



OECD VIEW DEVELOPMENT AND FUTURE OF PENSIONS CEE REGION

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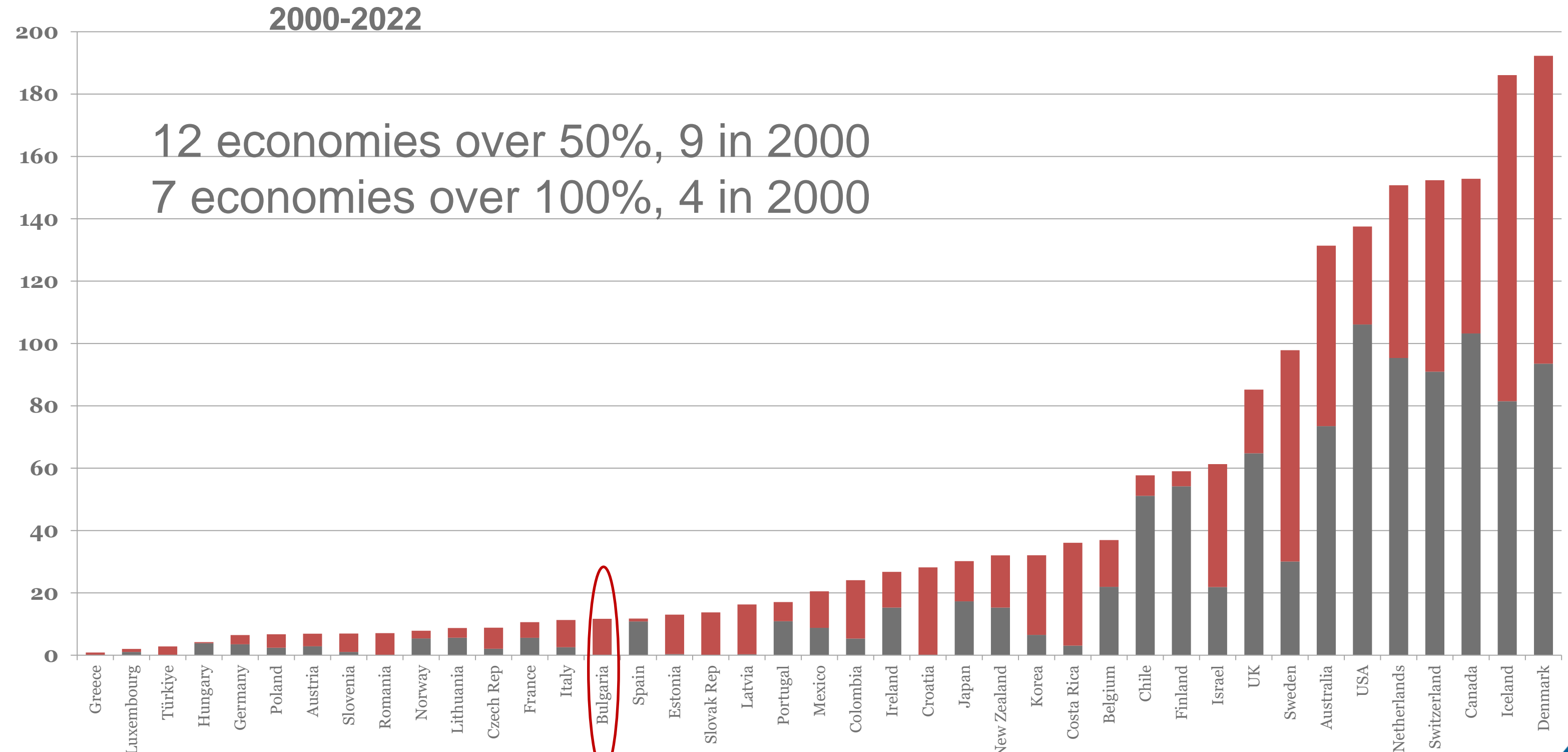


How CEE countries look comparatively?

