COVERAGE OF PRIVATE PENSION SYSTEMS AND MAIN TRENDS IN THE PENSIONS INDUSTRY IN THE OECD

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BETTER POLICIES FOR BETTER LIVES

Structure of the Presentation

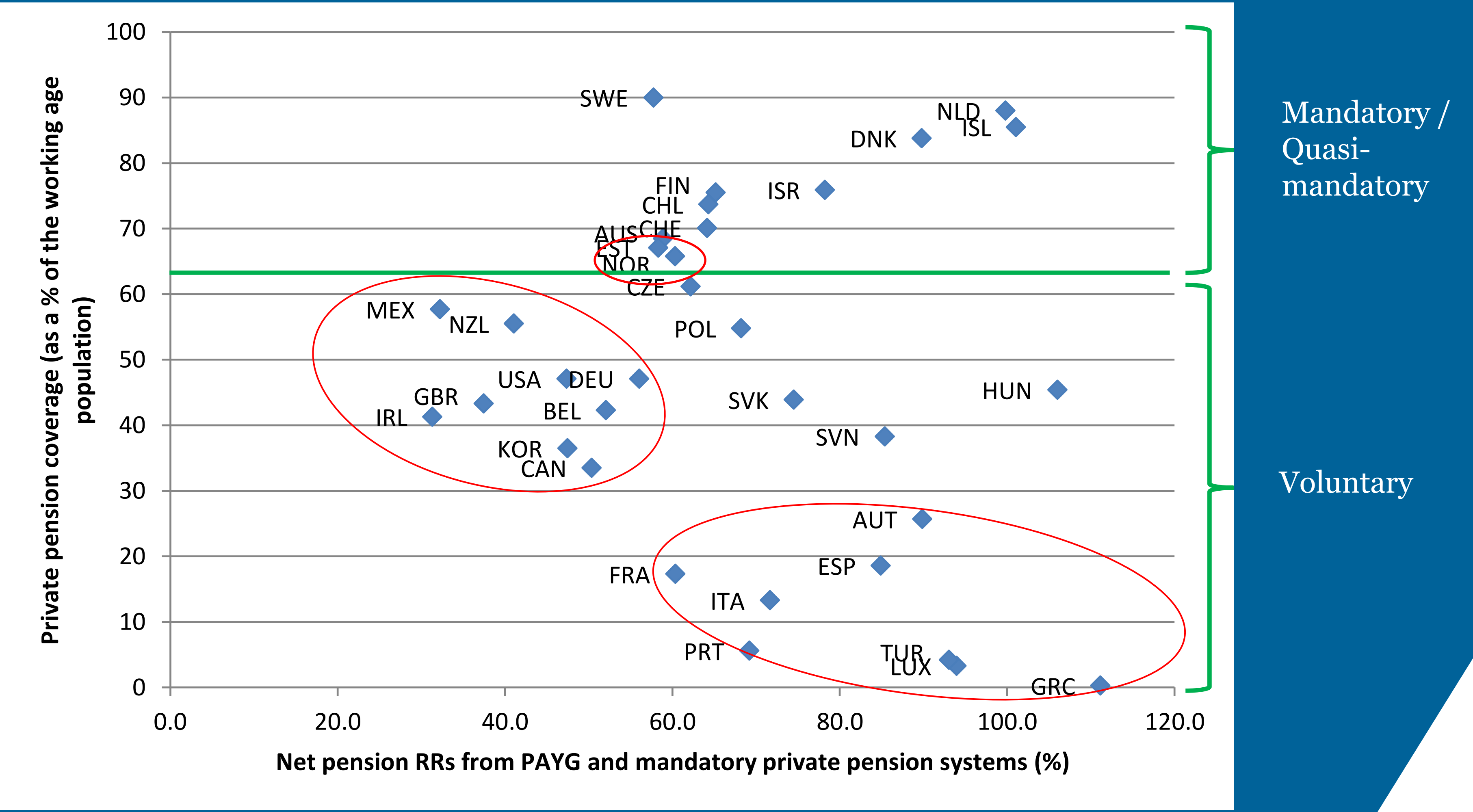
- Coverage of private pensions schemes: evidence and policy options
- International comparison of pension funds' assets, asset allocation and performance

COVERAGE OF PRIVATE PENSION SCHEMES

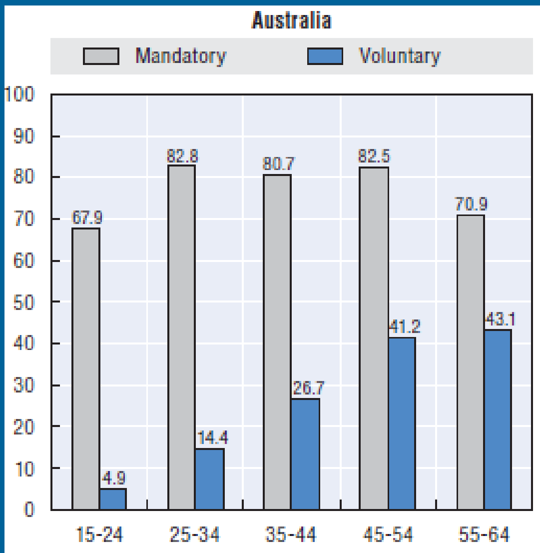
Evidence and policy options

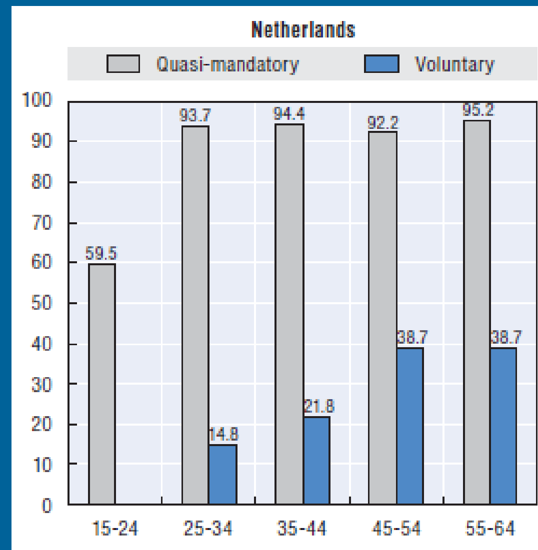
BETTER POLICIES FOR BETTER LIVES

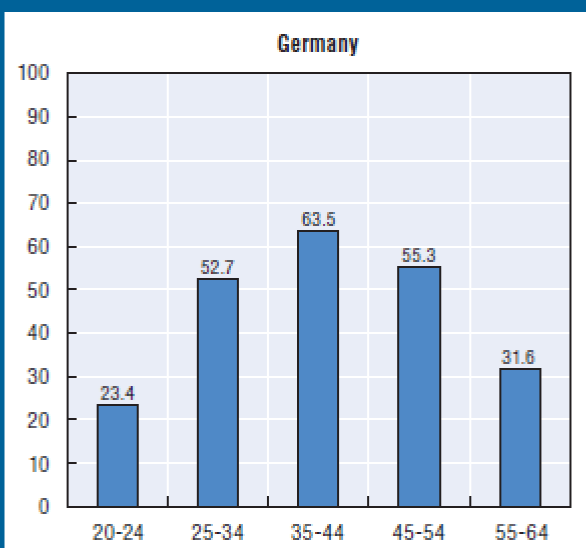
Private Pension Coverage vs. RR

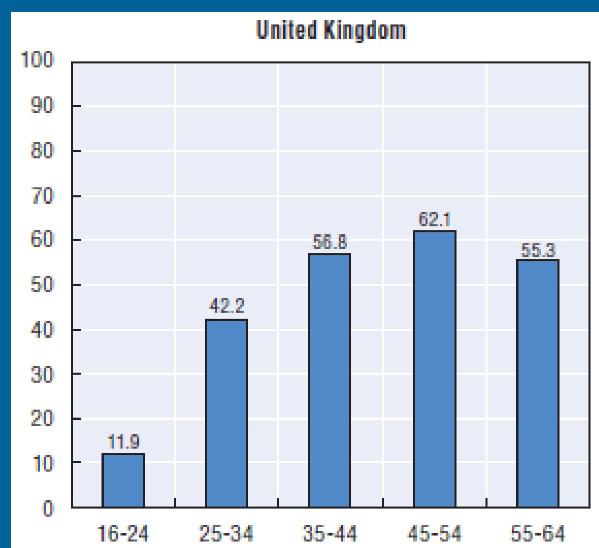


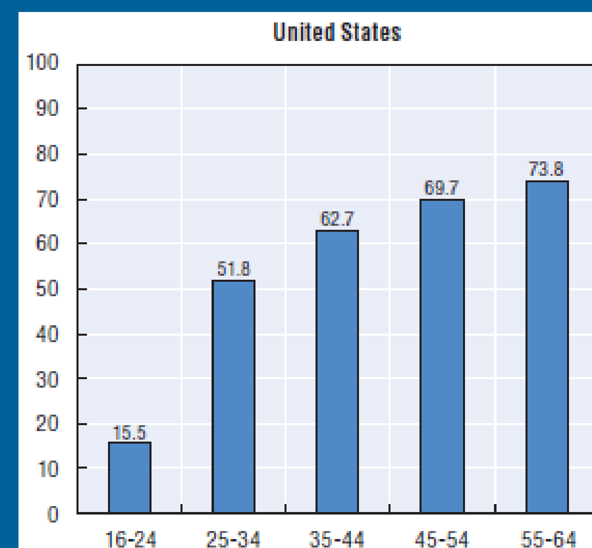
Uneven Coverage in Voluntary Systems: By Age



