Session 048 PD - How Retirement Works Around the World

Moderator:
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Presenters:
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William Joseph Price
Paul M. Secunda
A Comparative Look at Pension Differences Around The World

Paul M. Secunda
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Labor & Employment Law Program
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The Four (Five?) pillars of Retirement

A non-contributory “zero pillar”
e.g. Australia Age Pension

A public, mandatory, contributory
e.g., first pillar US Social Sec.

Private, employment-based, second pillar, e.g.,
401K

A voluntary supplemental third pillar,
e.g., US IRA

An non-financial fourth pillar;
e.g., education
## Types of Retirement Plans

<table>
<thead>
<tr>
<th>Defined Benefit Plans</th>
<th>Defined Contribution Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Employee typically receives annuity at normal retirement age based on seniority and average comp over specified time</td>
<td>• Employee owns a specific account</td>
</tr>
<tr>
<td>• Designed to last employee’s lifetime – hedge against longevity risk</td>
<td>• Employee controls investment and distributions</td>
</tr>
<tr>
<td>• Often expensive for older companies</td>
<td>• Often not enough for retirement</td>
</tr>
</tbody>
</table>
Melbourne Mercer
Global Pension Index (GPI)
Scorecards

- Benefits
- Savings
- Tax support
- Benefit design
- Growth assets

- Coverage
- Total assets
- Contributions
- Demography
- Government debt

- Regulation
- Governance
- Protection
- Communication
- Costs

Adequacy  Sustainability  Integrity

Country Score and Grade in MMGPI
2016 Melbourne Mercer Global Pension Index (MMGPI)

Netherlands (2)  Germany (12)  Australia (3)  United States (13)  United Kingdom (11)  Japan (26)

Graphic: Melbourne Mercer Global Pension Index for 2016
Netherlands

80.1 A

Adequacy 80.5

Sustainability 74.3

Integrity 89.3
Algemene Ouderdomswet (AOW)
General Old-Age Pensions Act

- Compulsory Statutory Scheme covers all persons living and working in the Netherlands
- A person who receives an income pays a flat-rate of 17.9% towards the AOW, but a person with no income is still covered
- Retirement age will be 67 by 2022
• 80% of residents belong to sector-wide supplementary plans

• Most employees contribute between 4% and 8% towards a Defined Benefit Plan

• Companies are shifting away from final salary average

• Defined Contribution Plans are becoming more popular slowly

• Average employee with a DCP contributes 1/3 to overall plan, with employer contributing 2/3
Staying ahead of the curve

- Implement mandatory minimum age to collect benefits
- Increase private savings/investments per pensioner
- Control the standardization of Defined Contribution Plans as the grow in popularity
- Increase retirement age to correspond with increase in life expectancy
- More thorough protections from breach of fiduciary standards
Australia

77.9  B+

Adequacy 76.0

Sustainability 74.1

Integrity 86.1
Australian Superannuation System  
(Super Funds – Mandatory DC)

- “Choice architecture” system for workplace retirement system
- Employers required to provide minimum amount of superannuation each year
- Employers make mandatory contributions to employee accounts (9.5% → 12% (maybe))
- Uses a default system for retirement investments with options for further employee involvement through opting-out of default
Not So Super:

Lack of Fiduciary Enforcement

- Fiduciary duties upon Super Trustees themselves, but limited or absent as far as other Super service providers
- Most of power and discretion lies with service providers and not necessarily acting in members’ best interests – much rent-seeking & relatively high costs & fees

Lack of Competition

- Super industry too connected, too concentrated
- Only focused on competition among Super funds
Crossing into A range

- Introduce restriction on lump sum pension collection/provide greater benefit for taking an income stream
- Increase workforce participation among pensioners and retirement age to correspond to increased lifespans
- Tighten the flexibility of collection income prior to retirement age
- Boost the net replacement rate through opt out increase in contributions
United Kingdom

Adequacy 55.5

Sustainability 48.8

Integrity 83.2
• A flat rate public pension system supported by an income tested pension credit, earnings-related pension, and voluntary private pensions