- Assets earmarked for retirement as a share of GDP
- Real returns net of fees (5-year and 10-year)
- The amount of assets earmarked for retirement depends on
 - portfolio composition (very conservative lower returns)
 - Participation and enrolment; contributions paid; fees charged; time to maturity
- How other countries have managed to have stronger asset-backed pension arrangements (contributions are invested and assets accumulated finance retirement – capitalization systems)?
 - Regulation: OECD Core Principles of Private Pension Regulation
 - Design: OECD Recommendation for the Good Design of DC Pension Plans



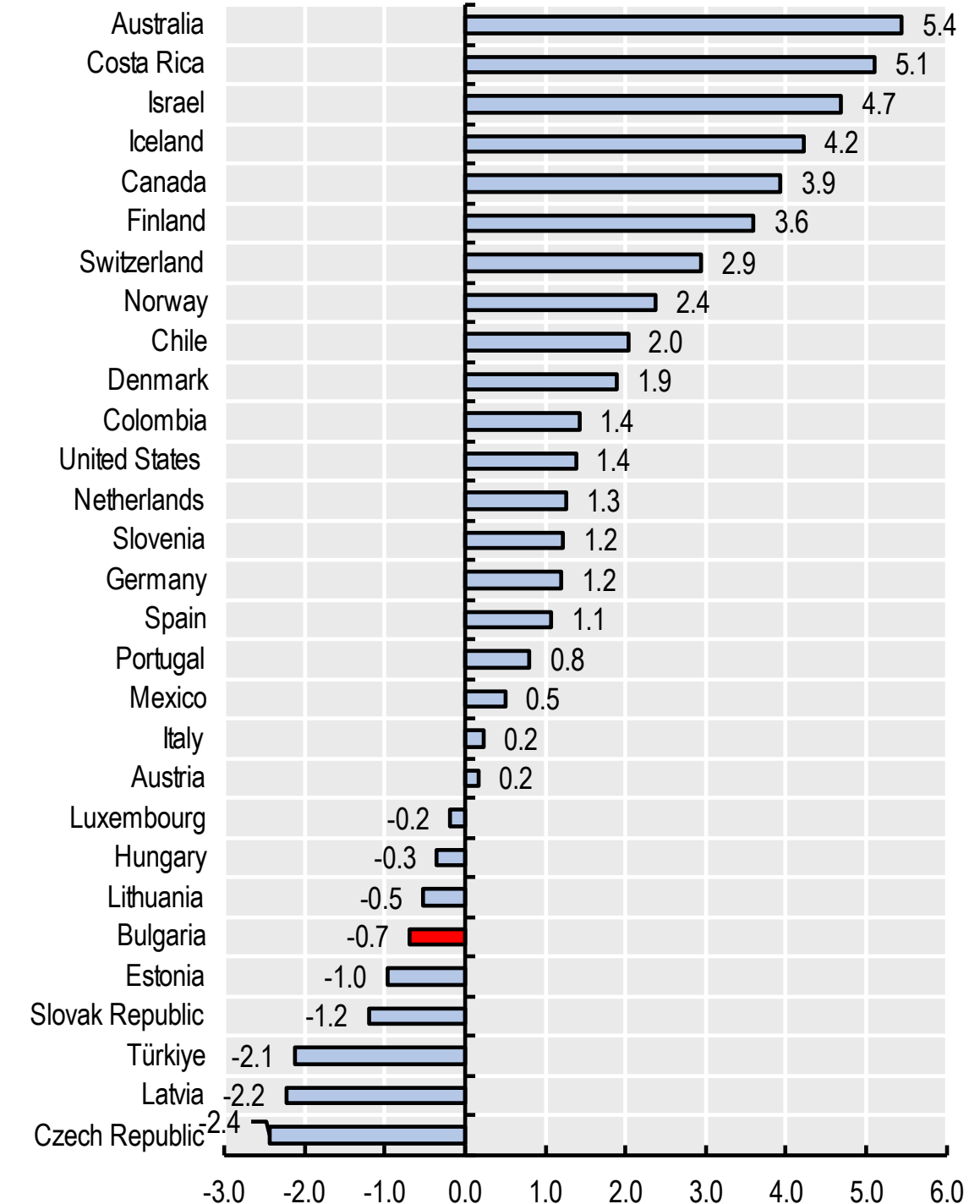
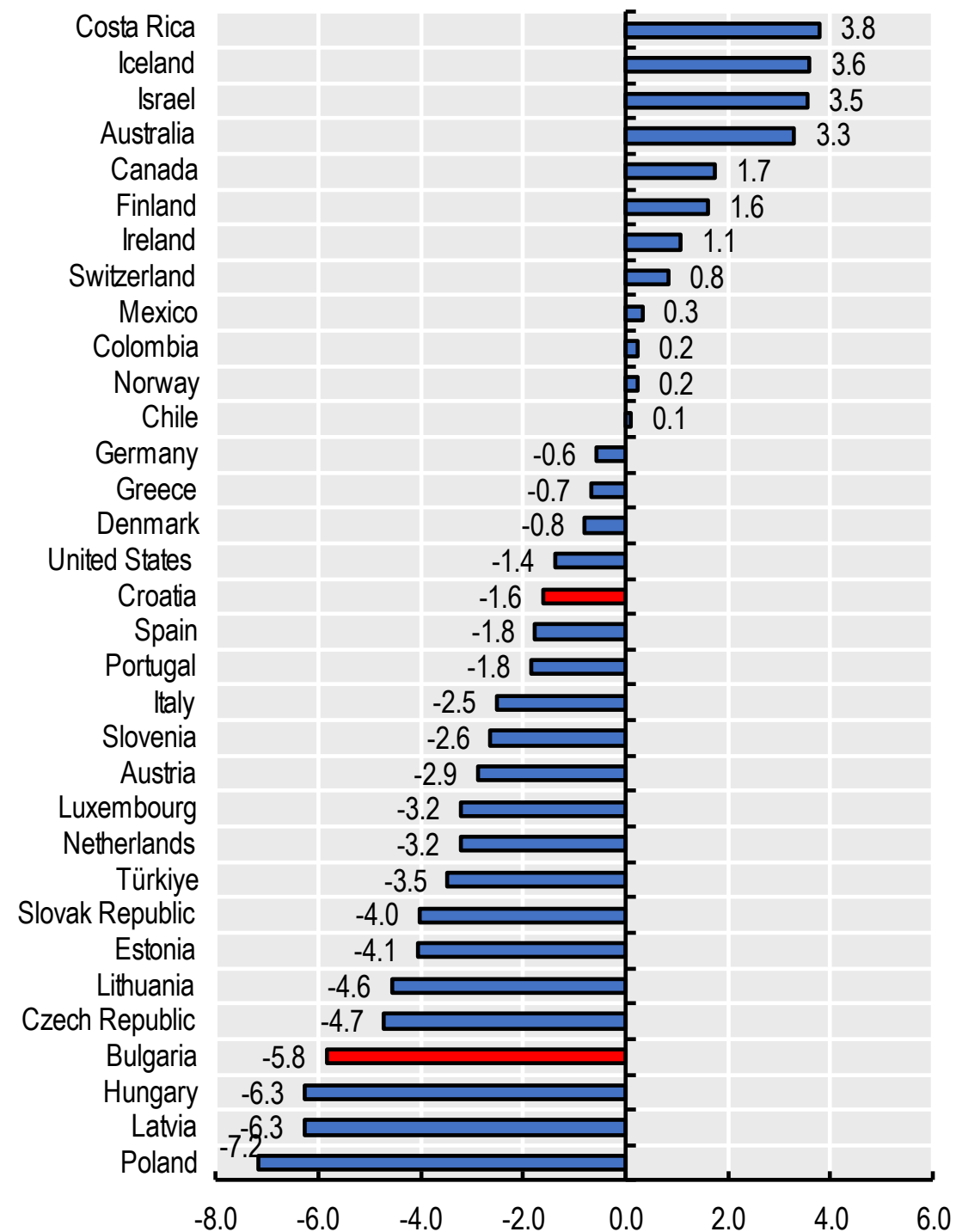
The growing importance of capitalization systems (assets earmarked for retirement, % GDP)