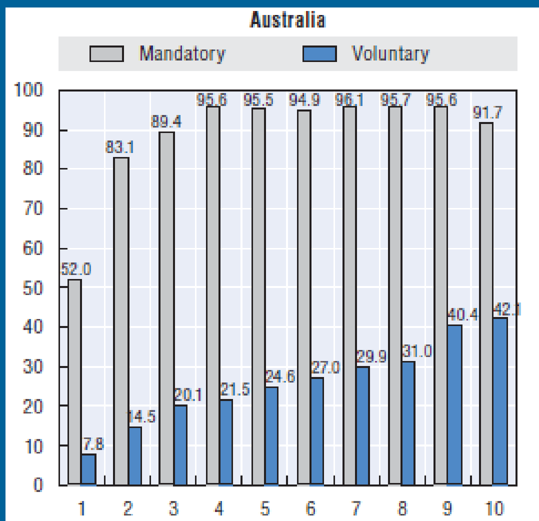


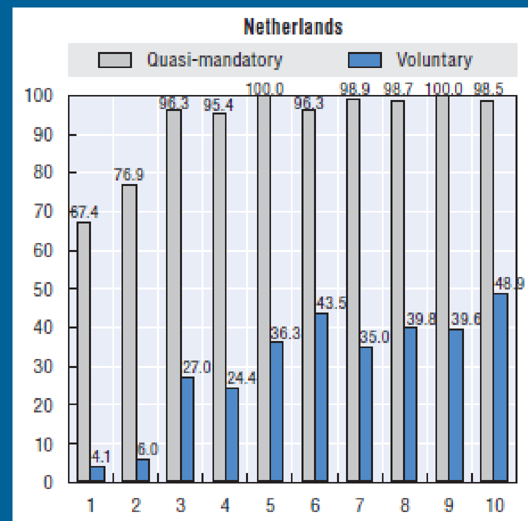


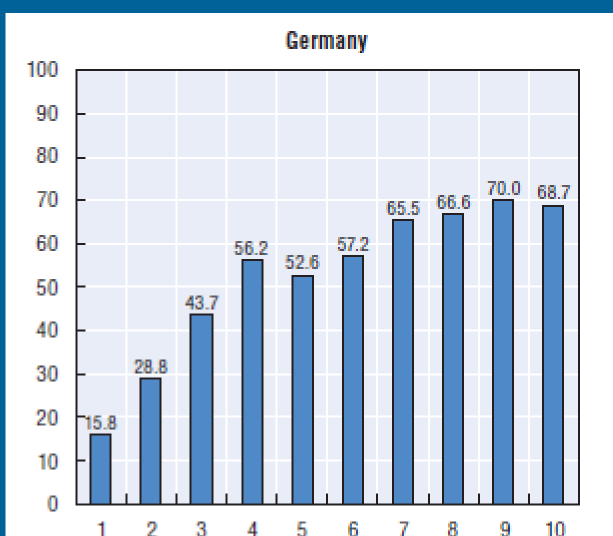


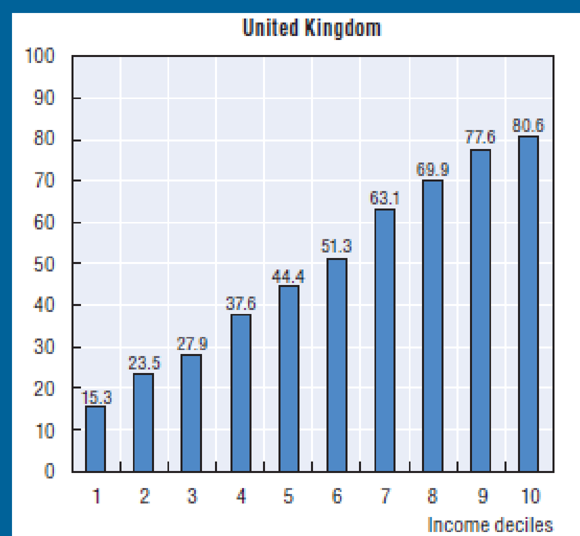


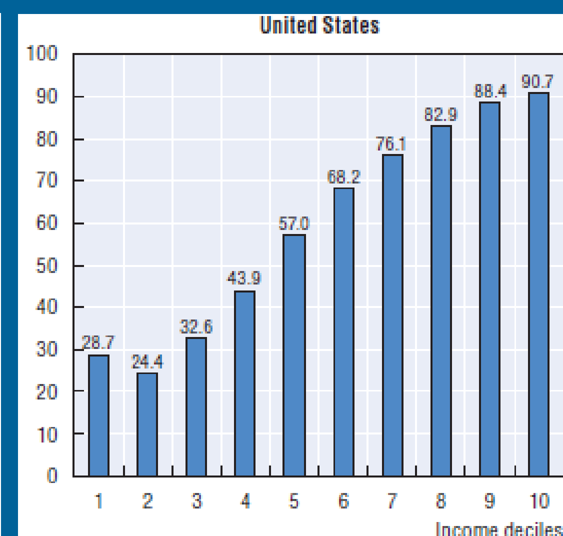
Uneven Coverage in Voluntary Systems: By Income



