



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 2018 MEETING OF THE OECD WORKING PARTY ON PRIVATE PENSIONS

[The Organization for Economic Cooperation and Development's \(OECD\) Working Party on Private Pensions \(WPPP\) held a meeting this past June](#) at the OECD headquarters in Paris, France. As in recent years, the session 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 by a conference entitled "Consistency Amid Complexity: Navigating the Future of Pensions" organized by the International Network for Pensions, Aging, and Retirement Research (INPARR), a consortium of research and policy analysis institutions undertaking work on aging and retirement income.

The OECD is an international organization established after World War II, comprised primarily of the governments of developed (and traditionally predominantly European) nations to discuss and develop common policies regarding numerous economic matters and financial systems (e.g. banking, insurance, etc.). The hope is to have the member countries, to the extent feasible, adopt consistent public policies. Increasingly, other nations have joined the OECD or have observer status. Consequently the research performed by, and the policies adopted by, this body can have direct and significant implications – positive or negative – for U.S.-based companies operating outside the United States.

The U.S. delegation's participation in OECD committees related to pensions and insurance is led by officials from the Employee Benefits Security Administration (EBSA)

of the U.S. Department of Labor. The American Benefits Council serves as a private sector advisor to the U.S. delegation. Richard Hinz, Senior Advisor to the Council (and former chairman of the Working Party on Private Pensions when he served in the U.S. Department of Labor (DOL)), attended the meetings representing the Council.

As is clear from the discussion below, the OECD's WPPP is actively engaged in a wide variety of matters related to pensions. Since many of the OECD's findings make their way into public policy proposals, it is vitally important for the U.S. delegation to engage in these matters on behalf of U.S. sponsors of retirement plans operating globally. The Council is privileged to be a resource in that effort.

Please note: The agenda and the documents from the WPPP 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 the documents but are requested not to cite or distribute them until they are published by the OECD. Those in the public domain are available on the OECD website as noted. The INPARR conference documents are available at the link to the OECD website shown later in this document and should now be in the public domain.

This Benefits Passport provides a summary of the main topics addressed at the WPPP meeting and includes links to the specific documents that are discussed. As we have done over the past several years, the Council has reviewed and prepared comments on OECD-proposed research, publications and policies. These comments are then provided to DOL for its consideration in developing the U.S. delegation's formal transmission to the OECD. Broader participation in this private sector review process is encouraged. Council members interested in learning more about the OECD's activity or in engaging in the review and comment process should contact Hinz at rhinz@abcstaff.org.

The title of each section below links to the draft paper or proposal. Following each section is a link to the Council's draft comments that were transmitted to DOL.

I. DRAFT PAPERS REVIEWED AT THE MEETING

[Can Countries Improve the Design of Financial Incentives to Promote Retirement Savings?](#)

This paper summarizes the work that the OECD has undertaken over the past four years evaluating the role and impact of tax and other financial incentives provided by governments in OECD member countries to extend coverage and participation in supplementary retirement savings, including but not limited to employer sponsored plans. The individual papers addressing a number of papers that have been reviewed by the WPPP over the past several years are now being prepared for publication in a monograph that is expected to be released at the December meeting of the WPPP. The

summary of the work is intended to be a chapter in the biennial OECD publication “Pensions Outlook” that is also scheduled for release in December.

This document is presented in six sections. The first summarizes the main forms of tax and financial incentives for retirement savings. This indicates that the most prevalent form of tax incentives is what is provided in the U.S. and is designated as the EET design in which contributions and investment earnings are exempt from income tax (subject to limits) and distributions are subject to ordinary income tax. All of the potential variations on this structure except taxation at every stage (TTT) are found in OECD countries; with some using the equivalent of a Roth-type design (TEE) and two (Bulgaria and the Slovak Republic) offering tax exemption (EEE) for all three phases. Several variations on a matching contribution design and fixed nominal government contributions are also found.

The next three sections provide comparative analysis using a variety of metrics developed by the OECD. They seek to measure the financial value to a hypothetical average worker of saving in a tax preferred retirement plan in comparison to an investment account affording no tax advantages. The paper reviews the literature and recent research on the effectiveness of incentives in extending retirement savings, and provides analysis on the long term fiscal effects of tax incentives.

These find wide variation on the value of incentives arising from the interaction of different designs and income tax regimes. The U.S. is deemed to be roughly at the middle of the distribution in the measured generosity of tax incentives. The literature on effectiveness finds wide variations in outcomes but overall a positive impact in raising the level of retirement savings noting that the potential impact of income tax incentives is less for lower income groups who are found to be more likely to respond to matching contributions or nominal incentives like fixed payments. Long-term fiscal effects are found to be close to neutral due to the recovery of tax expenditures as systems mature, but to be subject to meaningful effects when significant demographic changes occur. The U.S. is found to have fiscal effects in the middle of the range of OECD countries although the total contributions to retirement savings plans as a share of GDP are considerably higher in the United States.

