



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.

OECD'S WORKING PARTY ON PRIVATE PENSIONS Summary of December 2014 Meeting in Paris, France

In 2014, the Council began an enhanced engagement with the Organization for Economic Cooperation and Development (OECD) and its work on private pension policies, through its Committee on Insurance and Private Pensions and its sub-group the Working Party on Private Pensions.

Richard Hinz, Senior Advisor for the Council and former Chair of the Working Party on Private Pensions, will participate in the twice-yearly meetings of these groups at the OECD and serve as a private-sector liaison to the U.S. Department of Labor (DOL) and U.S. Department of Commerce, which are the formal delegates to these OECD bodies. In this capacity, Hinz will distribute documents and coordinate comments and recommendations from the Council on products and issues of interest to our members.

This edition of the *Benefits Passport* provides a summary of the new publications released at the December 2014 meetings, in addition to documents and comments

provided in conjunction with the OECD working group of the Council's Global Benefits Committee.

NEW OECD PUBLICATIONS ON PRIVATE PENSIONS

OECD Pensions Outlook 2014

The OECD periodically publishes a compilation of the products of major studies, initiated by the Insurance and Private Pensions Committee and related policy work, in the *Pensions Outlook* series. The latest version of what has become a biennial series was released at the December Working Party meeting.

[A PDF file of the publication](#) is available on the Council website or can be purchased in hard copy through [the OECD website](#).

The Council will host a webinar on March 11 at 11:00 a.m. (Eastern Time) to discuss the key findings and messages of the publication. Pablo Antolin, OECD Principal Economist and Head of the Private Pension Unit, Financial Affairs Division, and one of the main authors of the paper, will be on hand to provide additional analysis. The publication contains five chapters:

1. *Responding to the challenges posed by population and longevity risk*: This chapter discusses the mortality assumptions and tables currently in use and evaluates the risks of changes in longevity that these impose. This work, derived from the project completed this year, outlines the likely significant impact of current assumptions to account for longevity impact and presents some policy options for pension and annuity systems to better manage this risk.
2. *Post crisis pension reforms*: This chapter summarizes the changes (including the reduction in private pension systems and changes in contribution, benefit and retirement eligibility criteria) that have been implemented in response to the Global Financial Crisis of 2008-2009.
3. *Saving for retirement and the role of private pension provision in retirement readiness*: This chapter presents the results of the major project to evaluate projected income replacement rates for six OECD countries (Chile, Netherlands, France, Norway, the United Kingdom and the United States) that was presented at the June meeting and for which the Council provided comments. These indicate that the United States is projected to have an average income replacement consistent with those found in the other countries but with a greater reliance on private pensions and more differentiation by income.

4. *Increasing private pension coverage and automatic enrolment schemes: Evidence from six OECD countries:* This chapter summarizes how different countries (including the United States) have used automatic enrollment to advance the participation in private pensions and offers some preliminary observations about the effectiveness of these in achieving their objectives.
5. *Pension communication: Pension statements and national campaigns:* This chapter describes and evaluates how different countries provide benefit projections and seek to educate individuals about their respective pension systems.

Mortality Assumptions and Longevity Risk: Implications for Pension Funds and Annuity Providers

This publication provides the full results and detailed tables and calculation from the multi-year project to review how different countries regulate and manage mortality assumptions for insurance companies and pension funds. [A PDF of the full publication](#) is available at on the Council website and can be purchased in hard copy through the OECD website.

MAIN ISSUES ADDRESSED IN THE DECEMBER MEETING

[The agenda for the December meeting of the Working Party on Private Pensions](#) is available on the Council website. The next meeting is scheduled for June 22-23, 2015, in Paris.

1. **Global Pension Statistics Assessment:** The OECD's Global Pension Statistics project was initiated in 2002 to develop and publish comparable information on private pension systems throughout the world. The data collection extends beyond OECD members to include 67 countries through cooperation with the International Organization of Pension Supervisors (IOPS). Data is collected through surveys completed by public institutions and compiled and published by the OECD. [The resulting statistics are published by the OECD](#) in the annual report *Pension Markets in Focus*. The database provides information on the structure of private pension systems, the level and composition of assets and seeks to provide annual information on the rates of returns. As one of the only sources of extensive cross-country data on private pensions, the OECD statistics are widely used by researchers and journalists.

The assessment concluded that the data and statistics are relevant, accurate and comparable to provide a useful resource for internal and external users, noting the inherent challenges of timeliness, accuracy and comparability of data when relying on voluntary reporting of data by a wide range of institutions in many different countries.

[The OECD report distributed at the meeting is available here.](#)

- 2. Core Principles for Private Pension Regulation:** The OECD has been seeking to update the “Core Principles” that were developed for the regulation of private pensions more than a decade ago and to extend these to become a more comprehensive set of principles that will address the increasing importance of what are termed “Personal Pensions” (effectively, individual retirement savings arrangements outside of any employer sponsorship). The exercise included the development of 10 general principles and a more extensive set of implementing guidelines for each principle. The first six principles are designed to be generally applicable, followed by two that are specific to occupational (employer sponsored plans) and two specific to individual arrangements. The draft of the revised principles was discussed in an open session in the June 2014 meeting and extensive comments were provided by the Council through DOL. Consideration of the revised principles was done in a closed session during the December meeting, precluding private-sector participation at the last stage of consideration at which the OECD sought to attain approval of the final draft. The delegations, however, declined to approve the current draft and a final round of comments will be provided. The three-part structure of the principles is likely to remain, but the implementing guidelines that provoked the most commentary may be deferred for later consideration.