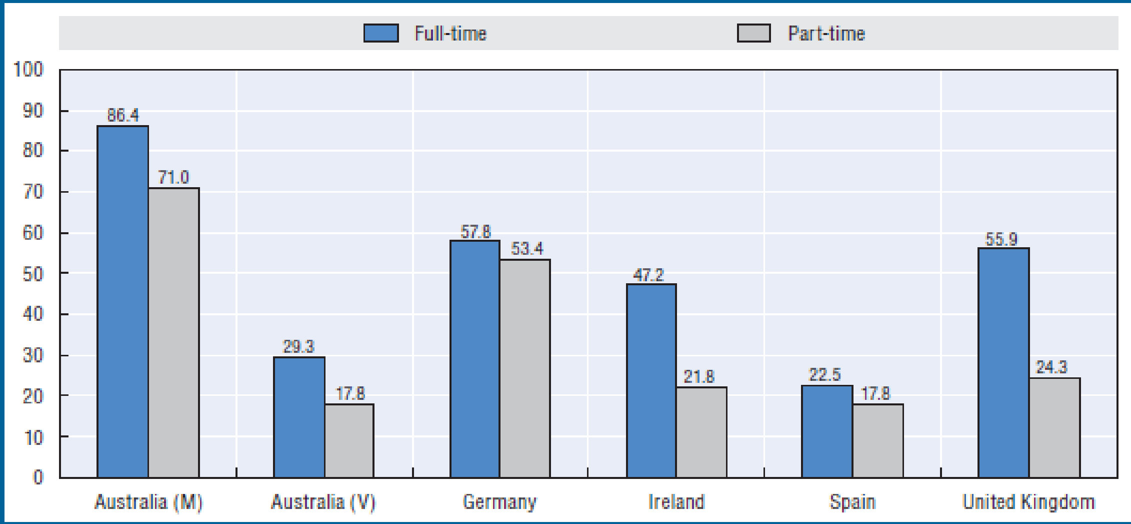


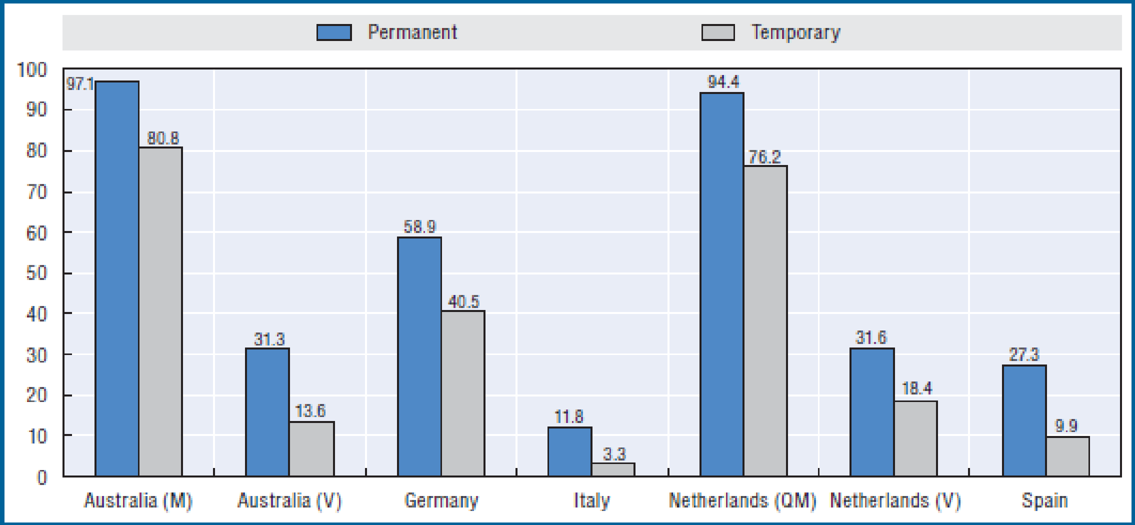




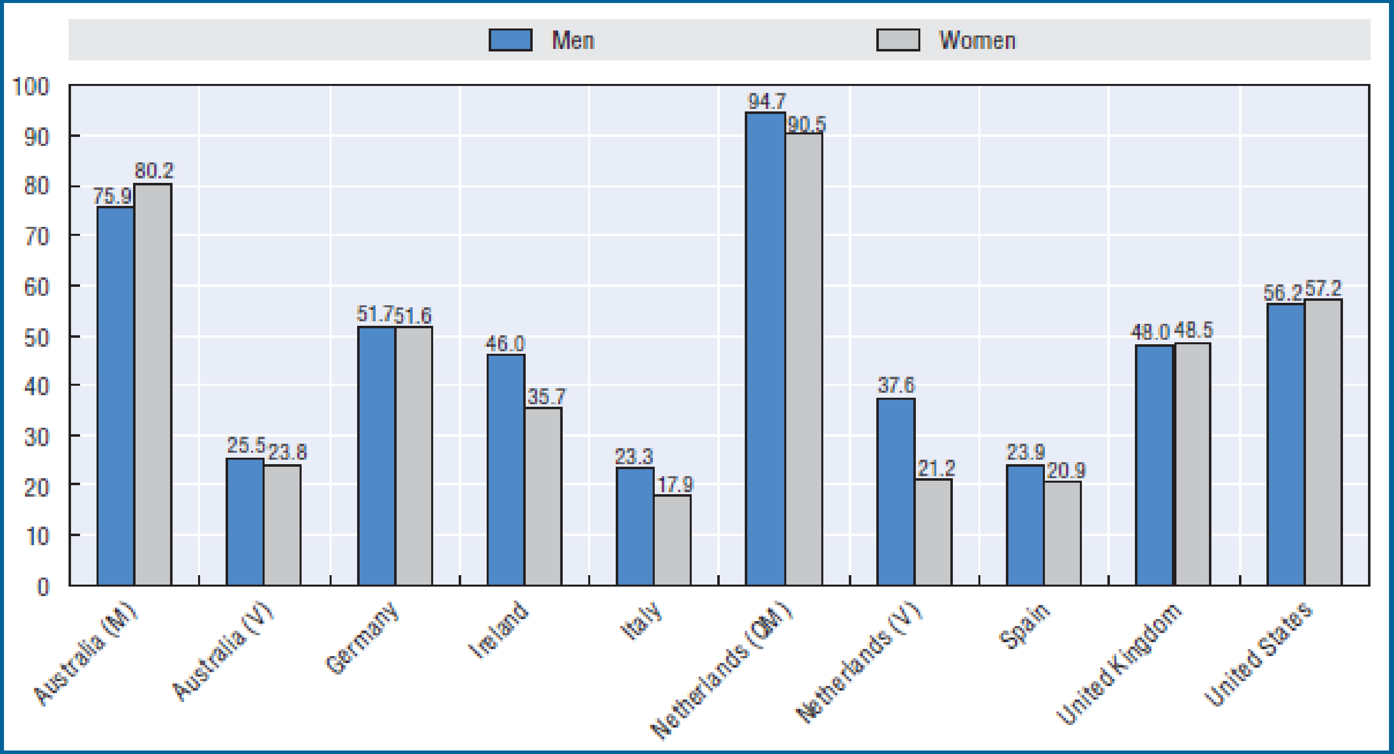


Uneven Coverage in All Systems: By Type of Employment / Contract





Coverage Not Necessarily Uneven By Gender



POLICY OPTIONS TO BROADEN COVERAGE

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Compulsory Enrolment

- Most effective policy in raising coverage levels
- Less efficient if many workers outside the formal economy
- Limitations:
  - May divert funds from other necessary expenses
  - May be perceived as a tax
  - May lead to a ratcheting down effect if target set too low
  - May not be necessary for all individuals

Automatic Enrolment

- Has already been introduced in Italy and New Zealand with different levels of success
- Increased popularity in the US
- In 2012, the UK also saw the introduction of a nation-wide auto-enrolment (NEST)
- Chile also introduced auto-enrolment starting in 2012 for self-employed
- Ireland is considering it

TFR Reform in Italy

- Auto-enrolment introduced in 2007
- All salaried employees
- 6 months period to opt out
- Payments into pension funds of the future flow of the TFR (7% of salary)
- Increase in coverage significant (+1.4m workers, from 8.5% to 11.9% of the w.a.p.)
- … but below expectations, mainly because the TFR is highly valued by both employers and employees

KiwiSaver System in New Zealand

- Auto-enrolment introduced in 2007
- New employees only
- 2 months period to opt out
- Minimum contribution 2% + 2% employer contribution + government full matching + government “kick-starts”
- End 2011, KiwiSaver plans cover 64% of the w.a.p.
- Declining trend in the number of opt outs

Financial Incentives

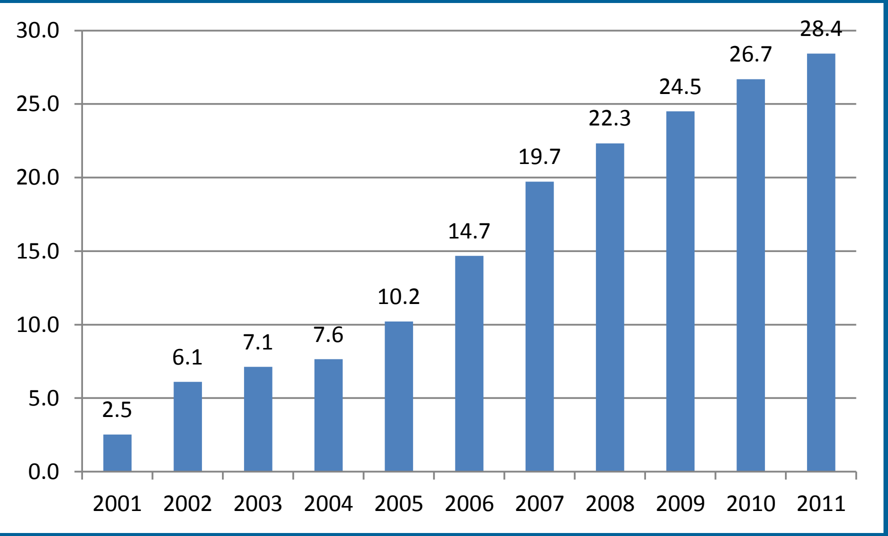
- Tax incentives (tax deduction and credits)
  – Benefit higher income households most
- Flat subsidies
  – Czech Rep., Germany, Mexico, New Zealand
- Matching contributions
  – Targeted groups: Chile, Australia
  – All workers: New Zealand

Riester Plans in Germany

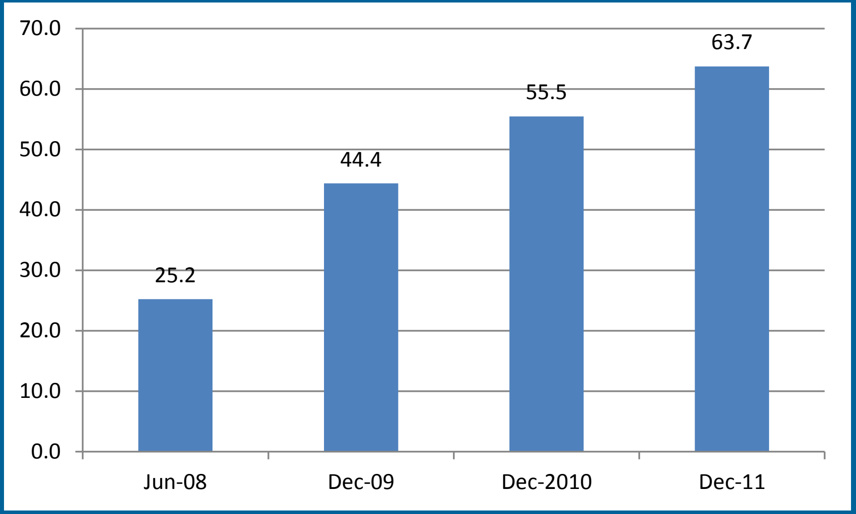
- Riester plans introduced in 2001
- Anyone covered by social insurance system & subject to full tax liability
- Participants must contribute at least 4% to get full state subsidy or tax relief
- The amount of the subsidy depends on the number of children
- End 2011 Riester plans cover 28.4% of the working age population