The final two sections of the paper review the pros and cons of various approaches and offer some conclusions and policy recommendations. The first of these sections notes the long-term equivalence of a traditional or Roth design when income tax rates remain constant, as well as the impact of new findings in behavioral finance that suggest the value of matching designs while also noting the complexity of potential design elements and differences in the impact related to income. The final section suggests the importance of providing financial incentives, the need to take a long-term fiscal perspective in evaluating costs and outcomes and the importance of considering alternative forms of incentives to reach individuals with lower earnings and non-traditional work patterns. Absent from this discussion, which is noted in the Council’s

comments, is conditioning the level and availability of tax incentives on coverage and participation.

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

- [June 2018 OECD WPPP Council Comments: Can Countries Improve the Design of Financial Incentives to Promote Retirement Savings?](#)

Lessons from Centralized Investment Institutions

This paper attempts to apply the OECD's "Core Principles of Private Pension Regulation" to the governance and investment policies of ten large public institutions. Four of these are sovereign wealth or public reserve funds and six are large publicly managed pension funds including the U.S. Thrift Savings Plan (TSP) that provides a savings vehicle for employees of the federal government. The review finds a common and generally effective application of the basic principles of governance set forth in the guidelines. It finds a similar adherence to the general investment guidelines in the establishment of written policies, implementation guidelines and investment options provided by the pension funds.

This paper concludes that these large public institutions are operating in congruence with the very general OECD guidelines and provide a useful example of effective policies and procedures for other pension funds. These findings are of limited relevance to the United States which has well elaborated fiduciary and governance requirements for employer sponsored funds that are consistent with the guidelines. This paper is also proposed for inclusion in the next edition of "Pensions Outlook."

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

- [June 2018 OECD WPPP Council Comments: Lessons from Centralized Investment Institutions](#)

Effective Approaches to Improve Retirement Incomes in the Context of Low Levels of Financial Literacy and Behavioral Biases

This paper provides an overview of the issues arising from observed behavior of individuals in making retirement savings decisions and an overview of the relevant literature on behavioral finance and how this may be applicable to the design of pension systems. This represents an effort to link the OECD's work on private pensions to its related role in the sponsorship of the International Network on Financial Education (INFE). The paper reviews motivation for, and experience in the use of, design features like automatic enrollment, defaults, presentation of information, choice architecture, financial incentives and financial education in relation to retirement savings program that are supplemental to public pensions.

The paper provides a very compact and useful summary of the challenges faced by pension systems and how these relate to the emerging field of behavioral economics. It discusses the experience in a variety of settings on how various behaviorally oriented design features have sought to address these challenges (much of which is derived from employer sponsored plans in the U.S.), and a summary of the more important research work in this area. The paper concludes with some general observations and policy recommendations that emerge from the experience and evidence. The paper is intended to be published in the December 2018 edition of “Pensions Outlook.”

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

- [June 2018 OECD WPPP Council Comments: Effective Approaches to Improve Retirement Income in the Context of Behavior](#)

[Pension Costs in the Accumulation Phase: Policy Options to Improve Outcomes in Occupational Schemes](#)

This paper is an attempt to review the evidence and theoretical issues related to the measurement and control of administrative costs and charges for occupational pension plans (or schemes in the British vernacular). The paper is quite broad in scope and primarily addresses the theoretical issues providing some limited sources of data on the type and level of costs across a wide range of system designs and settings. The underlying premise of the analysis, as is stated at a variety of points in the presentation, is that disclosure and market competition has been ineffective in controlling costs. However, there is little evidence supporting this contention and a central point of the discussion is that the variance in designs and circumstances make cost benchmarking a challenging and uncertain endeavor. The paper provides an extensive theoretical discussion of the relevant issues and a survey of some of the more prominent and widely varying initiatives countries have undertaken in their efforts to improve the cost effectiveness of private pension fund administration. This paper is planned for publication in the “Pensions Outlook” volume in December 2018.