• Employers must put employees automatically into a pension arrangement where both contribute

• Employees must opt out if they do not wish to participate, but cannot be encouraged to do so

• Employees must re-enroll every three years

• Failure to comply may lead to fines, criminal charges, and public shaming

“Workie” the Department for Work and Pensions mascot.
Problems on the horizon

- The UK index has dropped every year since 2014
- First drop was thought to be due to abolishment of forced enrollment, but there has been no rebound
- Suffers from the same problems that many countries do with a smaller workforce entering than going into retirement as well as a longer lifespan for pensioners
- With Defined Contribution plans on the rise, unknown consequences are likely to follow
Righting the Ship

- Restoring a previously eliminated requirement to take part of pension via income stream (annuity)
- Increasing coverage of pensioners in occupational schemes
- Raising household private savings
- Raising minimum pension for low-income retirees
- Increasing the minimum retirement age
Germany

59.0

C

Adequacy 70.4

Sustainability 35.8

Integrity 73.1
Users an alternative Three Pillar System

Mandatory First Pillar is oldest Social Security system in the world, designed after the first unification of Germany (Bismarck)

In modern times, the system includes all workers, with coverage beginning immediately upon hire

The employer and employee cover about one-half each of a currently 15.5% over earnings

Includes Social Health Insurance, a Long Term Care Insurance, Industrial Accident Insurance, and Unemployment insurance
• While still going strong, Germany’s index dropped slightly in 2016.

• Like many countries, Germany could benefit from an increased age for low-income pensioners to increase sustainability.

• Costs might be reduced through better communication to pensioners about plans.

• Pensioners would benefit from additional coverage either through increased pension or individual savings.
Avoiding the Crash

- Increasing safety net for low income pensioners
- Expanding coverage for employees with occupational pension plans
- Improving/simplifying means of communication between pensioners and planners
- Increasing retirement age to compensate for decreasing work force participation through declining population of younger generation
United States
56.4 C

Adequacy 53.5
Sustainability 57.1
Integrity 59.9
Uses a First Pillar social security system supplemented by Second Pillar personal and occupational private pensions, but the Second Pillar is much more important for retirees (though only 50% have access).
Social Security alone does not provide adequate retirement

For the large majority of US workers, Social Security will lead to about 40% income replacement ratio (SSA 2011).

Yet, to maintain a comfortable lifestyle in post-retirement years, a US worker will need at least 70% to 80% income replacement.

Pays monthly income for retired persons aged 65+ based on pay roll tax contributed while working

Mandatory for Private Sector employees

May also cover the disabled and those unable to work

Contained within two trust funds: the Old-Age and Survivor’s Insurance (OASI) and the Disability Insurance (DI), but much of the capital has been used for other governmental projects.
ERISA Plans
• 401(k) plans
• DB plans (Very few left)
• Profit Sharing plans
• Employee Stock Ownership Plans (ESOP)

Non-ERISA Plans
• Traditional and Roth IRAs
• Simple IRA
• Sep IRA
• Individual 401(k)
• Many 403(b) plans

Employment Retirement Income Security Act of 1974 (ERISA)

Covers most private pensions as well as welfare plans.

Does not cover pension plans by government entities, churches, non-U.S. residents, or independent contractors.

Does not cover pension plans by government entities, churches, non-U.S. residents, or independent contractors.
Rising above Tolerable

- Expanding coverage of low income pensioners
- Boosting net replacement of median income pensioners by upping mandatory contributions
- Switching all optional pension plans to a default of opt out
- Limiting the availability of funds prior to retirement
- Re-center the focus of ERISA upon the protection of pensioners
- Adjusting retirement age to adapt to increased life expectancy
Japan

43.2  

Adequacy 48.5

Sustainability 24.4

Integrity 60.9
From 20-59, membership within Japan’s First Pillar is compulsory, but subsistence off of the National Pension Fund (NPS) alone will be well below the poverty level.
Possesses status agreements with seventeen countries dealing with double coverage of the First Pillar

