



## AMERICAN BENEFITS INSTITUTE

*The American Benefits Institute is the education and research affiliate of the American Benefits Council. The Institute conducts research on both domestic and global employee benefits policy matters to enable public policy officials and other stakeholders make informed decisions. The Institute also serves as a conduit for global companies to share information about retirement, health and compensation plan issues.*

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### HIGHLIGHTS FROM THE JUNE 2017 MEETING OF THE OECD WORKING PARTY ON PRIVATE PENSIONS

The [spring 2017 meeting of the Organization for Economic Cooperation and Development's \(OECD\) Working Party on Private Pensions \(WPPP\)](#) was held on June 19 and 20 at the OECD headquarters in Paris, France. As in recent years, the meeting was held in conjunction with the annual meeting of the International Organization of Pension Supervisors (IOPS) for which the OECD serves as Secretariat. The meeting was followed on Wednesday June 21 by [a conference](#) organized by the International Network for Pensions, Aging, and Retirement Research (INPARR), an international consortium of research and policy analysis institutions undertaking work on aging and retirement income entitled "Pension Foresight: Envisaging Retirement Income Plans of the Future."

Richard Hinz, Senior Advisor to the Council (and former chairman of the WPPP on Private Pensions when he served in the U.S. Department of Labor (DOL)), attended the meetings as a representative of the Council and as an advisor to the US delegation that is led by the staff from the Employee Benefits Security Administration (EBSA) of the US Department of Labor.

*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. 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.*

This *Benefits Passport* provides a summary of the main topics addressed at the WPPP meeting and includes links to the relevant documents that were presented and discussed. As we have done over the past several years, [comments from the Council on the documents](#) have been made available to members of the Council's Global Benefits Committee for review and were submitted to DOL.

Broader participation in the OECD meetings and this review process is encouraged. Council members who would like to provide additional comments, those interested in engaging in the review and comment process or those who wish to participate in the next OECD meeting (scheduled for December 4-6, 2017) as a private-sector observer within the US delegation, should contact Richard at [rhinz@abcstaff.org](mailto:rhinz@abcstaff.org).

## SUMMARY OF THE MAIN TOPICS AND DOCUMENTS OF THE OECD WPPP MEETINGS

### Seminar on Financial Technology

The first morning of the meeting was devoted to a seminar in which various representatives of the asset management industry and regulators from a number of OECD countries made presentations about the use of automated systems and advisory services. These were primarily descriptive of the current or planned product innovations and discussion by regulators regarding the potential challenges that these impose. The discussions focused on the emergence of what has become known as "robo-advisors."

The presentations and discussion indicated that while there is a general consistency in the types of products that are now being developed and rolled out, there is no consensus on the form or direction of any regulatory framework to govern these products. Many of the regulators suggested that they remain in the formative stages of observing and understanding the implications of these products and allowing some experimentation with the products and services in a "regulatory safe space" or what is sometimes referred to as a "regulatory sandbox."

The WPPP approved a project for the review of financial technology and the associated pension regulatory issues in 2016 and has begun this process with a survey of products that was presented at the December 2016 meetings. [An update of this summary](#) was provided as a background paper for the seminar.

It is expected that the OECD will use the background information and presentations from the seminar to extend this analysis and begin to formulate some policy recommendations in this area that will be presented at the meetings over the course of the next year.

## [Defined Benefit Arrangements: Solvency and Interest Rates](#)

This document is the first of several papers that are part of a project approved by the WPPP in December 2016 to review the design and regulation of defined benefit plans. The project is being jointly pursued by the International Organization of Pension Supervisors (IOPS) to support their efforts to develop standards and best practices for the oversight of these plans. The paper is based on a review of defined benefit plan regulations and standards in six OECD countries that retain a large defined benefit plan presence: Canada, Germany, the Netherlands, Switzerland, the UK and the United States.

