Good practices for designing, presenting and supervising pension projections

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Pension projections can be a powerful tool to manage expectations of pension plan members and influence their retirement decisions (e.g. the chosen contribution rate, length of saving time, level of risk). Projections can educate members about likely values of their future retirement income and effects of retirement decisions taken. However, pension projections may also pose several risks that relate to improper methodology and assumptions or improper communication.

Issues related to forecasting and communicating future retirement benefits span across pension policymaking and supervision with different regulatory and supervisory frameworks. In some jurisdictions, pension supervisors have the explicit mandate to supervise, and sometimes standardise, various stages of projection activities by pension plans, providers or funds, i.e. their design (methodology, assumptions), delivery modes (traditional and electronic), disclosure of information, as well as ways the results are presented and explained to the pension plan members. The IOPS Good Practices on the Role of Pension Supervisory Authorities in Consumer Protection Related to Private Pension Systems (2018) encourage the provision of meaningful pension projections and emphasize the role of pension supervisory authorities in identifying the best way and format to convey pension projections to members and ensuring that clear rules for pension projections are in place[1].

These good practices relate to pension projections from funded pillars and aim to outline and provide suggestions on the most important issues from the perspective of pension supervisors. They are voluntary in nature. Where the language used in the good practices tends to be directive (such as the word "should"), it is to be interpreted as an encouragement to pension supervisory authorities[2] to voluntarily adopt and implement them. Since these good practices only serve as a benchmark reference for all jurisdictions, the question of how to best apply them in practice should take into account specific conditions and circumstances of each jurisdiction. The term "users" denotes anybody who receives pension projections or uses on-line pension projection tools.

1. Design of pension projections

1.1. Methodology and assumptions should be made available to the users, in particular the data related to the assumed rates of return on assets, contributions paid during the year, real wage growth, inflation rate, costs of pension plan accumulation and retirement products, assumed expected length of remaining life (longevity). Where relevant, the users should also be provided with the information on full or partial guarantees, and funding level of pension plan. If stochastic models are used, assumptions should be relating to the variability of the main variables, and at least for asset returns, should be established and clearly communicated.

1.2. Methodology and assumptions should be standardised as far as possible to allow comparability of different projections, avoid potential for miscommunication and facilitate supervision. Ideally, uniform methodology and assumptions across different providers within the same jurisdiction should be achieved which would allow users the opportunity to make valid comparisons across providers.

1.3. Pension projections should be made available on websites of pension plans or pension providers. Users should be able to modify the assumptions to understand range of possible outcomes.

1.4. There could also be a single electronic website developed, if appropriate and feasible, (by public and/or private sector) in which forecasts of retirement income from different pension pillars, based on

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[1] See Annotation 17, http://www.iopsweb.org/IOPS-Good-Practices-Consumer-Protection.pdf
[2] And, where relevant, to any other stakeholders.

either projection documents for each user or personalised data inputted by the user, will be put together and presented in a comprehensive way.

1.5. Projections should be personalised as much as possible to provide meaningful information to individuals. Therefore, projections should use administrative data that characterises the users (e.g. age, contributions value, contributions history and density, wage growth, fund returns).

1.6. Projections should take into account all costs, including of investment and, if possible, costs of retirement product that will be purchased by the user.

2.   Presentation of pension projections

2.1. Forecasted values should be expressed in real terms and should present future lifetime monthly income rather than solely in the form of value of accumulated assets. Additionally, replacement rates may be used. Presentation of information in the form of text, graphs, as well as text and numerical tables should be considered. Government authorities and/or pension providers should engage in extensive consumer testing to identify the ways of presenting projections that are best understood by users. In addition, government authorities and/or pension providers should conduct thorough and ongoing testing and monitoring of any projection tools, including whether and how they influence users' behaviour, to understand whether projections work as intended and to be ready to adjust the tools if issues are identified[3].

2.2. A stochastic calculation method used for projections can offer more insightful estimates and, if designed appropriately, may more efficiently convey the concept of uncertainty to users by illustrating the range of potential outcomes. Deterministic projections, if adopted, should provide a range of results rather than a single number. Use of scenarios (e.g. pessimistic, most likely, and optimistic) should be considered to illustrate the width of the potential outcome range and the sensitivity of results to particular assumptions.

