federal Reserve
United States	Department of Labor
Non-OECD countries	
Argentina	AIOS
Bolivia	AIOS
Brazil	Ministry of Finance - SUSEP (Open-funds)
Brazil	Ministry of Social Security (Closed-funds)
Bulgaria	Financial Supervision Commission
Chile	AIOS
Columbia	AIOS
Costa Rica	AIOS
El Salvador	AIOS
Estonia	Financial Supervision Authority
Hong Kong	Mandatory Provident Fund Schemes Authority
Indonesia	Ministry of Finance of the Republic of Indonesia
Kazakhstan	Financial Supervision Agency of Kazakhstan
Peru	AIOS
Singapore	Monetary Authority of Singapore
Slovenia	Slovene Insurance Supervision Agency
Slovenia	Slovene Security Market Agency
Thailand	Securities and Exchange Commission
Uruguay	AIOS

Notes to be taken into consideration when interpreting the data

Common notes to Tables 1, 2, 3, 4 and Figure 1:

Data includes pension funds per the OECD taxonomy that are subject to private pension regulation. All types of plans are included (occupational and personal, mandatory and voluntary). Pension funds include also some personal pension arrangement like the Individual Retirement Accounts (IRA) in the United States. Assets pertaining to the 1st pillar social security system are excluded as well as public pension funds that are subject to public pension regulation, like funds for government workers [eg. United States and Japan, accounting respectively, for 1,967 UDS bn (18.0% of GDP), and 406.7 UDD bn (9.5% of GDP)] and book reserves within sponsoring companies.

1. 2003 is data of 2002.
2. 2003 is data of 2002; all data is for occupational pensions.
3. Including Pension foundations, 'bigger friendly societies' and 'small friendly societies';
4. 2001 and 2002 are data of 1999 and 2000 respectively.
5. 2002 is data of 2001.

Specific notes:

Table 1:
6. Data for Brazil, Panama, Ecuador, Fiji, Honduras, India, Indonesia, Kazakhstan, Korea, Sri Lanka, Malaysia, Pakistan, Panama, Russia, and Ukraine from FIAP; Latin American data w/ exception of Mexico, from AIOS.
7. Arithmetic Sums and Averages; Sums may not add up due to rounding error.
8. G10 includes Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.
9. Funded pension weights used to calculate OECD weighted regional averages.
10. GDP values from OECD/MEI; selected Non-OECD country values from IMF, International Financial Statistics, 2005.
Exchange rate used: 1.116625 in 2001; 1.061066667 in 2002 & 0.89 in 2003 from OECD/MEI

Figure 3 and 4:
Sweden: only AP1 / France: 2004 data / Korea: recording period, 31 June 2003 / Japan: recording period, 31 March
In the chart, for France, Finland and Korea, data point at 'zero' means data is not available. For New-Zealand it is not applicable.

Figure 5. Contractual Savings, Selected OECD countries, 2003:
1. 2002 Data used for life insurance data for all countries.
2. The Social Security trust funds, managed by the Department of the Treasury, are Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds. All securities held by the trust funds have been issued by the Federal Government.
3. Includes State pension fund (statutory pension funds and government workers' pension funds are excluded).
4. Public pension funds include Employees' Pension fund and National Pension fund

5. Social security funds are composed of National Health Insurance Corporation, Health Insurance Review Agency, Industrial Accident Compensation Insurance & Prevention Fund, National Pension Fund, The Special Accounting for N.P.F (National Pension Fund), Patriots and Veterans Affair Fund, Employment Insurance Fund, Wage Claim Guarantee Fund, Fund for Employment Promotion and Vocational Rehabilitation of the Disabled.

Table 2:

6. Life Insurance data from OECD.dot.stat.
7. GDP values from OECD/MEI

Table 3. Structure of assets of pension funds, 2003

1. 2002 Data for Belgium.
2. 2001 Data for Finland and the United Kingdom.
3. 2000 Data for Switzerland.

Table 4. (1) MPF stands for mandatory pension fund; VPF for voluntary pension fund; (2) OPF stands for open pension fund, EPF for employee pension funds (closed funds);

Table 5: (1) including Hybrid plans, (2) DB are all cash balance plans - pay lump sum at retirement, (3) Mutual insurance arrangements, (4) Excluding Hybrid schemes.

News in brief

The OECD has been developing principles and guidelines for occupational pension regulation since 1998.

The OECD "Recommendation on Core Principles for the Regulation of Occupational Pensions" was released in 2004, with six main core principles addressing both prudential aspects and the rights of members and beneficiaries. Additional detailed guidelines set out basic good practices in regulation that aim at providing incentives for the management of pension funds in the best interest of plan members and beneficiaries. The governance guidelines stress the role of internal controls and external monitoring by auditors and actuaries (through their whistle-blowing function), while the guidelines on the rights of beneficiaries aim at bridging the information gap between plan members and pension providers by establishing basic protective measures such as vesting and portability rights on top of disclosure requirements. Currently, the OECD is preparing a set of guidelines on pension fund asset management and on funding and benefit security. These guidelines will be published in the course of 2005.