Faster Coverage Increase in New Zealand

Germany

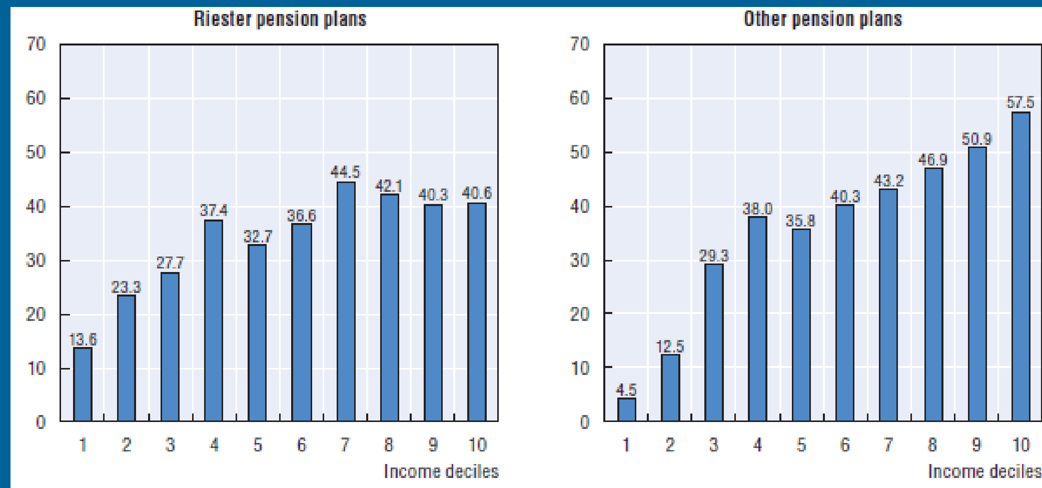


New Zealand

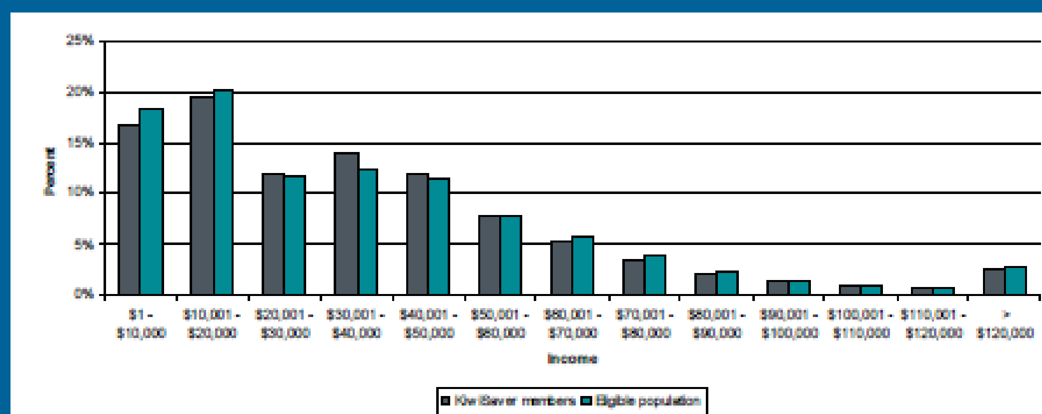


More Homogeneous Distribution by Income

Germany



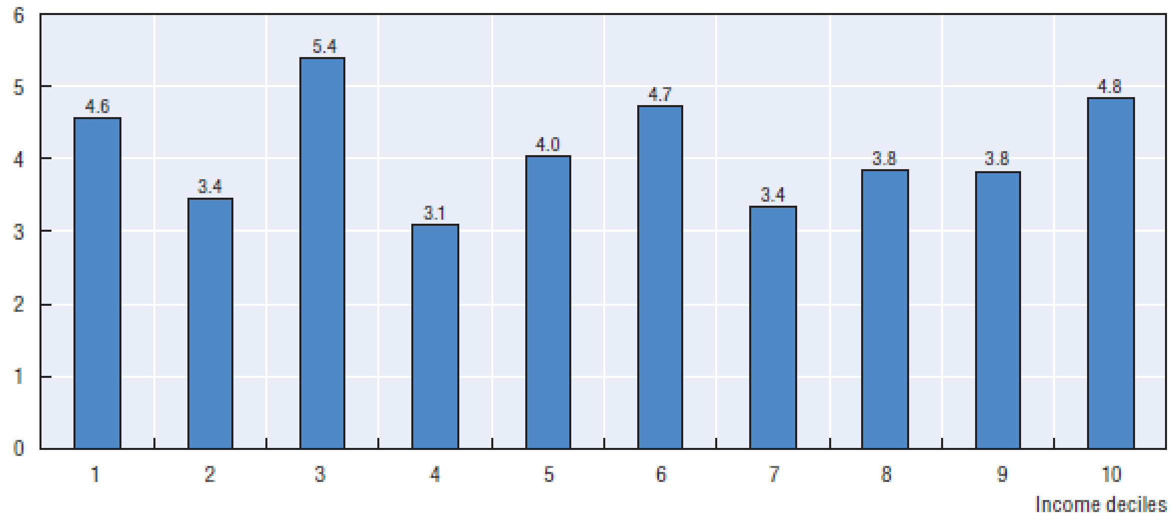
New Zealand



Constant Contribution Rates in Riester Plans Across the Income Scale

Figure 4.11. **Germany: Contribution rates in *Riester* pensions according to the income of the household, December 2008**

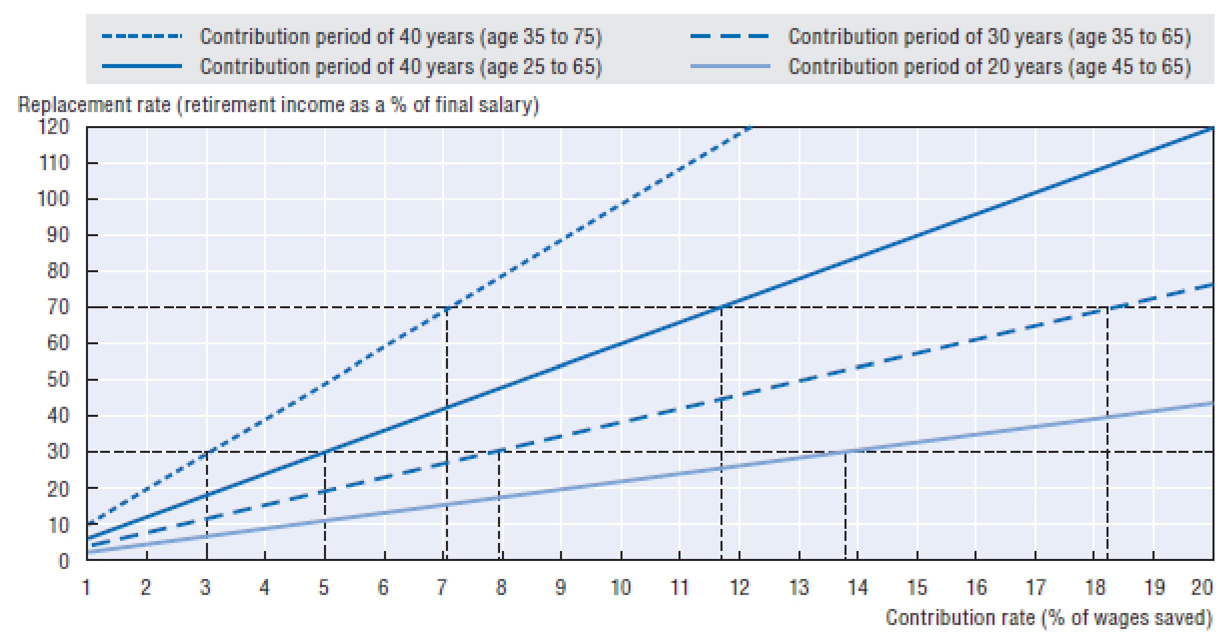
As a % of household net income



Importance of the Default Contribution Rate (KiwiSaver)

- Members joining before 1 April 2009: default 4%
- Since April 2009: default 2%
- 80% of people who joined after April 2009 contribute 2%, while 62% of those who joined before April 2009 still contribute 4% → Inertia
- From April 2013: default 3%

Contribution and Replacement Rates



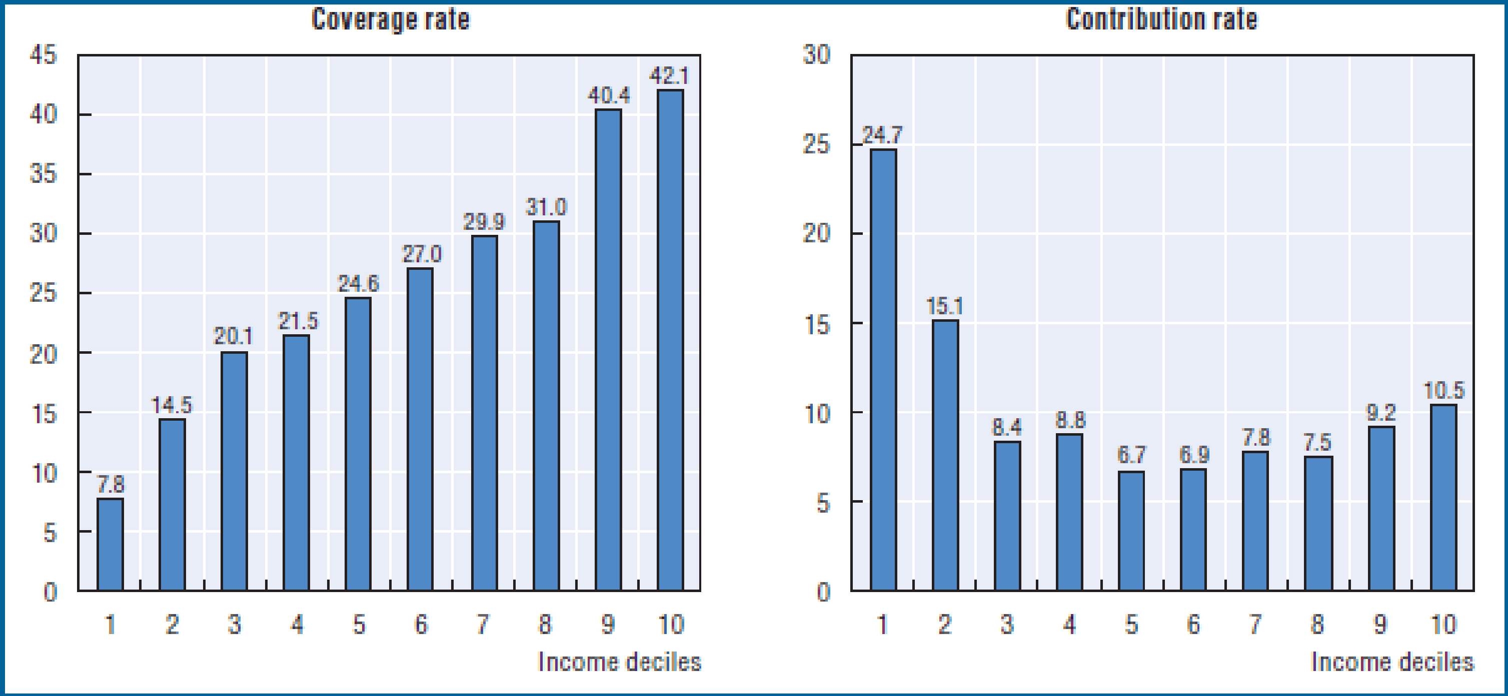
Note: Contribution and replacement rates when assets are invested in a portfolio comprising 60% equities and 40% fixed income, assuming a nominal rate of return of 7%, a nominal discount rate of 4.5%, and a life expectancy of 20 years at age 65.

