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## HIGHLIGHTS FROM SUMMER 2015 MEETING OF OECD WORKING PARTY ON PRIVATE PENSIONS

The Organization for Economic Cooperation and Development (OECD) Working Party on Private Pensions held its summer meeting in late June at the OECD headquarters in Paris, France. Richard Hinz, Senior Advisor to the Council, attended the meetings as a representative of the Council and as an advisor to the U.S. delegation that is led by the staff from the Employee Benefits Security Administration (EBSA) of the U.S. Department of Labor (DOL). Several other representatives of Council members attended on behalf of their individual companies.

[An agenda for the meetings](#) is available on the Council website.

### WHAT IS THE WORKING PARTY ON PRIVATE PENSIONS?

The *Working Party on Private Pensions* is a sub-group of the *Committee on Insurance and Private Pensions* that was established in 1999 under the auspices of the OECD's *Directorate on Financial and Enterprise Affairs (DAF)*. It provides a venue to plan and review the work of the OECD that is directed to the development and regulation of private pension funds. Although originally primarily oriented to employer sponsored

plans (“occupational funds” in the European vernacular) the group has extended its activities to address individual retirement savings arrangements (also referred to as “personal pensions”) in recent years.

The Working Party holds two meetings each year in June and December at the OECD’s headquarters in Paris and sponsors research and policy analysis conferences at other locations as part of the OECD’s outreach effort to non-member countries. The Working Party undertakes its activities in close cooperation with the International Organization of Pension Supervisors (IOPS), which receives administrative and staff support from the OECD and holds its annual meeting in the days following the OECD’s June meeting. The general distinction between the two groups is that the OECD body focuses on legislative and regulatory policy issues for its member countries and the IOPS is oriented to the actual conduct of supervision within its much broader membership.

The program of work and other initiatives related to private pensions now underway at the OECD is wide ranging and ambitious. It is based on four broader OECD priorities to undertake projects directed to: (1) Enhancing financial stability by addressing systemic risks (particularly solvency issues) of financial institutions, (2) developing common and integrated core regulatory systems, (3) addressing the pressures of demographic changes and population aging through enhancement of private sources of retirement income and (4) supporting growth and security through financial literacy. Not coincidentally, these are also priorities that underlie the current activities of the G20 developed nations.

## **SUMMARY OF THE MAIN TOPICS AND DOCUMENTS**

*Please note: The agenda and all of the documents from the meeting have been placed on the Council’s website. Many of these, however, are not yet in the public domain so access is password-protected for Council members only. Members are welcome to read and use the documents but are requested not to distribute them. Those in the public domain are available on the OECD website as noted.*

### ***Core Principles for Private Pension Regulation***

The first morning was a session open only to the OECD member government delegations. After reviewing OECD materials from Colombia (which appears to be well on the path to membership) the session was devoted to the review of the proposed revisions to the Core Principles for Private Pension Regulation. This is an effort to extend the general principles adopted by the OECD in 1999 to cover individual retirement savings arrangements. The Council, through its capacity advising the DOL delegation, has had an extensive role over the past year in reviewing and commenting on the draft revisions.

The proposed new Core Principles have now been approved by the Working Party and will be subject to a process of public consultation that extends until October 20, 2015. [The public consultation document](#) is therefore now available on the OECD website.

Interested Council members are encouraged to provide comments to the OECD directly on this important document. Because we have already submitted extensive comments through DOL (some of which are not reflected in the final document) the Council does not anticipate providing further comments but encourages interested members to do so.

### *Fiscal Incentives and Retirement: Stock Taking*

In 2014, the OECD began a major project to review and evaluate the various types of financial incentives in use to promote private retirement savings. While this project will focus primarily on the tax treatment for pension savings, the project extends to other incentives like credits and matching contributions. The first stage of this effort is the collection and classification of information on the tax treatment in member countries.

Two documents were presented for review and comment:

- [Overview document that suggest a typology and framework for the classification of different forms of tax treatment](#)
- [Draft country profiles](#)

This is very preliminary work that now requires considerable additional effort by the various country delegations to verify the completeness and accuracy of the information and comment on the usefulness of the proposed classification methodology.

The Council has prepared [a summary of the documents and comments provided to the U.S. delegation](#).

### *Risk Management of Annuity Products*

The OECD has prepared [a document on risk management of annuities](#). This is the third component of a four-part multi-year project primarily sponsored by Prudential Financial, Inc.

The first phase provided an overview of the various types of annuity products that are now available in OECD countries and developed a classification framework. The second stage examined key regulatory and structural factors to consider their potential impact on the development of annuity markets. This third component examines the risks associated with annuity products and how annuity providers manage these risks. The final element will be a discussion of the main lessons derived from the review with respect to product design, regulation, the risks involved and how providers manage risks. A document encompassing that discussion is scheduled to be presented at the December 2015 meeting of the Working Party.

The Council has prepared [a summary of the documents and comments provided to the U.S. delegation](#).

### ***Draft G20 Report on Regulation of Insurance Companies and Pension Funds***

The OECD will be submitting a report to the meeting of the G20 Finance Ministers and Central Bank Governors in September 2015 on principles and trends in the regulation of pension funds and insurance companies. This is part of the more general review of regulation of financial services and global financial stability issues that is the main impetus of the G20 and may inform future policy work by the G20.

The [draft report](#) is a product of the OECD staff itself, rather than an output of a Committee comprised of member government delegations. It was therefore presented to the Working Party for immediate comments rather than review in anticipation of acceptance as a product. (NOTE: This document is a preliminary version of an OECD staff product and therefore is not in the public domain. It is likely to be revised to reflect the comments that were received from various delegations at the meeting and will be submitted to the G20 for consideration.)