The “closed session” process precludes distribution of the draft documents or any formal participation by the Council in the current commentary. Informal guidance will be provided by Council staff to DOL as this effort progresses.

- 3. Project on Financial Incentives and Retirement Savings:** This study was proposed and approved at the June 2014 meeting. It will seek to document and evaluate the nature and outcomes resulting from tax and financial incentives in a selected set of OECD countries.

The presented document outlines the methodological approach that is proposed for two of the five main elements of the project – to develop comparable indicators of the value of the incentives that are provided in various countries and to estimate the total costs of financial incentives.

The document proposes the development of two indicators to evaluate the level of the financial incentives afforded to qualified retirement savings in a country: (1) the value of a monetary unit of contribution and (2) the total value of financial incentives per individual. It proposes a third part of the analysis to measure the costs of “tax expenditures” for retirement savings in different countries.

The first two parts of the study are proposed to be done by calculating the present value over a defined period of incentivized pension savings in comparison to two benchmark non-retirement savings vehicles: the most popular non-retirement savings instrument in the country and a standard savings account.

The second part of the analysis would estimate the total value of the lifetime incentives provided to different types of individuals.

The final analysis proposed would estimate a fiscal indicator by calculating the “foregone revenue” resulting from the tax treatment (and presumably any other financial incentives) that are provided. This would be the net of revenues foregone on contributions and subsidies and those collected on distributions from the retirement system.

[The OECD report distributed at the meeting is available here.](#)

[A more extensive summary and the Council’s comments, forwarded to DOL, are available here.](#)

4. **Regulatory and Other Structural Factors Affecting the Development of the Annuity Markets and Product Design:** The initial work on this project, undertaken during 2014, sought to identify the various types of annuity products that are now available in member countries and to develop a classification framework based on features and guarantees. The second stage of the effort examines several of the key regulatory and structural factors, focusing on their potential impact on the development of annuity markets and the availability and use of annuity products for retirement income. A more comprehensive document on risk management practices and regulatory issues influencing annuity markets will be presented in the June 2015 meetings for discussion and comment, followed by the formulation of conclusions and policy recommendations.

[The OECD report distributed at the meeting is available here.](#)

[A more extensive summary and the Council’s comments, forwarded to DOL, are available here.](#)

5. **Financial Education for Retirement Planning:** Beginning about a decade ago, the OECD has undertaken a range of work related to financial literacy and education. Initially this was done largely within the framework of the private pensions work and a set of “Recommendations on Good Practices for Financial Education Relating to Private Pensions” was issued in 2008. This work has since expanded across a number of areas including linkages to “financial inclusion”

initiatives in the G20 and the addition of financial knowledge elements in the widely used OECD survey assessing educational attainments (the Programme for International Student Assessment (PISA) survey).

The new paper presents the results of a 2014 survey on the financial education policies and strategies for retirement savings in 22 countries. The paper found relatively low levels of awareness of the requirements and the capacity for effective decision making and behavior related to retirement savings. The second section of the draft report outlines the policy responses of respondents. These include the development of products directed to low income and low coverage groups, changes in the regulatory structure and decision architecture of system (e.g., auto enrollment) and efforts to develop and advance national strategies and programs for financial education that are specifically addressed to retirement savings

[The OECD report distributed at the meeting is available here.](#)

[A more extensive summary and the Council's comments, forwarded to DOL, are available here.](#)

- 6. Long-Term Investment and Institutional Investors:** Largely in conjunction with the G20 and several other international bodies, the OECD has been undertaking surveys and sponsoring policy dialogue on the role of institutional investors in facilitating long term investments. This has included a "Large Pension Funds Survey " that has sought to collect information on the asset allocation, infrastructure investments and a variety of other topics from some of the largest pension funds and public pension reserve funds around the world. A similar survey of insurance companies is currently being completed.

This effort is largely being undertaken outside of the OECD Committee structure in conjunction with the work undertaken through the committee structure of the G20 and its various national delegation and other international organizations. It is directed to the general goal of increasing the role of institutional investors in providing infrastructure and other types of related financing to facilitate economic stability and development.

The planned projects were presented at the meeting primarily for informational purposes.

The [survey of pension funds and other reports related to this work](#) can be found on the OECD website.

7. **Tentative project proposals for 2015-2016:** The OECD Secretariat has proposed seven new projects for consideration for addition to the work program beginning in 2015. These would be in addition to the work on Financial Incentives and Annuities that remains ongoing. They are seeking the advice of the delegations regarding relative priorities, how the work on high priority issues might be further developed, suggestions for projects not on the list and how any of the proposed projects might be consolidated. More extensive project proposals for work deemed to be worth pursuing will likely be presented at the June meeting for final approval.

The Secretariat has proposed the following projects for consideration:

1. Diversification between public and private pensions
2. Cost of running funded private pension
3. Conflict of interests in pension advice
4. Facing the challenges of a low return environment
5. Improving the structure of the pay-out phase of pensions
6. Continuing with the discussion about the need to adjust the classification of private pension plans
7. Agency problems, asymmetric information and governance

Only No. 3 on the list has been developed in any depth. This is due to the strong interest of DOL in this issue and their role in the US delegation.

[The OECD report distributed at the meeting is available here.](#)

[A more extensive summary and the Council's comments, forwarded to DOL, are available here.](#)