- Provides an Old-age Basic Pension Insurance at 60
- Advances to Old-age Employees’ Pension at 65
- May request a lump sum, under penalty, for pension or as a survivor
- Suffers due to outstanding National Debt and shrinking workforce
On the precipice

• Reducing or eliminating the lump sum pension payment

• Lifting the levels of contributions and assets by increasing the coverage

• Increasing the retirement age

• Raising the level of household savings

• Reducing government debt

• Adjusting for severe decline in population by providing retirement incentives for the continuation of lineage

• Shifting part of the burden for retirement to younger generation in “return the favor” plan
To reduce the consequences of an ageing population and ensure their pension system is sustainable, countries must increase:

01 Labour force participation at older ages

02 The pension eligibility age and/or retirement age

03 The level of pension fund assets set aside for the future

How is each country going?

Projected old age dependency ratio in 2040
Share of pension assets by country

The world's top 300 pension funds

38.3% US

5.8% Norway
5.4% UK
2.1% Sweden
2.0% Denmark
6.4% Netherlands
3.1% South Korea
12.0% Japan
1.4% Switzerland
1.5% Germany
2.0% China
1.3% Malaysia
1.4% Singapore
3.4% Australia
8.5% Other

Note: 'Other' includes the following markets: Belgium, Brazil, Chile, Colombia, Finland, France, India, Ireland, Italy, Kuwait, Luxembourg, Mexico, New Zealand, Peru, Philippines, Portugal, Russia, South Africa, Thailand, Turkey.
ALL IN FAVOR OF IGNORING THE OBJECT ON THE TABLE, RAISE YOUR HAND...

PENSION OBLIGATIONS

SUBURBAN CITY MANAGERS
2017 SOA Annual Meeting & Exhibit

ALEJANDRO BONILLA GARCIA
048 048 PD - How Retirement Works Around the World
Monday, 10/16/2017, 1:45 pm - 3:00 pm
"The world is full of obvious things which nobody by any chance ever observes."
-The Hound of the Baskervilles

'You see, but you do not observe. The distinction is clear.'
-A Scandal in Bohemia

'It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts.'
-A Scandal in Bohemia
Trends?
For all people....but for 80% it is still a dream
Life Cycle

2017.....2037........2082........2107
Old-age pension beneficiaries as a proportion of the population above statutory pensionable age, latest available year (percentages) 2016
AROUND THE WORLD, PEOPLE FACE RISKS UNDER DIFFERENT CIRCUMSTANCES

RISKS
- Individual
- Community
- National
- Regional
- Global

CERTAINTIES
- Disadvantages
- Exclusions
- Insufficiencies
- Unsustainable development

Information asymmetries
CHANGING COMPLEXITIES AND INTERACTIONS
DILEMA? PEOPLE OR FINANCE
NATIONAL SPF’S: PLURALISM OF APPROACHES COMPLEMENTARITIES FOR GUARANTEED OUTCOMES

Benefits may include child and family benefits, sickness and health-care benefits, maternity benefits, disability benefits, old-age benefits, survivors’ benefits, unemployment benefits and employment guarantees, and employment injury benefits as well as any other social benefits in cash or in kind. (para. 9(2))
Vertical dimension: progressively ensuring higher levels of protection guided by C.102 and more advanced standards

Horizontal dimension: Guaranteeing access to essential health care and minimum income security for all

Voluntary insurance under government regulation

Social insurance

Outcomes can be guaranteed through different means – there is no one-size-fits-all
European Union: 28 different national pension systems!

- Since the creation of the EU, the question of safeguarding the social protection of the workers moving among the States of the EU immediately arose;

- Debate Harmonization vs Coordination of national social security systems;

- Coordination was the final choice: every Member State remained competent of its own social system *(Smith abroad, Keynes at home’ principle)*

- Therefore, the organization of the pension system remains (in principle) a national competence: 28 national pension systems!
The (former) traditional 3 pillars in the States of the EU till the nineties

- 3rd pillar: Individual Pensions (funded)
- 2 pillar: Occupational Schemes (funded)
- 1st pillar: statutory, managed by State and functioning on a PAYG base
The current scenario of pension systems in Europe differing from the traditional
Evolution and trends in the member states of the EU