Source: OECD, Global Pension Statistics and OECD Pension Markets in Focus, 2022



Average 5- 10-yr annual real investment rate



Source: OECD, Global Pension Statistics and OECD Pension Markets in Focus, 2022

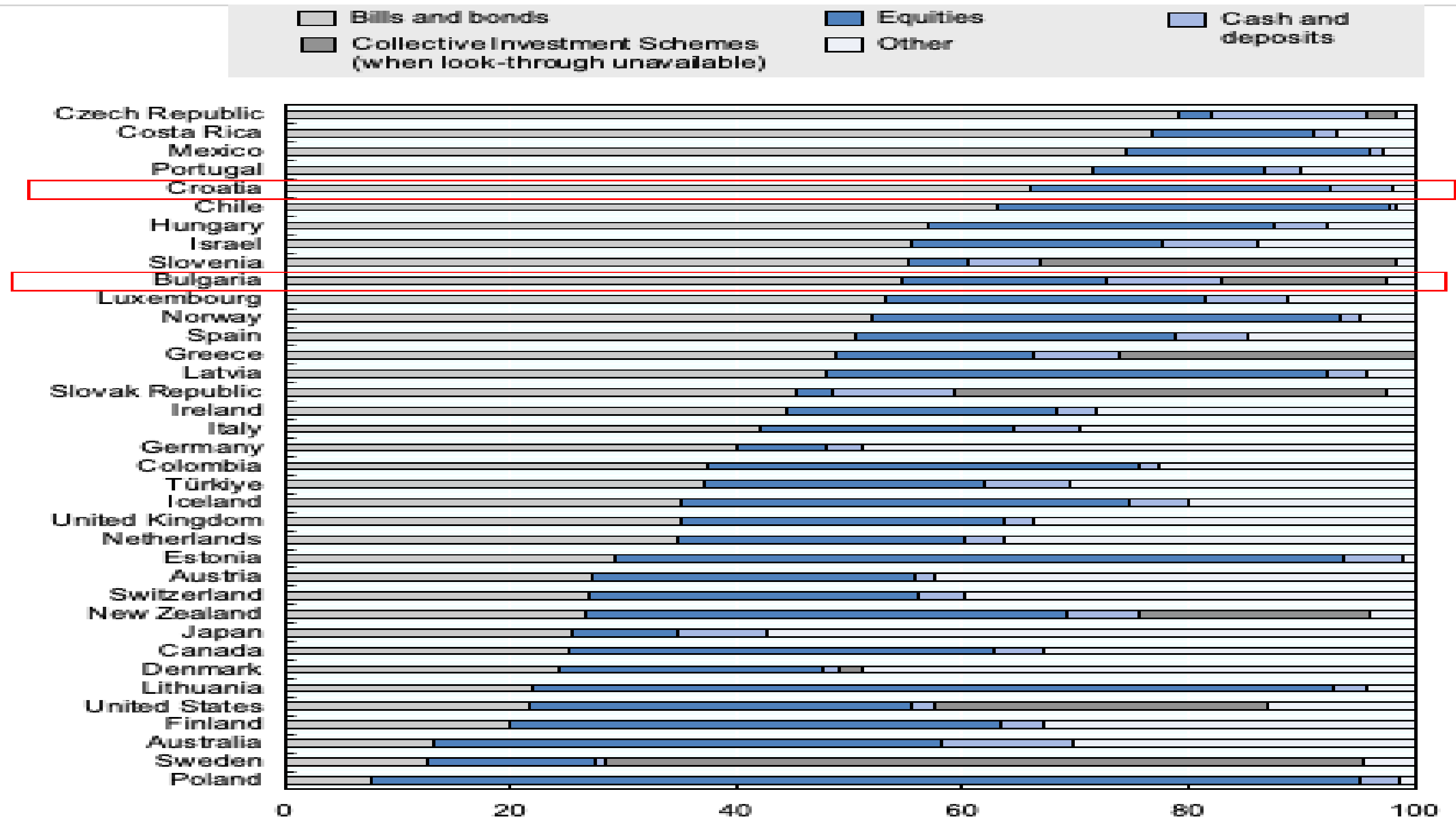


Assets and returns depend on

- Portfolio composition ==> very conservative lower returns
- Participation and enrolment; contributions paid; fees charged; time to maturity; returns (portfolio composition)