2.3. Projections could include information on how close the user is to the desired level of pension benefit. Projections could also provide results for different intervals (e.g. 10-years or 20-years horizons) or where applicable, for early, normal and late retirement. This would help the users better evaluate and devise their medium – long-term pension investment strategies.

2.4. Projections should include a reference to the methodology and assumptions used in the calculations.

2.5. Projections should be accompanied by a disclaimer indicating the uncertain nature of forecasted results and a statement that projected benefits are shown in today's currency. The disclaimer may also indicate whether other sources of retirement income were used for projecting benefits. The disclaimer is also needed to explain that the projection is not a pension "promise" by the pension plan or regulator. This is particularly relevant for individualised projections. The disclaimer should emphasize that the assumptions on returns, and other parameters used would only affect the amount of projected benefits but not the actual pension benefits being paid to members.

2.6. Potential outcomes should be clearly distinguished between guaranteed and non-guaranteed payments.

2.7. Results should be accompanied by information illustrating what decisions the user can take (e.g.

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[3] Testing is important not only to understand whether the intended aim is being achieved, but also to ensure there are not any unintended consequences in the way some users apply the information that may in fact end up causing harm. This is particularly relevant when behavioural approaches are deliberately employed in the design and framing of information.

increase contributions, postpone retirement, choose retirement product) and what might be the expected effect of these decisions (e.g. how an increased contribution might affect the retirement income of a person who receives projections). In particular, users could receive guidance about the contribution level that might be expected to achieve their retirement goals, under a specific set of assumptions.

2.8. Results should also be accompanied by information about tax treatment provisions.

2.9. Providers of projections should consider grouping presented information and explanations in different layers, according to their importance and complexity.

2.10. Projections should be delivered by post or electronically on a regular basis (for instance yearly). In addition, some life events (e.g. joining or withdrawing from the pension plan, reaching particular round-number birthdays or a particular pre-retirement age) could be considered as opportune moments for providing additional communication.

2.11. Provisions should be made for user feedback or query and a disclaimer be added to state the user can seek redress from pension providers' actions with the help of relevant authorities.

2.12. In case of on-line projections, inputs should be prefilled with default values to help the users. However, there should be some interaction allowed for the users to change key input values (such as expected returns, contribution level, length of saving horizon, costs, type of retirement product) in order to allow them to see the effect of their decisions on the likely value of their future retirement income. Graphic illustration of results and some layered explanation should be considered.

3. Supervision of pension projections

3.1. In jurisdictions where pension providers are permitted to offer pension projection tools, pension supervisory authorities should have a mandate (i.e. supervisory and regulatory power) and capacity for supervising issues related to pension projections or have a power or proper mechanisms put in place to allow relevant authorities to intervene.

3.2. Provisions should be made for information sharing where projections may require cooperation between different pension supervisory authorities and/or cross-jurisdictional information sharing.

3.3. Pension supervisory authorities should require pension providers to help users understand the meaning of the likely values of their future retirement income and effects of retirement decisions taken by making available tools, either developed internally or provided by third parties, for members to make these projections. Pension supervisory authorities should promote development of projections or projection tools, possibly by pension plans or pension providers so that they could serve as a frame of reference for the supervised institutions. Pension supervisory authorities and the supervised institutions should review and update the methodology and parameters adopted in their pension projections or projection tools regularly.

3.4. Pension supervisory authorities or other relevant authorities should consider developing or encouraging industry associations of providers to develop standardised methodology and assumptions for use by providers. Pension supervisory authorities should also consider whether it is appropriate to issue guidelines on pension projections. The guidelines would indicate methodology, assumptions and, if relevant, required information disclosure and forms in which projected results are presented to users.

3.5. If not standardised by pension supervisory authorities, other relevant authorities or industry associations, methodology and assumptions developed by supervised entities should be set according to the prudent person rule. Providers of projections should disclose the methodology and assumptions used for pension projections and be able to explain why they chose a particular methodology and, if this

is the case, why their assumptions differ from typical market expectations developed by others. Pension supervisory authorities should expect that the methodology and assumptions will be adjusted promptly should any significant change in legal framework or market situation occur.

3.6. Pension supervisory authorities or other relevant authorities (e.g. conduct authority) should have a power to ban misleading market communication practices. If not standardised by pension supervisory authorities, some self-regulation of the market (in terms of good practices) in the area of communication should be promoted and expected.