1) Funded elements to the pension systems have been introduced (and they are in the process of being introduced) in all the National Pension Systems (no matter whether they are 1st pillar bis or « classic » second pillar »)

2) Those Countries that decided to consider their funded and privately managed layers as “first pillar bis”, will avoid the EU regulations on internal market, solvency, competition and the supervision of the European Authority; HOWEVER: more political risks of nationalization (Hungary; Poland; other Countries...)
3) In some European Countries the second pillar is often treated like the third pillar (especially as for the tax incentives). In short, in some Countries there is a confusion between second and third pillar’s elements.

4) In some Countries of the EU, the “first pillar bis” looks much more like a third pillar (individual pension financed by the sole employee). In short, in some Countries there is a confusion between the third pillar and the first pillar.
Sources of income of people aged 65 and over, OECD countries
Correlation between greater public pension provision and lower poverty levels, OECD countries
Overview of old-age pension schemes anchored in national legislation, by type of scheme, 2012/13

<table>
<thead>
<tr>
<th>Old-age pension schemes anchored in national legislation providing periodic cash benefits</th>
<th>Information available for 178 countries (100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributory scheme only</td>
<td>Contributory scheme and non-contributory universal scheme</td>
</tr>
<tr>
<td>77 countries</td>
<td>27 countries</td>
</tr>
<tr>
<td>43%</td>
<td>15%</td>
</tr>
<tr>
<td>Non-contributory means-tested scheme only</td>
<td>Non-contributory universal scheme only</td>
</tr>
<tr>
<td>3 countries</td>
<td>9 countries</td>
</tr>
<tr>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Contributory scheme and non-contributory means-tested scheme</td>
<td>No old-age pension scheme anchored in national legislation providing periodic cash benefits</td>
</tr>
<tr>
<td>50 countries</td>
<td>12 countries</td>
</tr>
<tr>
<td>28%</td>
<td>7%</td>
</tr>
</tbody>
</table>

(of which 11 countries with provident funds providing lump-sum benefits to employees and sometimes also self-employed)
The rights of older persons to social security and to an adequate standard of living to support their health and well-being, including medical care and necessary social services, are laid down in the major international human rights instruments, the Universal Declaration of Human Rights (UDHR), 1948, and (in more general terms) the International Covenant on Economic, Social and Cultural Rights (ICESCR), 1966. The content of these rights is further specified in the normative body of standards developed by the ILO, which provide concrete guidance to countries for giving effect to the right of older persons to social security, from basic levels to full realization.

The Social Security (Minimum Standards) Convention, 1952 (No. 102), the Old-Age, Invalidity and Survivors’ Benefits Convention, 1967 (No. 128), and its accompanying Recommendation No. 131, and the Social Protection Floors Recommendation, 2012 (No. 202), provide an international reference framework setting out the range and levels of social security benefits that are necessary and adequate for ensuring income maintenance and income security, as well as access to health care, in old age. The extension of coverage to all older persons is an underlying objective of these standards, with the aim of achieving universality of protection, as explicitly stated in Recommendation No. 202.

Conventions Nos 102 and 128 and Recommendation No. 131 make provision for the payment of pensions in old age, at guaranteed levels, upon completion of a qualifying period, and their regular adjustment to maintain pensioners’ purchasing power. More particularly, Conventions Nos 102 and 128 envisage the provision of income security to people who have reached pensionable age through earnings-related contributory pensions (guaranteeing minimum benefit levels, or replacement rates, corresponding to a prescribed proportion of an individual’s past earnings – in particular to those with lower earnings) and/or by flat-rate non-contributory pensions which can be either universal or means-tested. The guaranteed minimum levels for the latter should be a prescribed proportion of the average earnings of a typical unskilled worker, but the “total of the benefit and other available means ... shall be sufficient to maintain the family of the beneficiary in health and decency” (Convention No. 102, Art. 67(a)).