Allocation of assets earmarked for retirement in selected asset classes and investment vehicles



Source: OECD, Global Pension Statistics and OECD Pension Markets in Focus, 2022



Participation, contributions, fees, maturity

- The more working age people have access and contributes to their supplementary pensions (asset-backed) the higher is the amount of assets
- Contributions paid are essential
 - 5% (40yr; 1%, mature) increase to 10% doubles assets; 15% triples
- Fees charged
 - 1% reduces assets by close to 20%; 0.5% just 10%
- Time to maturity:
 - 20 years since reforms just below 50%; 30 years almost 30% less
- Returns: balance portfolio (e.g. 60-40; LC):
 - 1.5pp higher increases by over 20%



How other OECD countries have improve their asset-backed pensions?

- Structure, regulation and supervision, and design
 - Complementary, combine, minimum basic (budget); multi-pillar
- Isolated from undue political influence
 - Mandate, report parliament/government
- Strong regulatory framework that makes sure the system works in the best interest of members
 - OECD Core Principles of Private Pension Regulation
- Design the system according to international good practices
 - OECD Recommendation for the Good Design of DC Pension Plans

OECD Core Principles Private Pension Regulation

- Complementary asset-backed pensions work in the best interest of member
 - best retirement income outcomes: real long-term returns net of fees adjusted by risk and taking into account the overall pension system
 - Diversification (no too much concentration): government bonds?; invest domestically (yes, but strong regulation, appropriate investment vehicles for SMS pension funds)
 - Private equity; infrastructure; illiquid investment (j-curve); ESG; hedging (yes, but avoid speculative): yes, but understand what you are investing in, necessary strong regulation, appropriate investment vehicles SMS pension funds
- Communication: volatility, higher potential retirement incomes
 - OECD Recommendation for the Good Design of DC Pension Plans



OECD Recommendation Good Design

1. Coherence
2. Inclusiveness
3. Contributions
4. Incentives
5. Cost efficient plans
6. Access to appropriate and sustainable investment strategies and well-design defaults
7. Ensure protection against longevity risk in retirement
8. Facilitate the regular monitoring and management of longevity risk
9. Communication
10. Financial education on retirement and pensions



R1 to R5

- Coherence
 - long-term; external; internal; risk assessment
- Inclusiveness
 - participation; enrolment; compulsion; AE; voluntary
- Contributions
 - High enough contributions to achieve retirement income objectives
 - New savings; no shifting from PAYG (costs)
- Incentives
 - to maximise impact on enrolment and contributions
- Cost efficient
 - and low-cost plans in both accumulation and payout phases

R6 to R8

- R6 provide advice on investment; sustainability and **defaults**,
- R7-R8 provide advice on pay-out and managing longevity risk:
 - Coherence, not much retirement income annuitized by other sources (e.g. public pensions) then annuitisation important. **Combination** deferred life annuity at 65 for 85 and phased withdrawal, protection tail risk of LR and flexibility. **No lump-sums** except low balances, terminal. **Risk sharing** arrangements
 - Appropriate and up to date **mortality tables**: appropriate population – pension system; regularly updated; should incorporate future improvements in mortality and life expectancy
 - Innovation: risk pooling
 - Financial instruments for providers to be able to hedge LR (public sector good data, longevity index)

R9 addressed with communication

- Clear, simple, minimum jargon, when explaining potential options
- Timely and align with purpose
- National pension campaign: one objective; assess outcomes and achievements
- Personalised information (online platforms, pension statements), include all pension sources, projections to update and nudge them to take action, account for likelihoods, convey risks
- Policy makers ensure information provided by financial advisors and digital advisory services is accessible, accurate and unbiased



THANKS Questions?

OECD work on pensions

www.oecd.org/insurance/private-pensions