The draft report primarily approaches the regulation of pension funds from a financial control and solvency perspective that is more applicable to the regulation of insurance companies and consequently has a variety of issues related to the conceptual framework to the extent that it addresses the specific issues of employer sponsored pension funds, particularly those that operate in a common law/ trust law environment. In conjunction with the DOL, the Council's representative at the meeting provided extensive comments and suggestions to the OECD staff on the document.

### ***Roundtable on Conflicts of Interest of Retirement Financial Advisors***

The session was included on the agenda at the behest of DOL in conjunction with the proposed update of the definition of fiduciary under ERISA and the application of the fiduciary rule to rollovers and IRAs. The session and [background report](#) were intended to introduce OECD delegates to the issues and some of the relevant experience. Presentations were made by the U.S., the United Kingdom, Netherlands and Mexico. The session was conducted in anticipation of consideration of an OECD work program addressing these issues and the future development of standards and guidelines applicable to private pension funds.

Presentations from the roundtable include:

- [Conflicts of Interest of Retirement Financial Advisors Joseph Piacentini , DOL \(U.S. Delegate\)](#)
- [Conflicts of Interest, Pensions and Investment Products: The UK Approach](#)
- [Roundtable of Conflict of Interest: "Mexico's Experience"](#)

The Council has prepared [a summary of the documents and comments provided to the U.S. delegation](#).

### *Financial Education and Retirement Planning*

The OECD is seeking to integrate the work of its International Network for Financial Education (INFE) and work on financial inclusion and consumer protection for the G20 with the work of its committees. One aspect of this project is an effort to update a set of “Good Practice” guidelines for financial education for private pensions and retirement savings. The [OECD document](#) suggests an analytical and policy framework that is anticipated to result in some draft principles for consideration next year.

The Council has prepared [a summary of the documents and comments provided to the U.S. delegation](#).

### *Pension Funds as Systemically Important Financial Institutions*

The Financial Stability Board (FSB) established by the G20 in response to the 2008 Global Financial Crisis has designated a number of banks and insurance companies as Global “Systemically Important Financial Institutions” (SIFIs) that are subject to enhanced scrutiny and regulation. In 2015, consideration was given to extending this designation to certain asset managers, including pension funds.

The IOPS has undertaken a project to consider the issues relevant to assigning this status to pension funds. The results of this assessment generally indicate that although there is the potential for pension funds in some settings to have incentives for pro-cyclical behavior (especially when faced with risk-based solvency standards), the underlying characteristics of most pension funds where they are subject to rigorous prudential standards and do not engage in leverage make them sufficiently different from banks and insurance companies so as to not impose a risk to global financial stability.

The presentation by the IOPS Secretariat staff was not made available for distribution.

As noted above, the IOPS meeting is held in conjunction with the June OECD meeting. Additionally two related events were held in conjunction with the IOPS and OECD meetings:

- *ICI Global Forum – The Role of Private and Public Pension Funds*

The Investment Company Institute (ICI) Global forum was organized around the theme that private pensions are best designed, regulated and considered as an element of a larger, integrated retirement income system comprised of public

social insurance components, mandatory national occupational pensions and individual savings for retirement.

The forum was comprised of two panels: the first was a discussion of the balance between, and risk sharing characteristics of, the pension systems in the United States, Denmark and Chile which represent different solutions to the challenge of risk management and redistribution among the broader population. The second addressed the design and operation of the pension systems in the Netherlands, Hong Kong and Latin America.

The agenda and presentations for the Global Forum are now available on [the ICI Global website](#).

- ***Launch of the “Business and Finance Outlook - 2015***

The OECD held a major event on June 24 to announce a new publication that evaluates the current financial environment and its implication for future growth.

The OECD’s Secretary General, Angel Gurría, opened the launch with an overview presentation on the publication, followed by a more in-depth discussion of the main findings of the report by the Director for Financial and Enterprise Affairs, which is the organizational unit of the OECD in which the Insurance and Private Pension Committee (parent of the Working Party) is located. This was followed by a panel comprised of several Governors of European Central Banks to discuss “The Low Growth Environment and Financial Risks” and a panel of representatives from the pension and insurance industry and regulators to discuss the issues raised in the chapter “Can Pension Funds and Life Insurance Companies Keep Their Promises?”

The central theme of the publication is that the current environment presents several seemingly contradictory circumstances in which monetary policy is loose and other stimulus initiatives are in place, yet growth and interest rates remain low, while the corporate sector seems to perceive continued substantial risks and is reluctant to invest. The chapter on pension funds views the current environment as raising significant solvency issues over the long term as pension funds and life insurance companies face low long-term interest rates and investment earnings while, at the same time, they are forced to deal with significant demographic transitions and discount rates that raise the current value of their liabilities.

The report received considerable attention in the international financial press. The section on pension funds and insurance companies proved to be controversial as it presents largely theoretical information with no evidence of

the projected outcomes having a meaningful impact on the ability of pension funds to pay benefits to date.

[The materials distributed at the launch of the publication and the presentations](#) are available on the OECD website:

[A copy of the preliminary version of the complete publication](#) (The final version can be purchased as a book from the OECD) is also available, as is [the chapter on pension funds and insurance companies](#).

### *Future Meetings*

The next meeting of the OECD Working Party on Private Pensions is scheduled for November 30 (the Monday after Thanksgiving) and December 1, 2015.