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

- [June 2018 OECD WPPP Council Comments: Pension Cost in the Accumulation Phase](#)

[The Role of Supplementary Pension Provision in Retirement](#)

This paper provides a theoretical overview of the main issues related to the integration of public programs and supplementary (including employer sponsored) pensions into a national pension system. It reviews the diverse distribution of public and private sources of retirement income in OECD countries and discusses the theoretical arguments for diversifying the sources of retirement income provision and

the potential role of different elements (e.g. earnings based public systems, individual accounts, employer sponsored programs) as well as the issues related to Pay-As -You-Go versus funded designs. The discussion breaks no new ground on a topic that has been extensively discussed in numerous publications over the past thirty years but provides a reasonable introduction to the major issues. It was apparently undertaken at the behest of the European Commission which continues to have an interest in the topic. The paper is also proposed to be included in the “Pensions Outlook” volume.

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

- [June 2018 OECD WPPP Council Comments: The Role of Supplementary Pension Provision](#)

[Big Data and Annuities](#)

This paper continues the extensive work the OECD has undertaken in recent years to examine how annuity products can be better designed and integrated into Defined Contribution pension systems to translate account balances into lifetime income and manage longevity risk for participants. It provides a largely theoretical discussion of the potential for larger datasets to enhance the capacity of annuity markets to provide innovative products that are better tailored to the needs and circumstances of diverse segments of the population and mitigate some of the unintended distributional outcomes observed in current markets. It provides a useful introductory framing of the issues that may be used to extend the work into more empirical analysis and the formulation of policy recommendations.

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

- [June 2018 OECD WPPP Council Comments: Lessons from Centralized Investment Institutions](#)

[Design of Pension Arrangements to Mitigate Longevity Risk](#)

This paper is also an extension of the work on annuities. Although the title suggests an exclusive focus on longevity risk the paper provides a much broader overview of the various kinds of risks attendant to pension products and the different ways in which these risks are distributed and managed in a number of designs. It includes a discussion of cash balance plans in the United States and how these have reallocated risks among sponsors and participants although there are several misconceptions in this discussion that will need to be corrected. The paper provides a useful introductory framework for consideration of risk allocation in system design that may be further developed as a basis for some future policy recommendations.

II. PROPOSED NEW PROJECTS FOR FUTURE WORK

Three new project proposals were presented by the OECD secretariat for consideration to be included in the WPPP's future program of work. Decisions on the adoption of the proposals are pending.

The Council provided written comments to DOL on all of the proposed new projects:

- [June 2018 OECD WPPP Council Comments: Project Proposals](#)

[The Role of Employers in Saving for Retirement](#)

This project is of great interest to the Council and would essentially extend to a more international context the recent work on the role of employers that was previewed at the Council's 50th anniversary symposium and will be published shortly in a document entitled "American Benefits Legacy: The Unique Role of Employer Sponsorship". The project would fill a major gap in the OECD's work on private pensions by undertaking a more comprehensive review of the role and outcomes achieved by employer sponsored plans and how these fit into a broader national retirement income system. It would also potentially include a review of the issues related to the role of employers in mandatory public auto enrollment systems that have been introduced in several states in the United States. The project proposal can be found here:

[Non-Standard Forms of Employment and the Role of Private Pensions](#)

This project would review the various forms of "non-standard" employment that are extant in OECD countries and consider the challenges and possible solutions to increasing retirement savings among these groups. This would use a broad definition of "non-standard" to include self-employed, independent contractors, Platform (sometimes called "gig") workers, as well as part-time and seasonal workers. This topic is also of great interest to the Council and is profiled in the Council's NEXT (New Economy Transformation) Center. This OECD project has considerable overlap with the initiative on the role of employers and may be combined into a single project. The project proposal can be found here:

[Aligning the Investment Performance of Pension Funds with Pension Objectives](#)

This project would seek to review the relevant issues and propose innovative performance benchmarks that would explicitly consider the long-term objective of retirement savings accounts to provide income in retirement in assessing their shorter term strategies and investment performance.

III. INPARR INTERNATIONAL RESEARCH SEMINAR: CONSISTENCY AMID COMPLEXITY: NAVIGATING THE FUTURE OF PENSIONS

As noted above, following the WPPP meeting a research seminar was held, hosted by the International Network for Pensions, Aging, and Retirement Research (INPARR) in which presentations of academic research organized around the theme “Consistency amid Complexity: Navigating the Future of Pensions and Retirement.” INPARR represents collaboration between the ARC Centre of Excellence in Population Ageing Research (CEPAR) (Australia), the Pension Research Council at the Wharton School of the University of Pennsylvania (USA) and Netspar at Tilburg University (The Netherlands). The program for the seminar is included in the agenda for the meetings. Presentations and background documents may be found [on the OECD’s INPARR website](#).

The seminar included presentations of research on the investment patterns of pension funds, the use of information on Environmental, Social and Governance (ESG) factors by pension funds. It also highlighted innovations in pension system design and communication, the potential effects of income and longevity difference on pension outcomes and issues related to developing effective savings vehicles for contingent workers.