



*The American Benefits Institute is the education and research affiliate of the American Benefits Council. The Institute conducts research on both domestic and international 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.*

## HIGHLIGHTS FROM OECD'S WORKING PARTY ON PRIVATE PENSIONS

### SUMMARY OF THE JUNE 2014 MEETING

The Organization for Economic Cooperation and Development (OECD) is a forum in which the governments of 34 democracies with market economies work with each other, as well as with more than 70 non-member economies, to promote economic growth, prosperity, and sustainable development.

The formal representation to this group includes the delegations from each of the member countries. For retirement policy issues, the United States' delegation is headed by the Department of Labor's Employee Benefits Security Administration (EBSA) in cooperation with the Department of Commerce, which represents the U.S. at the Committee level meetings on pension and insurance issues.

The Council has served for many years as a private sector advisor to the U.S. government's delegation to the OECD. Through this role, the Council has been able to identify issues – particularly those developing in European Union nations – affecting the design and operation of plans outside the United States.

The Organization for Economic Co-operation and Development (OECD) Pension and Insurance Committee held its 2014 meeting in Paris, France, in early June. Richard Hinz, a Senior Advisor with Council (and the original Chair of the Working Party while he was Director of Policy and Research at EBSA) represented the Council at the meeting.

## **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.

## **ISSUES ADDRESSED IN THE JUNE MEETING**

The [agenda for the meeting](#) included the review of the Working Party's mandate and global relations strategy and the proposed work program for 2015 and 2016. Only

the official government representatives attended the initial meeting. This was followed by the presentation and review of current and proposed projects, which was open to the full delegations. The topics of discussion are summarized below. In addition, Council staff has provided detailed comments to the U.S. delegation regarding proposed projects and written products. These, in turn, have been used by the U.S. delegation in its response and comments to the OECD.

Consideration of the priorities for the groups resulted in an endorsement of the continued extension of the mandate to address individual retirement savings and financial literacy. The agreed-upon priorities of the Committees work will include:

- surveillance and promotion of the solvency and efficiency of pension funds,
- analysis of the adequacy of pension systems to provide sufficient income replacement and address population aging,
- long-term investment and supporting inclusive growth (i.e. improvements in income equality and access to, and use of, financial services) and
- enhancing financial education and consumer protection and promoting dialogue with key global partner nations that may or may not be OECD members.

The current work program of the Working Party on Private Pension discussed in the open sessions of the meeting includes major projects involving data collection, policy research, cross country analysis and standard setting. It includes:

- (1) The ongoing collection of data to support the database of [Global Pension Statistics](#) maintained by the OECD including the annual Survey of Investment Regulation of Pension Funds. The program continues essentially in its current form.
- (2) Extending the [Core Principles of Private Pension Regulation](#) to cover individual (personal) pensions. The draft principles are now in final form and subject to any final comments from delegations. Potentially significant technical and policy issues remain with the current draft and detailed comments regarding clarifications of a number of the standards and adjustments to make them consistent with current U.S. law and practice have been sent through the U.S. delegation to the OECD for consideration. [A summary of the status and organization of the standards has been developed by the Council.](#)
- (3) Completion of a major study on [Saving for Retirement and the Role of Private Pensions in Retirement Readiness](#) that attempts to project the level of retirement income for various income groups for six OECD countries (Chile, France, the Netherlands, Norway, the United Kingdom, and the United States). This study was initiated in 2011 and the final draft was presented at the June meeting. [A summary of the project and main findings has been developed by the Council.](#) In addition to being released as an

OECD study it is intended to be the basis for a chapter in the OECD publication "Pensions Outlook," that is due for release in December 2014.

The findings of this study are sensitive to the complex methods that are used in the retirement income level projections. It finds that, on average, the combined public and private pension systems of the countries studied are not projected to achieve the standard of 70-80% income replacement and that a significant portion of future retirees may have incomes below varying measures of a poverty line. Of the six countries studied, the U.S. is found to have the most diversified pension system that will achieve a relatively high income replacement with modest risks of poverty for the elderly. The Council has provided technical comments and suggestions for refinement of the policy recommendations derived from the study to be considered by the OECD as it is finalized.

- (4) The completion of a cross country (16 mostly developed countries) [study of Mortality Assumptions and Longevity Risk](#) that seeks to assess how pension funds and annuity providers are required to (and in practice) incorporate assumptions about future mortality into their funding standards and reserve requirements. It also evaluates whether these assumptions are sufficient to address likely future conditions. This analysis is then used to make a number of recommendations for policy makers. The final draft of this study has been produced and is awaiting final comments from delegations. [A summary has been developed by the Council staff](#). The study concludes that there are considerable variations in the extent to which countries require current or population specific mortality assumptions in calculating the liabilities of pension funds with a number of countries not using current mortality figures or effectively requiring the incorporation of improvements in mortality rates in these calculations.

Using several different mortality improvement projection models, the study concludes that mortality tables in use in five countries impose the risk of a 5-20% shortfall in the measurement of liabilities. The study finds this "significant" risk for one of the three tables perceived to be used in the U.S. The policy recommendations provided are directed to requiring updated current mortality figures and tailoring these to specific populations, requiring projections of mortality improvements to be included in assumptions, improving incentives in regulatory systems to hedge mortality risk and a greater role of public authorities in facilitating the development of financial products (e.g., longevity indexed bonds) that can be used by pension funds to manage mortality risks. The Council has provided comments to the U.S. delegation that have been transmitted to the OECD.

- (5) A cross country comparative review of [Annuity Products: Definition, Criteria and the Evolution of Product Design](#). The project aims to identify the features of various types of annuity products which are being offered on the market in different OECD countries to provide a stream of retirement income payments. The main goal of the project is to assess the potential impact of the regulatory and tax frameworks in different countries on the types of products and the embedded guarantees that exist. This study remains in the initial planning stages with only some preliminary inventory of annuity products developed in the documents distributed at the June meeting. The Council hopes to work with a group of member companies with an interest in the OECD and related international work to provide comments and suggestions for the conduct of the study.
- (6) The planning of [a study on Financial Incentives and Retirement Savings](#) that will focus on the use of tax and other incentives to stimulate retirement savings. This project is in the early planning stages. This project is intended to review the design and outcomes resulting from various incentives now in use (including tax preferences, matching contributions and any other methods). It is planned to evaluate the cost effectiveness of tax and other financial incentives, as well as assess whether there is a more efficient way of using public money to increase savings for retirement, retirement income and replacement rates. It will take into account the distributional impact of various measures and will examine alternative means of encouraging saving in complementary private pension plans other than current tax advantages. This project has received initial approval and materials outlining the planned objectives and data collection have been distributed for comments and discussion at subsequent meetings. It is very ambitious in its scope and may not be able to fully achieve the objectives as they are currently formulated. The Council hopes to work with interested members to provide comments and suggestions for the study as it develops.

All in all, there is a wide range of work underway at the OECD and the official U.S. government delegation welcomes the expertise and perspectives of the Council member companies. Those wishing to engage in this process should contact the Council's senior advisor, Richard Hinz at [richardphinz@gmail.com](mailto:richardphinz@gmail.com).