- A 4% contribution rate over 40 years may replace 24% of earnings on average
- It drops to 8.7% for a contribution period of 20 years)

Super. Co-Contribution in Australia

- Since 2003, dollar-for-dollar matching contribution from the government for low income earners who make additional contributions to their super. fund
- Only 15.7% were entitled to a co-contribution in 2010-11
- Low income people less likely to be enrolled, but those contributing tend to have a higher contribution rate than other income groups

Australia's Voluntary System



Other Policy Options

- Financial education
- Facilitating and simplifying provision, access and choice
- Possibility of withdrawals

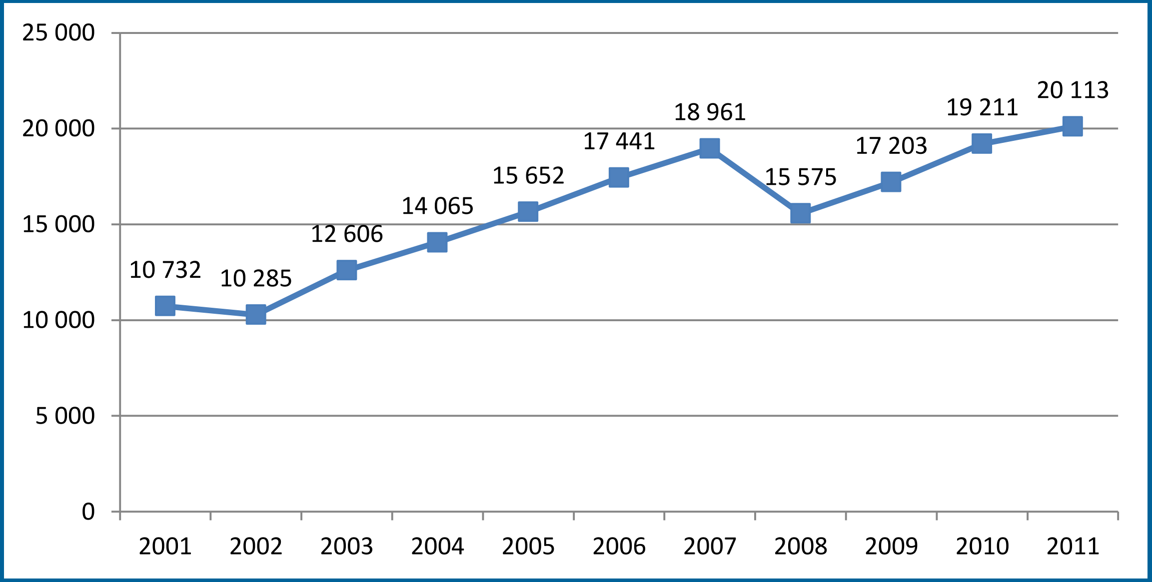
Recommendations in the OECD Roadmap

- Ensure the design of retirement savings plans is internally coherent between the accumulation and payout phases and with the overall pension system
- Encourage people to enrol, to contribute and contribute for long periods
- Improve the design of incentives to save for retirement, particularly where participation and contributions to retirement savings plans are voluntary

INTERNATIONAL COMPARISON

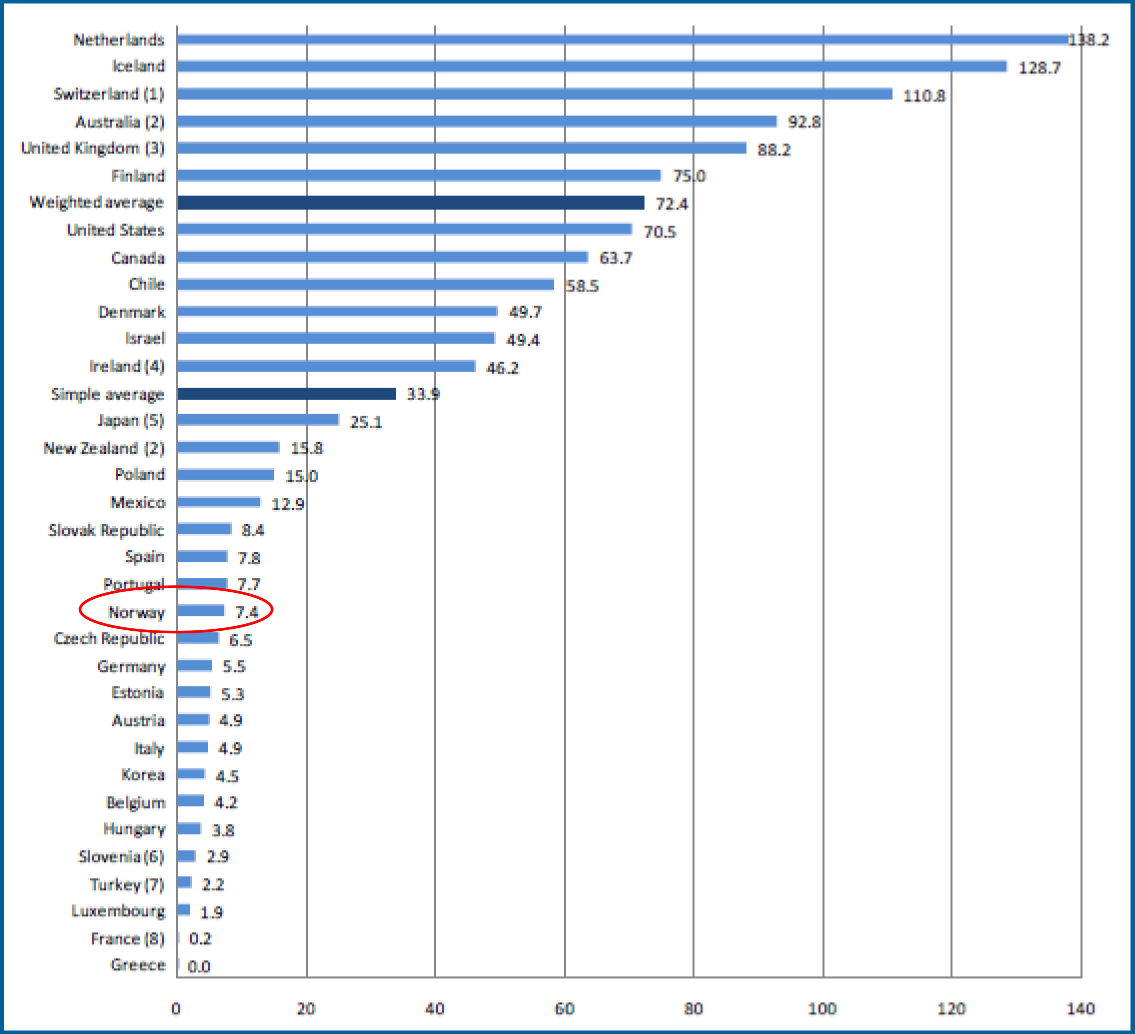
Pension funds' assets, performance and asset allocation