Recommendation No. 202 completes this framework by calling for the guarantee of basic income security to all persons in old age, prioritizing those in need and those not covered by existing arrangements. Such a guarantee would act as a safeguard against poverty, vulnerability and social exclusion in old age, for people not covered by contributory pension schemes. It is also of high relevance to pensioners whose benefits are affected by the financial losses suffered by pension funds, whose pensions are not regularly adjusted to changes in the costs of living, or whose pensions are simply inadequate to secure effective access to necessary goods and services and allow life in dignity. ILO social security standards thus provide a comprehensive set of references and a framework for the establishment, development and maintenance of old-age pension systems at national level.

An important social policy challenge facing ageing societies is to secure an adequate level of income for all people in old age without overstretching the capacities of younger generations. In view of the financing and sustainability challenge faced by social security systems in the context of demographic change, the State has a vital role to play in forecasting the long-term balance between resources and expenditure in order to guarantee that institutions will meet their obligations towards older persons. The principle in ILO social security standards, strongly reaffirmed recently by Recommendation No. 202, of the overall and primary responsibility of the State in this respect will undoubtedly play an important role in how future governments are held accountable for the sustainability of national social security systems in view of, among other factors, demographic change.

1 UDHR, Arts 22 and 25(1), and ICESCR, Art. 9. 2 See UN, 2008.
PRINCIPLES → MEANS → RESULT
Agenda

• Framework of multi-pillar analysis

• Big picture global and regional trends but …. 

• Outcomes Based Assessments

• Some interesting recent projects

• Conclusion and next steps
Retirement income is delivered by, and impacted by, a complex mix of components.
One approach is to break down provision into ‘pillars’

**Zero pillar**: mandatory, public, focus on adequacy and coverage. Income and in-kind transfers to support basic consumption

**First pillar**: mandatory, public, mainly income replacement, but also redistributive, minimum pension guarantee. Defined benefit or defined contribution. Sometimes partly backed by assets in public investment funds, sometimes notionally defined contribution

**Second pillar**: mandatory private, income replacement, defined contribution (or defined benefit)

**Third pillar**: voluntary private, income replacement, defined contribution or defined benefit, pure individual personal and employer-sponsored pensions, coverage rarely high unless auto-enrollment or strong employer and social partner tradition

**Fourth pillar**: part of an integrated view of financial sector inclusion
- **Financial assets**: bank balance, unit trusts, long-term insurance
- **Family transfers**
- **Housing**: source of consumption and (potentially) investment
- **Physical assets**: for example, gold and jewelry
- **Labor income and own-consumption**: boundary blurring work and retirement to remove artificial end to working life
There are many sources of international comparisons on different pillars all of which require a huge amount of work.

Source: (Demirgüç-Kunt, Klapper and Panos, 2016 using weighted averages from Global Findex (2015) data)
We developed an Outcomes Based Assessment (OBA) approach to improve country-based assessments

- Develop an approach that starts with ultimate outcomes for a pension system and the potential role of private pensions to improving those outcomes
- Identify what drives those outcomes and private pension reforms that can improve them – with country-focused policies based on global expertize
- Integrate recent empirical and theoretical work on what drives outcomes with a framework that can be updated as the evidence on what works develops
- Integrate the work of international partners and standard setters into the overall framework where there is a good fit with outcomes
- Increase the focus on implementation and the ‘science of delivery’
- Bring all these elements together in an Outcomes Based Assessment tool - with a better end-to-end process from data collection to diagnosis with assessment questions to policy recommendations to monitoring and evaluation
- Ensure the tool is grounded in theory but applicable in practice - with a broader scope than standards, but without creating 400 pages of guidance – which is a challenging task to balance breadth and depth
The project (and methodology) starts with the desirable outcomes of a pension system.

The outcomes were developed from a range of sources such as WBG International Patterns of Pension Provision II, OECD Pension Outlook, actuarial, academic and regulatory community.

Based on experience on the design and reforms of pension systems over the past 25 years the World Bank has developed the following six basic performance measures that are used in analytical and advisory work” (IPPPII p70)
The framework maps outcomes back to their determinants to identify what change is needed and who should be responsible.