Pension Benefit Security – On going work by the OECD Working Party on Private Pensions

The OECD has been undertaking work to examine ways to ensure that pension beneficiaries receive their promised retirement income. Some countries have dealt with benefit protection via strong funding rules and the OECD Working Party on Private Pensions (WPPP) has undertaken an extensive survey of the funding requirements in the OECD countries where defined benefit schemes are still widespread.

Further work examines an alternative method of increasing benefit security in retirement – pension benefit guarantee schemes (the option current being introduced in the UK). These schemes, also known as insolvency guarantee schemes, cover lost pension income in when a plan sponsor becomes insolvent without sufficient pension assets to meet obligations. The group has examined the arguments for and against such schemes at both a theoretical and practical level, and has analysed the different models for these schemes which exist in several OECD countries.

A related method of benefit protection concerns the position of pension fund claims within bankruptcy proceedings. When a sponsoring firm enters liquidation with an underfunded pension scheme the accumulated pension rights of the plan beneficiaries may have a higher ranking claim upon the sponsoring company's assets than other creditors, rank equally, or behind the claims of other trade and financial creditors. On going work by the WPPP discusses whether such priority rights should exist, how they impact financial markets and looks at the current situation in a range of OECD countries.

The OECD's Financial Education Project—Current and Future Work

The part of the Financial Education Project that was developed under the direction of the Committee on Financial Markets (CMF) has just completed its first report on financial education. This report is the first major study of financial education at the international level and includes a chapter on financial education and retirement savings. Following its programme of work, the Working Party on Private Pensions (WPPP) will now extend the CMF report to examine in more detail the role of financial education in increasing workers' awareness and understanding of the need to save for retirement and their ability to do so.

Issues to be considered in the WPPP report will include the extent to which the format of the education or advice should be regulated, how financial education can improve individual choice, and the role of financial education in general in both defined benefit and defined contribution schemes. In addition to a description of existing financial education programmes and an assessment, to the extent possible, of the effectiveness of these programmes, the WPPP report will also develop good practices for financial education programmes, in consultation with the appropriate stakeholders.

The International Organisation of Pension Supervisors (IOPS) established in July 2004

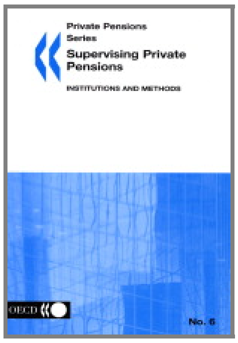
IOPS now has over 40 members and observers representing over 30 countries. This organisation is currently progressing with its 2005/2006 programme of work. Priority projects currently under development include the drafting of a set of guidelines for good practices in pension supervision, and an analysis of the core elements of a risk-based approach to pension supervision, run jointly with the World Bank. Other projects, covering areas such as supervisory education, outreach and communication and the utilization of IT technology in off-site supervision will continue to be rolled out over the period. Work of the IOPS will be conducted in close cooperation with the OECD.

OECD reports are available at: www.oecd.org/daf/pensions

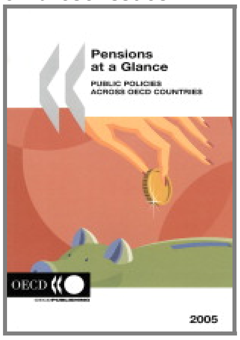
Recent OECD Publications

Discussions on pension policy are often unnecessarily complicated by misunderstandings over basic definitions. Therefore, one of the first tasks of the OECD Working Party on Private Pensions was the creation of a classification of private pension systems that was applicable world-wide. The classification contains a separate glossary of terms used in the private pensions field. These definitions have been approved by the OECD governmental representatives to the Working Party on Private Pensions. This publication is a practical tool for government pension officials, academic and business communities, and journalists worldwide. It is hoped that it will contribute to mutual understanding, one of the key objectives of the OECD's work.

This publication provides you with timely analyses of, and statistics on, financial matters of topical interest or longer-term developments in specific financial sectors including pension. It appears twice a year with each issue providing a brief update of trends and prospects in the international and major domestic financial markets. Articles focusing on particular issues related to developments in the financial sector are regularly featured. Periodically, financial sector statistics covering areas such as bank profitability, insurance and institutional investors are profiled.



Private Pensions are long-term contracts that comprise a sizeable share of workers' income. Pensions operate in markets subject to potential failures stemming from asymmetric information, adverse selection and moral hazard. Government intervention is crucial to design regulations to protect the interests of participants, avoid systemic crises, and guarantee the financial and actuarial sustainability of the private pension system. Regulations will be implemented by supervisory institutions, which must be insulated from political pressures - from either the government or the pension industry - and endowed with adequate resources and enforcement capacities. Supervisory agencies' procedures for market engagement should be constantly improved and updated to follow market dynamics and ensure compliance with regulations. Institutional supervisory structures and methods vary widely throughout the world and this is the first book intended to analyse and compare international experiences on these issues.



The first comprehensive book of its kind, this comparison of key features of public pension systems of OECD countries provides coverage of retirement ages, benefit accrual rates, ceilings, and indexation. Future pension entitlements are shown for full-career workers at different earnings levels. Indicators measure redistribution in pension systems, the cost of countries' pension promises, and potential resource transfer. Thirty country chapters explain pension systems and replacement rates in detail.

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