OECD Pension Funds Assets Hit Record USD 20.1 Trillion in 2011

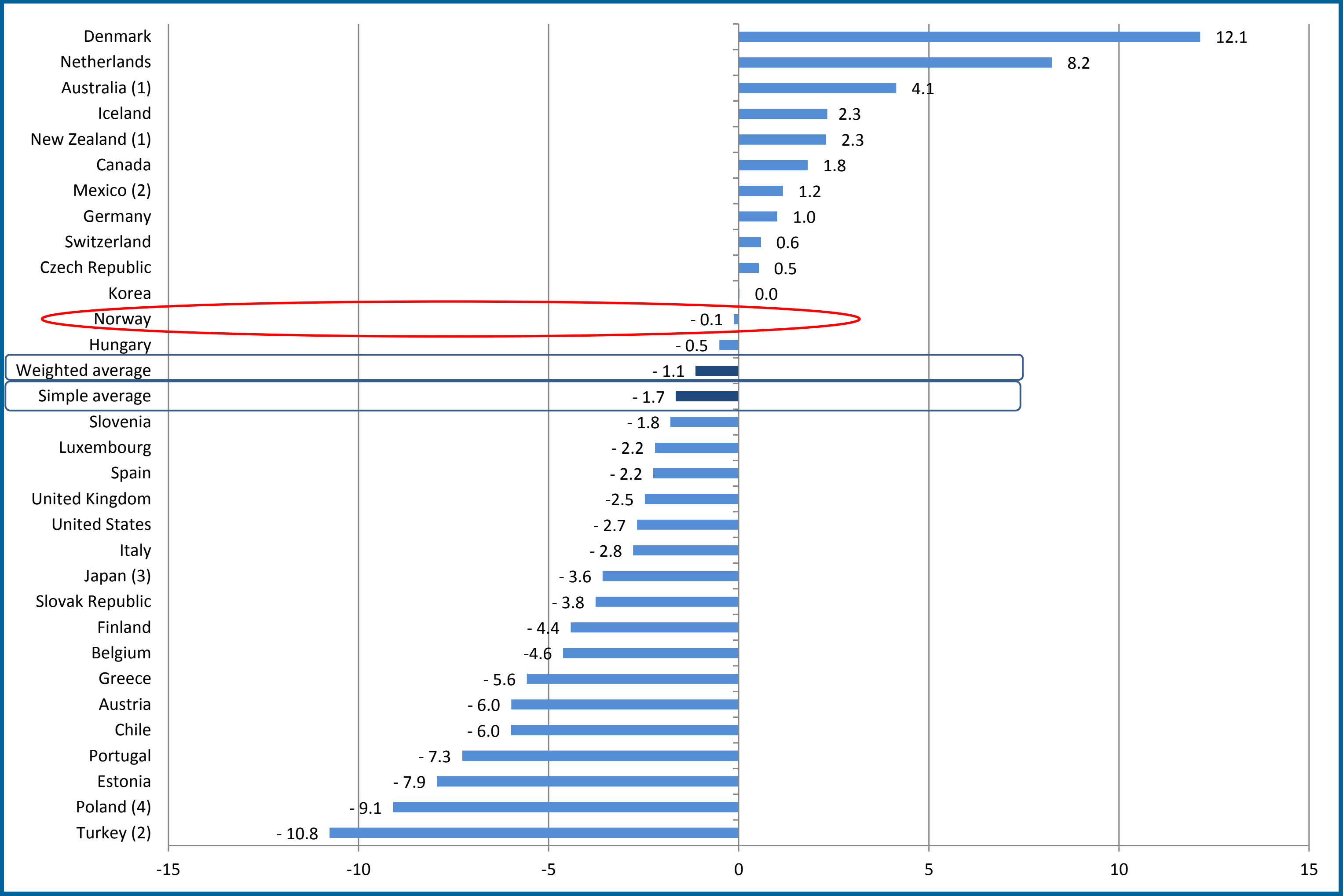


- Continuing the trend started in 2009, pension funds experienced a moderate growth of USD 0.9 trillion in their accumulated assets during 2011
- However, this was good enough for pension funds in the OECD area to complete their recovery of the USD 3.4 trillion in market value that they lost in 2008, hitting a record USD 20.1 trillion in total assets by December 2011

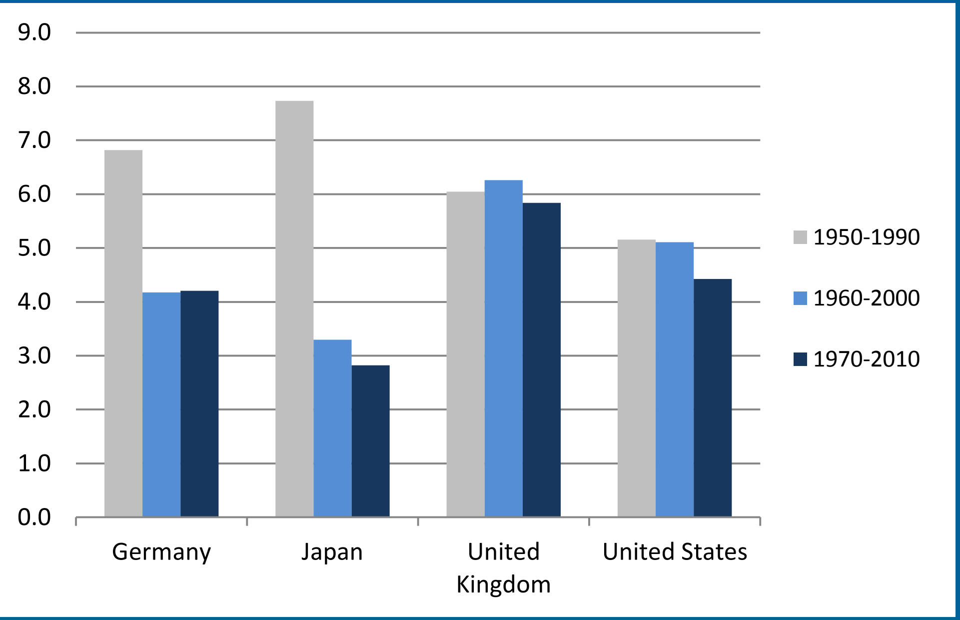
Importance of Pension Funds Relative to Size of Economy, 2011 (% of GDP)