Main drivers of pension outcomes:
- Economic and political Environment
- Overall Framework – other pillars and key rules
- Market Structure, Entities and Governance
- Supervision

Outcomes:
- Efficiency
- Sustainability
- Coverage
- Adequacy
- Security

Implementation Questions – to test capacity and readiness and help design sensible short, medium and long term reform programs.
The key features driving private pension contribution to overall outcomes were developed through reviewing evidence, past reviews and international standards.

<table>
<thead>
<tr>
<th>Efficiency</th>
<th>Coverage</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Impact of Scale</td>
<td>1) Eligibility for participation</td>
<td>1) Consistently enforced business law regime</td>
</tr>
<tr>
<td>2) Member-focused governance</td>
<td>2) Tax and financial incentives</td>
<td>2) Clear legal structures for pension entities</td>
</tr>
<tr>
<td>3) Expertise of governing body</td>
<td>3) Mandatory, behavioral or social stimulus to participate</td>
<td>3) Standards and professionals in accounting, actuarial, auditing and legal</td>
</tr>
<tr>
<td>4) Robust strategy process</td>
<td>4) Publicity and Education</td>
<td>4) Data: economic, demographic and personal</td>
</tr>
<tr>
<td>5) Role of advisors and investment managers</td>
<td>5) Breadth of providers’ target market</td>
<td>5) Risk management and internal controls</td>
</tr>
<tr>
<td>6) Optimal long-term investment strategy and appropriate limits</td>
<td>6) Enforcement</td>
<td>6) Assets appropriately separated and ring-fenced</td>
</tr>
<tr>
<td>7) Fair, efficient, deep and transparent capital markets</td>
<td>7) Reducing incentives for labor market informality</td>
<td>7) Protection from Government policy reversal</td>
</tr>
<tr>
<td>8) Competition, choice and transfers</td>
<td>8) Building trust given economic and political history</td>
<td>8) Independent reporting and whistleblowing</td>
</tr>
<tr>
<td>9) Good communication and disclosure</td>
<td>9) Cost-effective distribution and intermediaries</td>
<td>9) Valuation of assets and liabilities</td>
</tr>
<tr>
<td>10) Cost-effective distribution and intermediaries</td>
<td>10) Cost control, caps and transparency</td>
<td>10) Prudent funding of commitments, including provisions for risks</td>
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<tr>
<td>11) Efficient transition to payout phase</td>
<td>11) Efficient operational, recordkeeping and data management</td>
<td>11) Recovery plans supervised</td>
</tr>
<tr>
<td>12) Efficient operational, recordkeeping and data management</td>
<td>12) Reduce labor market distortions</td>
<td>12) Investments are sufficiently secure, liquid and diverse</td>
</tr>
<tr>
<td>13) Reduce labor market distortions</td>
<td>Adequacy</td>
<td>13) Matching assets to liabilities and member life-cycle</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Adequacy</td>
<td>14) Fair and prudent use of surplus</td>
</tr>
<tr>
<td>1) Diversification among pillars/tiers</td>
<td>1) Contribution levels and benefit accrual rates given income objective relative to other pillars</td>
<td>15) Wind-up and alterations</td>
</tr>
<tr>
<td>2) Intended outcomes are realistic</td>
<td>2) Years of vested participation</td>
<td>16) Sponsor/provider guarantees and compensation funds</td>
</tr>
<tr>
<td>3) Understanding of intended outcomes and risks</td>
<td>3) Controlling early access</td>
<td>17) Objectives of supervisor (IOPS 1)</td>
</tr>
<tr>
<td>4) Political support</td>
<td>4) Portability</td>
<td>18) Independence of supervisor (IOPS 2)</td>
</tr>
<tr>
<td>5) Government costs sustainably funded</td>
<td>5) Income provided until death</td>
<td>19) Resources of supervisor (IOPS 3)</td>
</tr>
<tr>
<td>6) Affordable employer and employee costs</td>
<td>6) Appropriate guarantees on income and returns</td>
<td>20) Powers of supervisor (IOPS 4)</td>
</tr>
<tr>
<td>7) Effective and counter-cyclical adjustment mechanisms</td>
<td>7) Protection against pre- and post-retirement inflation</td>
<td>21) Risk-based supervision (IOPS 5)</td>
</tr>
<tr>
<td></td>
<td>8) Fair treatment of spouses and dependents</td>
<td>22) Supervisory proportionality &amp; consistency (IOPS 6)</td>
</tr>
<tr>
<td></td>
<td>9) Tax and financial incentives</td>
<td>23) Supervisory consultation and co-operation (IOPS 7)</td>
</tr>
<tr>
<td></td>
<td>10) Publicity and Education</td>
<td>24) Confidentiality of supervisor (IOPS 8)</td>
</tr>
<tr>
<td></td>
<td>11) Enforcement</td>
<td>25) Transparency of supervisor (IOPS 9)</td>
</tr>
<tr>
<td></td>
<td>12) Efficiency</td>
<td>26) Governance of supervisor (IOPS 10)</td>
</tr>
</tbody>
</table>