The document begins with a discussion of pension accounting standards, with a particular focus on the potential effects of requirements for mark-to-market valuation of assets and liabilities. This is followed by an effort to review funding and solvency standards and provide some commentary on the effect these have had on sponsor's costs. The third part of the paper reviews differences in the design of defined benefit plan plans and how this may affect the distribution of costs and risks. This is followed by a discussion of some alternative approaches to assessing the financial sustainability of defined benefit plan plans and the rules that stipulate the interest/discount rate used in measuring their financial status. The fifth section attempts to consider the impact of solvency standards on investment strategy followed by suggestions for future research in the ensuing stages of this project.

The Council provided written comments to DOL for submission to the OECD:

- [July 2017 OECD WPPP Council Comments: Defined Benefit Pension Arrangements, Solvency and Interest Rates](#)

## [The Impact of Tax Incentives and other Policies on Retirement Savings: A Literature Review](#)

This paper is part of the multi-year project on the dynamics and outcomes of tax incentives and other types of subsidies intended to facilitate private retirement savings. It provides a very useful reference piece that summarizes the published economics paper addressing the effects of tax and other incentives and seeks to develop summary conclusions from the literature.

The paper is organized around three main topics: (1) studies that look at whether tax incentive have led to changes in individual savings or behavior, (2) studies evaluating the impact on aggregate national savings and (3) analyses of the effect of other types of financial incentives such as mandates, auto-enrollment, matching and flat-rate subsidies.

Several preliminary conclusions are suggested in the paper, including:

- Tax incentives encourage participation and contributions to pension plans.
- There is wide divergence in the magnitude of these effects but the average finding is that about 25 percent of the savings in tax favored plans are new savings.
- Low- and middle-income persons are more engaged in new saving while higher income are more likely to substitute tax preferred savings for other saving.
- Other types of incentives are found to have meaningful results on participation and savings.

The Council provided written comments to DOL for submission to the OECD:

- [July 2017 OECD WPPP Council Comments: Literature Review of the Impact of tax Incentives and Other Policies on Retirement Savings](#)

### [Long Term Fiscal Cost of Tax and Other Financial Incentives for Funded Pensions in OECD Countries](#)

This paper, the second major analytical component of the multi-year project to evaluate financial incentives for retirement savings in OECD countries, is an effort to quantify the value of retirement savings incentives from a fiscal perspective over an extended time period (45 years) that is relevant to private pension systems.

The paper begins with an overview discussion of the concept of “tax expenditures” and potential issues that need to be considered in interpreting the analysis. It provides a detailed enumeration of the tax expenditures for each country and describes the different methods currently in use for their measurement. It then seeks to extend this analysis to include other types of direct government expenditures supporting retirement savings programs.

The second section of the document discusses major external factors (beyond the design of the system) that are important determinants of the pattern of tax expenditures over time. These include demographic patterns and stage of maturity of the pension system that exert an influence on the level and patterns of fiscal costs over the long term. This is followed by analysis that provides summary measures of the net fiscal costs projected for a model hypothetical country and then for each of the countries included in the study.

This analysis uses a standard foregone revenue approach that nets taxes forgone on contributions and earnings against revenues collected on withdrawals and benefit

distributions on a cash-flow basis. It then then seeks to attribute these costs to the various factors. To illustrate relationships among the main factors that will influence patterns of tax expenditures, a set of projections for the hypothetical country are shown on a “steady state” basis compared to the pattern of increasing then declining expenditures that would result from the maturing of a pension system. How this pattern would be affected by demographic change – which is shown to strongly accentuate both the rate of rising expenditures in the early stages followed by a far more pronounced and rapid decline by the presence of a “baby boom” cohort – is then illustrated. Summary projections of the pattern of fiscal effects over the 45-year period are shown for each of the countries.

