July 31, 2014

SUMMARY:
CORE PRINCIPLES OF PRIVATE PENSION REGULATION

CURRENT STATUS

The proposed new Core Principles of Private Pension Regulation are in the final stages of review. The OECD is expecting to receive comments from delegations in July 2014, to make final revisions to the draft document and present the principles in the December 2014 meeting of the Working Party for final approval.

BACKGROUND

In 1999 the newly established Working Party on Private Pensions developed as one of its initial products as set of principles that sought to provide a general framework for the legal and regulatory frameworks that would apply to private pension funds. These initial standards were directed to employer sponsored arrangements and were entitled “Core Principles for Occupational Pension Regulation”. These were adopted by the OECD Council in 2004 and subsequently revised in 2009. When first developed the OECD was in the process of facilitating the establishment of the International Organization of Pension Supervisors (IOPS) and sought to distinguish the OECD’s policy role from the operational issues related to supervision of funds and therefore limited the effort to regulation leaving a similar effort focused on supervision to the new organization. The OECD also sought to extend the effort to defined contribution arrangement through the later development of “The OECD Roadmap for Good Design of Defined Contribution Plans”.

The Core Principles that are then further articulated in an associated set of “Implementing Guidelines” that provide more specific interpretation and guidance on their application. The Principles have been developed to be consistent with the diversity of the design of pension systems within the OECD countries and are therefore at a very
high level of abstraction. The substance is in the Implementing guidelines some of which have very specific provisions.

The OECD Core Principles has had little effect in altering systems in member countries because the process of development reflected prevailing conditions in these setting. They have and continue to have considerable effect as standards that other countries look to as they develop or reform their private pension systems. Significantly they have also become incorporated into the framework for the review of private pension systems under the IMF/World Bank Financial Stability Assessment Program (FSAP) so have a meaningful impact on the design of pension systems in non-OECD countries.

**Revision of Principles**

In recent years, both in response to trends in the development of pension systems and partly in conjunction with the related joint work by the OECD and the G 20 on Financial Consumer Protection and Financial Literacy a greater awareness and level of interest in individual retirement savings has emerged at the OECD. This lead to the initiative to extend the core principles to individual retirement savings systems or “personal pensions” in European oriented terminology of the OECD.

In addition there has been interest in strengthening the nature of the principles from the original approach of providing a broad framework for occupational pension systems as they have evolved to the current usage as evaluation standards. This has resulted in the substitution of the stronger term “should” to replace “may” in many of the principles.

**Framework of Current Proposal**

The attempt to find a common set of principles that would apply to both employer based and individual arrangements elicited considerable commentary from the members resulting in the division of the principles into the current framework of ten principles that are divided into three groups.

I. Six “General Principles” that include: No. 1 general conditions for effective regulation, No. 2 basic requirements (legal framework, accounting, financial and managerial) for any type of fund, No. 3 governance of funds, No. 4 investment and risk management, No. 5 plan design in relation to fund objectives, disclosure and redress, No. 6 basic attributes of supervision

II. Two “Principles Specific to Occupational Plans” that include: No. 7 funding standards, termination, and guarantees, No. 8 access, vesting and portability
III. Two “Principles Specific to Personal Pension Plans” that include: No. 9 requirement for full funding and addressing insolvency of providers, No. 10 fairness, exclusive purpose, accountability, competition and portability.