A number of the IOPS Standards will impact other outcomes but are grouped against their primary impact.
For each outcome there are a range of metrics to measure progress which can be used as internal or external KPIs.

<table>
<thead>
<tr>
<th>Pension Outcomes and some Private Pension Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Efficiency</strong></td>
</tr>
<tr>
<td>Reduce costs that ↑ returns</td>
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<tr>
<td>Improve asset allocation to improve risk/return trade-off</td>
</tr>
<tr>
<td>Enhance labor market flexibility between sectors</td>
</tr>
<tr>
<td><strong>Sustainability</strong></td>
</tr>
<tr>
<td>Cut excess employer plan deficits</td>
</tr>
<tr>
<td>Reduce burden on public pensions/enhance diversification</td>
</tr>
<tr>
<td>Build trust &amp; support in LR pension</td>
</tr>
<tr>
<td><strong>Coverage</strong></td>
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<tr>
<td>Expand coverage for workers</td>
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<tr>
<td>Improve gender equality</td>
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<tr>
<td>Reduce incentives for informality</td>
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<tr>
<td><strong>Adequacy</strong></td>
</tr>
<tr>
<td>Complement income from public plans to cut poverty in old age</td>
</tr>
<tr>
<td>Reduce leakage of assets pre retirement</td>
</tr>
<tr>
<td>Turn assets into long-term income – reduced use of lump sums</td>
</tr>
<tr>
<td><strong>Security</strong></td>
</tr>
<tr>
<td>Deficit recovery plans supervised</td>
</tr>
<tr>
<td>Assets separated and ring-fenced</td>
</tr>
<tr>
<td>Reduce pre-retirement investment risk</td>
</tr>
</tbody>
</table>
Some recent projects help to highlight the breadth of required analysis and solutions

- **Turkey** – introducing autoenrollment to expand coverage and improve efficiency – with 3 million new accounts and costs 50% lower than the existing provision

- **Costa Rica** – introducing new Outcomes Based Regulation and Supervision (ORBS) framework, actuarial expertise and use of DB report for ‘soft power’ influence

- **India** – improving coverage and regulation – using developments in ID and IT and financial inclusion to increase access with pilots showing a 500% and 1,000% increase in take up, and allowing village-level enrollment

- **Vietnam and Sri Lanka** – improving investment strategy and diversification for (partially) funded social security plans (US$14bn and US$12bn in AUM respectively) including ‘PROST’ modelling of liabilities (Vietnam)
Conclusions

• Full understanding of a pension or retirement income system needs breadth and depth to get right

• International and regional comparisons important – but need to be sure they are very well done to be useful

• Multi-pillar/multi-tier approach powerful

• Using long-run outcomes also very powerful – coverage, adequacy, sustainability, efficiency and security

• Outcomes approach keeps focus on what system is delivering and to whom – and which areas of macro and political environment, regulation & policy design, market structure and supervision drive pension outcomes

• Useful to look at big picture trends, and important to use comparisons to create debate and political will but deep country-specific research and tailored advice is critical