The projections for the United States indicate that, while the annual level of revenue foregone due to tax qualified retirement savings is projected to increase for about the next five years, it will level off at that point and steadily decline thereafter as collection of revenues increase when the large baby boom cohort retires and begins to receive benefit payouts that will be taxed. Netting these factors in the projections is estimated to result in a decline of the fiscal costs from the current 1.0% of GDP to 0.7% of GDP in the year 2040. Related analysis presented in a short (two-page) policy note published by the OECD indicates that the cumulative tax expenditures will be offset by the cumulative revenue collected on benefits between 2015 and 2060 illustrating that much of the cost of tax incentives has been in previous decades and that going forward tax incentives should on a cash flow basis be effectively neutral. This is likely to be an important point to consider as the current tax reform debate unfolds.

The Council provided written comments to DOL for submission to the OECD.

- [July 2017 OECD WPPP Council Comments: Long Term Cost of Tax and Financial Incentives for Funded Private Pensions](#)

### [Incorporating Corporate Income Tax and the Effect of New Savings into the Calculation of Net Tax Expenditures](#)

This document is an effort to extend the analytical work that quantifies the costs and outcomes of the financial incentives by extending it to potential secondary effects of changes that may result in corporate income (and other) taxes. This is based on the concept that if savings are invested in a manner in which the funds flow to corporate entities they will result in increased earnings, leading to a rise in receipt of corporate income taxes. Offsetting effects to these increases, through a decrease in sales and other consumption taxes, are also posited.

The document begins with an overview of the general concepts and theory behind the analysis, specifically referencing the seminal work on this topic by Martin Feldstein in 1995. This is followed by an effort to assess the cumulative effect of tax changes for an individual over the course of a lifetime, decomposing this into several elements that

have offsetting effects over time as foregone revenues from untaxed savings and reduced consumption are offset by tax receipts arising from the additional savings that produce corporate income tax revenues. This is presented for various assumed levels of new savings (as opposed to substitution) to illustrate the sensitivity of an analysis to assumptions regarding behavior. The stylized analysis indicates that with the central estimate that 25 percent of the contributions to retirement plans represent new savings (rather than funds that are simply shifted from other savings into the retirement plan) the costs of the tax incentives would cumulatively net to zero by about age 85 for the average participants as taxes are received on distributions during retirement.

The paper then proceeds to develop estimates of the overall economy-wide effect of the factors (personal income tax, corporate income tax and consumption taxes such as a value-added tax) as a private retirement savings system is introduced and matures over a 100-year period. This provides some estimates of how the overall fiscal effects might vary between a system that has stabilized at a “steady state” and one that is maturing. These estimates illustrate how the secondary effects of new savings that raise investment in the corporate sector can, over an extended period, offset the fiscal subsidies and achieve a revenue neutral equilibrium after about 80 years.

The Council provided written comments to DOL for submission to the OECD:

- [July 2017 OECD WPPP Council Comments: Incorporating Corporate Income Tax and The Effects of New Savings](#)

### [Designing Funded Pension Arrangements Given the Level of Financial Literacy and Behavioral Biases](#)

This paper is an outgrowth of the OECD’s extensive work on financial literacy and education over the past 15 years, including sponsorship of the [International Network on Financial Literacy and Education](#) (INFE) that holds several meetings each year and has contributed G20 and OECD principles and standards. It is an effort to link the emerging research on behavior with the policy analysis work of the WPPP and the standard-setting efforts of IOPS.

The document begins with a background discussion of how issues of financial knowledge and behavior affect the benefit outcome of defined contribution pension plans. The ensuing sections review the issues and literature that has developed for the main types of decisions and behavioral analyses relevant to these plans, including participation, contribution levels, choice of service provider, investment of pension savings and transitions from accumulation to benefit payouts. Each of these topics is addressed through a discussion of the main financial literacy and behavioral issues germane to the topic followed by a review of the policies and experience in OECD countries that have sought to address each of the topics.