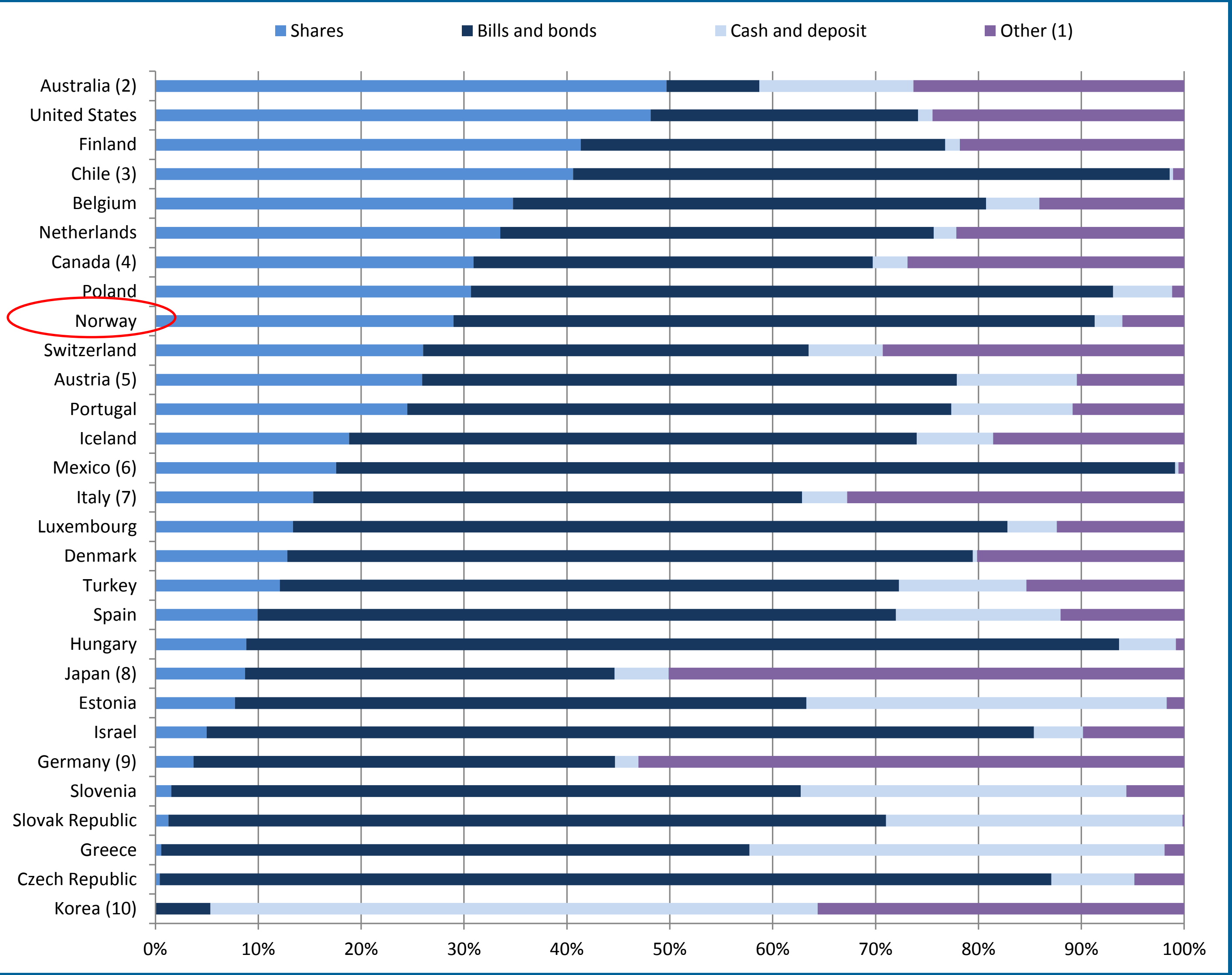
Rate of Returns Have Been Weak in 2011



But Long-Term Performance of Pension Funds Remains Attractive



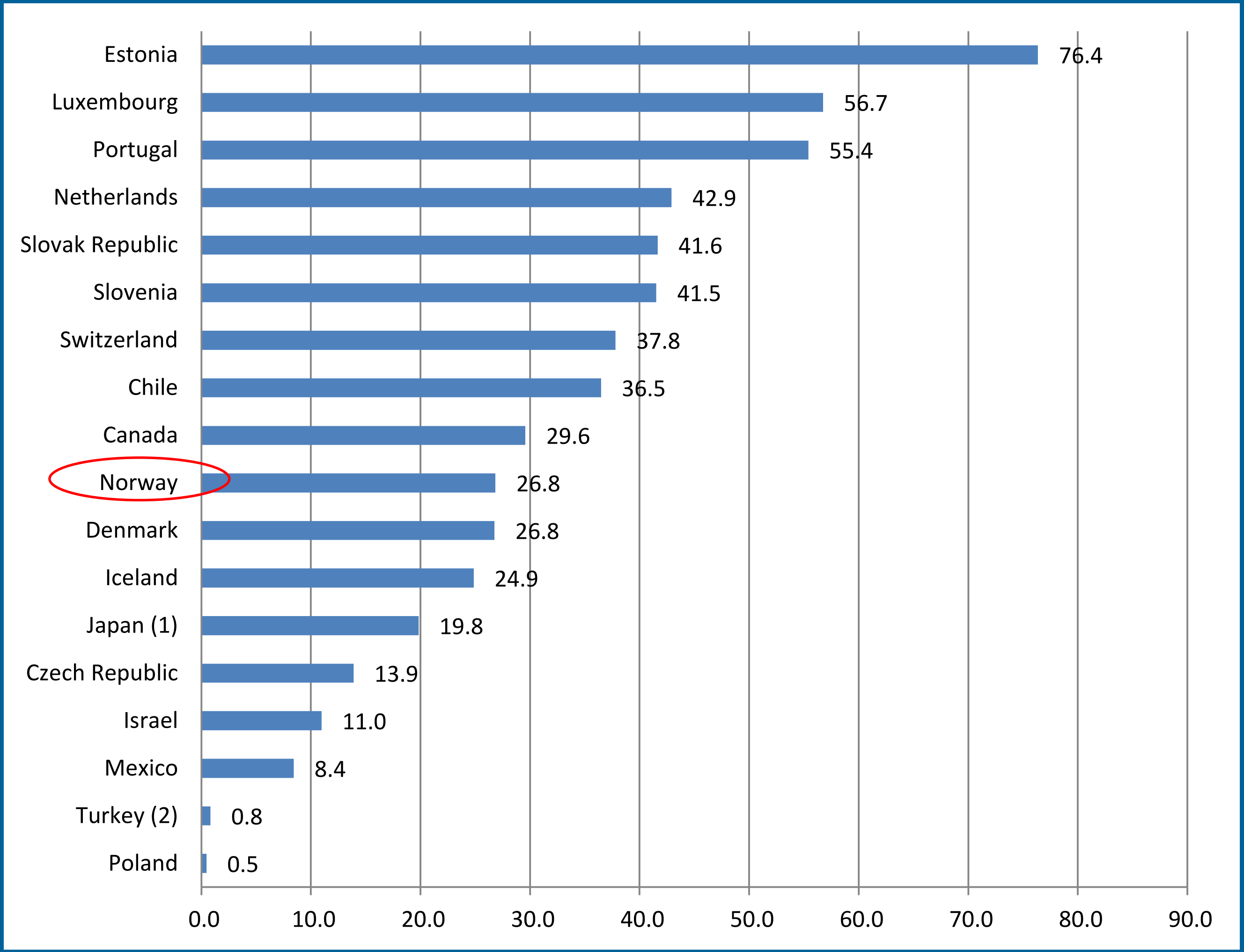
Pension Fund Allocations to Public Equities are at Historical Lows



Variation in Asset Allocation for Selected Investment Categories, 2001-11 (p.p.)

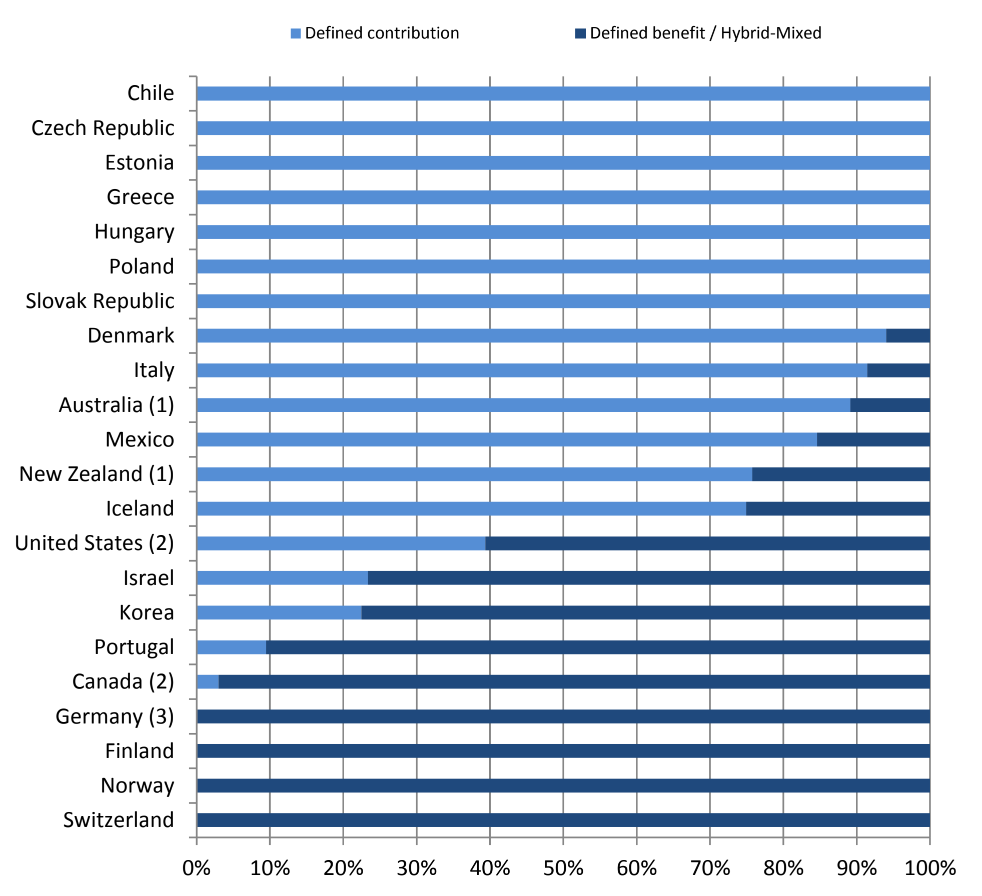
Country	Shares	Bills and bonds
Denmark	-31.3	14.3
Japan (1)	-18.5	-3.4
Netherlands	-14.3	5.9
Iceland	-10.8	2.1
Spain	-10.6	1.4
Estonia	-10.5	7.5
Canada	-9.1	2.7
Czech Republic	-6.9	2.8
United States	-6.5	4.7
Belgium	-4.6	11.5
Switzerland	-2.2	4.1
Portugal	1.6	-4.3
Poland	2.3	-5.6
Norway	3.1	5.5
Israel	3.7	-12.1
Australia	7.8	-2.5
Austria	9.6	-26.1
Finland	13.3	-16.2
Mexico	17.6	-18.3
Simple average	-3.5	-1.4

Foreign Investment of Pension Funds, 2011 (% of total assets)