The paper is intended to document the experience and information derived from efforts in OECD countries to support the development of recommendations regarding effective policies and practices and is anticipated to be a cooperative effort by the three OECD related bodies (INFE, the WPPP and IOPS).

The Council provided written comments to DOL for submission to the OECD:

- [July 2017 OECD WPPP Council Comments: Designing Funded Pension Arrangements Given the Level of Financial Literacy and Behavioral Biases](#)

### [Lending Activities in Private Pensions](#)

In 2016 the OECD initiated an effort to collect information on the lending activities of pension funds and the relevant regulatory provisions in individual countries. This was followed up by a survey on lending to the members of pension funds. This document summarizes the results of these two data collection efforts.

The paper begins with a description of the potential risks and issues that may be relevant to the extension of credit by pension funds. This is followed by a description the regulatory provisions in the OECD countries that have provided information in response to the survey. The data on the level of lending in various countries is then presented followed by initial observations and suggestions for future work.

The information provided in the document indicates a wide degree of variation in the extent that lending by pension funds is permitted as well as the provisions governing these loans. It also indicates that lending by pension funds is a relatively small proportion of overall assets in most countries, representing less than 5% of assets in countries reporting this information.

The Council provided written comments to DOL for submission to the OECD:

- [July 2017 OECD WPPP Council Comments: Lending Activities in Private Pensions](#)

### [Policy Measures to Contain Costs of Running Funded Private Pension Plans](#)

This paper is part of a joint project by the OECD and IOPS to assess the effectiveness of legal and regulatory efforts to encourage competition among service providers to private pension funds and reduce the costs and charges paid by participants.

This document provides an initial framing to identify key issues and potential variables of interest and presents some preliminary information about the main approaches taken by OECD countries to control costs. It begins with an overview of the various types of costs and charges to members that can affect the value of benefits. It is

then followed by a conceptual discussion of the potential role and limitations of market mechanisms to effectively control costs. The analysis continues with an overview of the legal and policy framework in OECD countries related to costs and expenses and a preliminary assessment of the outcomes that these have achieved, concluding with some preliminary observations and findings about their effectiveness. A more detailed interim report on the effectiveness of different approaches is planned to be presented at the December 2017 WPPP meeting.

The information presented in the document highlights the complexity and challenges inherent in identifying and measuring costs, focusing solely on those that result in expenses charged to an investment pool or individual accounts, primarily administration and investment management costs. The initial information from OECD countries indicates wide variation in types of these expenses. Review of existing literature and analysis of cost issues is found to indicate a weak impact from market forces and competition in constraining costs. Review of efforts to restrain expenses are found to be concentrated in three areas, disclosure, caps on permissible charges and efforts to reform the structure and governance of private pension systems. These measures are found to be significantly derivative of the design of the respective country systems. The document concludes, based on the weight of the evidence, that (1) various complementary measures is most likely to be effective (2) transparency and disclosure are effective but not sufficient and (3) other regulatory initiatives addressing pricing and the structure of the pension systems may be required to control the costs and expenses paid by participants.

The Council provided written comments to DOL for submission to the OECD:

- [July 2017 OECD WPPP Council Comments: Policy Measures to Contain Costs of Running Funded Private Pension Plans](#)

## CONCLUSION

The OECD's work and resulting documents address key policy issues however they can often be of a highly academic nature. The work on tax incentives is likely to be very relevant to the emerging discussion of tax reform in the United States that is likely to consider changes in the tax treatment of retirement plans. For this reason and because the work often provides a basis for standards that are adopted by OECD – and its member nations – the findings and recommendations set forth can have important practical implications for both plan sponsors and service providers conducting business in OECD countries. Council members are encouraged to provide input on the issues under consideration and to provide guidance to the American Benefits Institute in our role as a private sector advisor to the U.S. government delegation to OECD.



## **FUTURE MEETINGS**

The next meeting of the OECD and WPPP is scheduled for December 4-6 at the OECD headquarters in Paris.