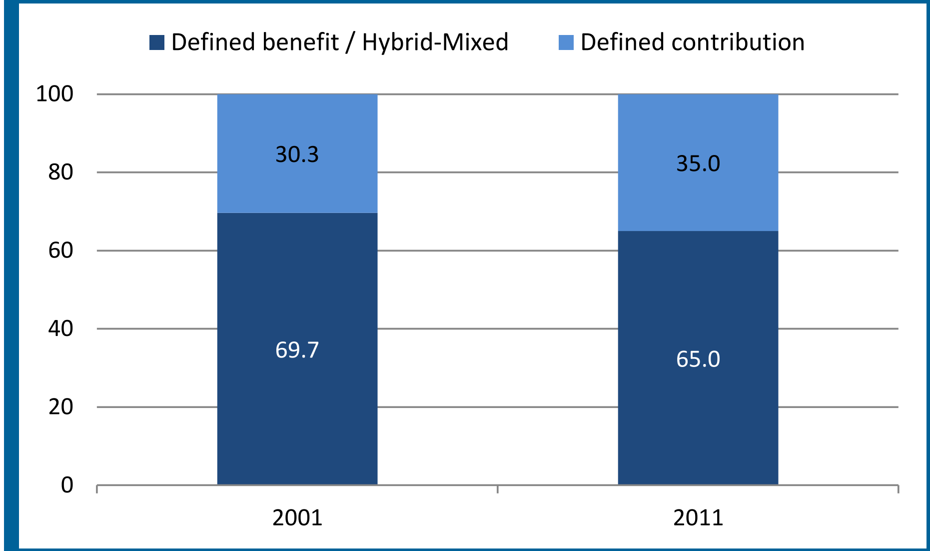


DB Versus DC Pension Funds' Assets

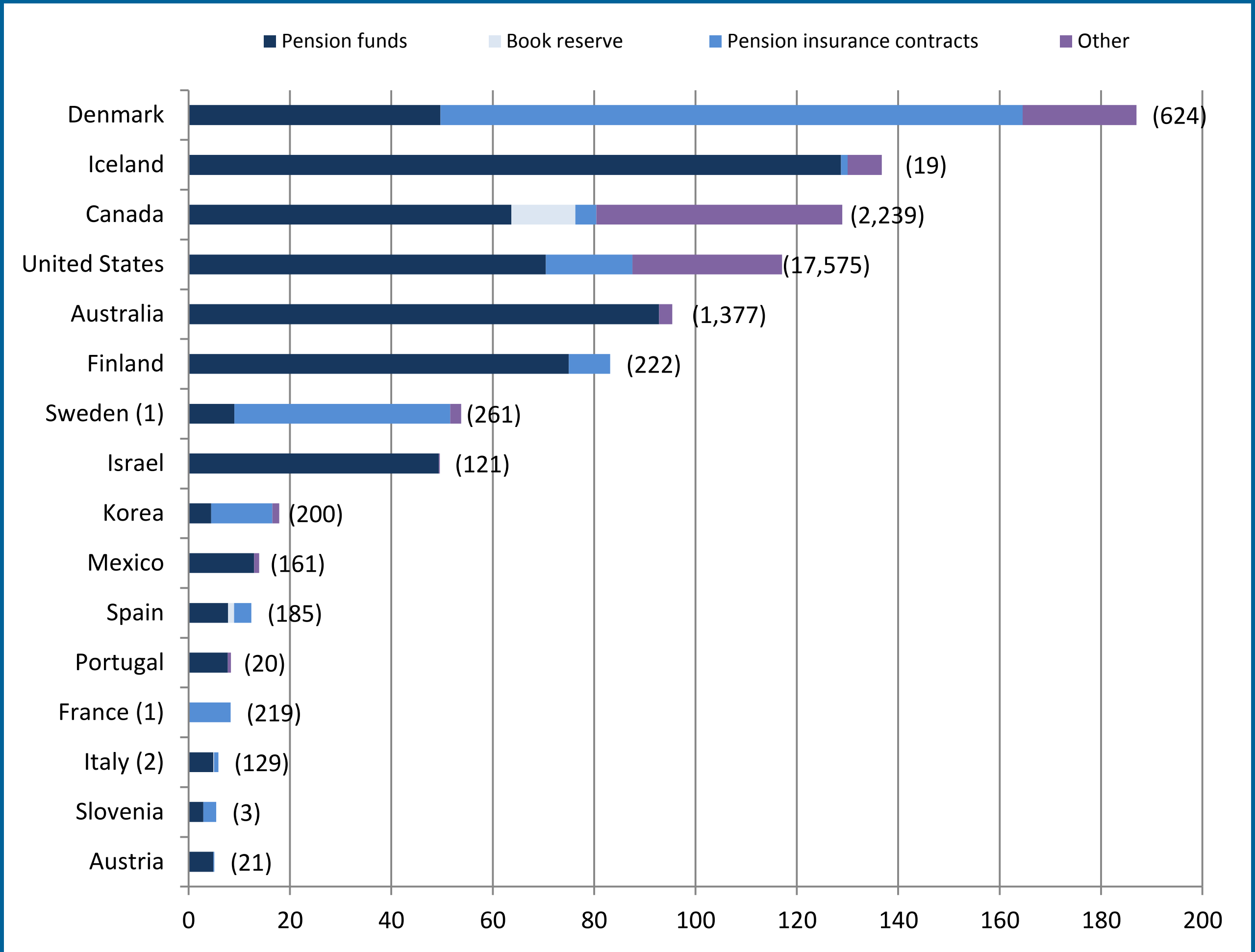
2011



2001 versus 2011



Private Pension Assets by Type of Financing Vehicle, 2011 (% GDP and USD bn)



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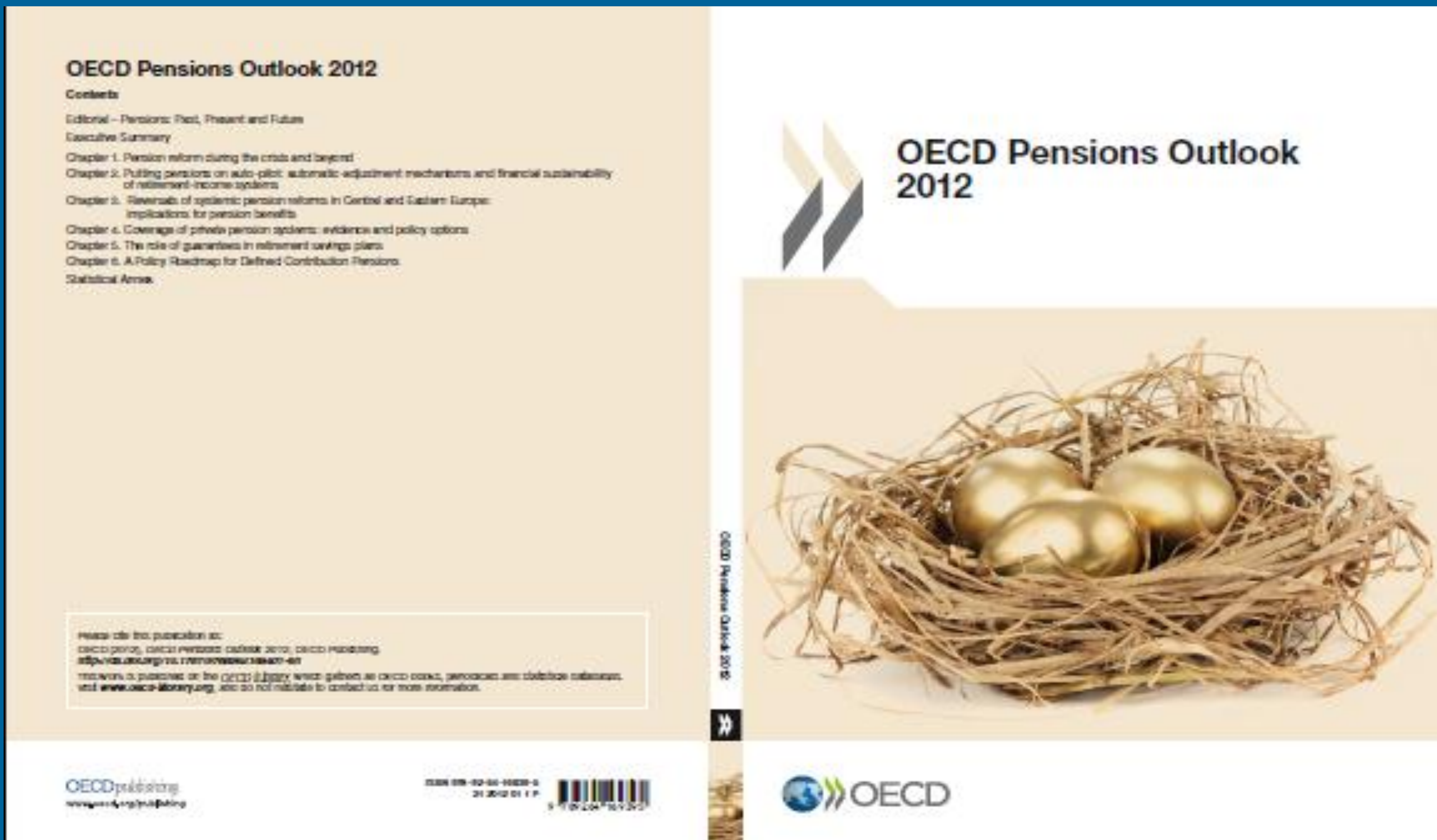


www.oecd.org/daf/pensions/outlook

Thank you!

Pension Markets IN FOCUS

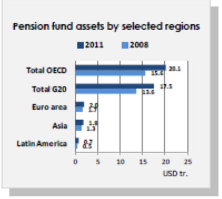
September 2012, Issue 9

Pension Markets in Focus

This annual publication reviews trends in the financial performance of pension funds, including investment returns and asset allocation.

The underlying **data for the tables and graphs** plus a statistical annex can be found in Excel format at www.oecd.org/daf/pensions/pensionmarkets

Pension fund assets hit record USD 20.1 trillion in 2011 but investment performance weakens



Continuing the trend started in 2009, pension funds experienced a moderate growth of USD 0.9 trillion in their accumulated assets during 2011, mainly due to asset accumulation and despite a weak rate of investment returns. However, this was good enough for pension funds in the OECD area to complete their recovery of the USD 3.4 trillion in market value that they lost in 2008, hitting a record USD 20.1 trillion in total assets by December 2011.

The OECD weighted average asset-to-GDP ratio for pension funds increased from 67.3% of GDP in 2001 to 72.4% of GDP in 2011, with the Netherlands achieving the highest ratio at 138%. The ratio is however still low in several countries with less than half of OECD countries exhibiting ratios above 20%, leaving ample room for further pension market developments. Pension fund assets in the non-OECD countries covered are still small but they are growing faster than those of OECD countries.

The annual, real rate of investment returns (in local currency and after investment management expenses) averaged -1.7% ranging widely from 12.1% for the highest performer (Denmark) to -10.8% for the lowest (Turkey). After Denmark, the highest returns in 2011 were in the Netherlands (8.2%), Australia (4.1%), Iceland (2.3%) and New Zealand (2.3%). On the other hand in countries like Italy, Japan, Spain, the United Kingdom and the United States, pension funds experienced average negative investment returns in the range of -2.2% to -3.6%. Nine other OECD countries saw pension fund returns of worse than -4% in real terms.

The pension funds allocation to public equities declined significantly compared to past years. Trends toward defined contribution plans accelerated, although defined benefit plans continue to represent a very important component of pension funds assets.

Despite this recent trend, the performance of pension funds measured over the long-term remains relatively attractive. Based on OECD calculations, a person who had saved for retirement for 40 years in a pension plan investing 60% in equities and 40% in long-term government bonds and retired at the end of 2010 would have experienced an annual investment performance of 2.8% in Japan, 4.2% in Germany, 4.4% in the United States and 5.8% in the United Kingdom.

By André Laboul, Head of the Financial Affairs Division
Directorate for Financial and Enterprise Affairs

OECD

www.oecd.org/daf/pensions/pensionmarkets

Thank you!

OECD Roadmap for the Good Design of Defined Contribution Pension Plans

http://www.oecd.org/daf/financialmarketsinsuranceandpensions/privatepensions/50582753.pdf