ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS

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PRIVATE PENSIONS AND POLICY RESPONSES TO THE FINANCIAL AND ECONOMIC CRISIS

The current financial crisis has had a major impact on global pension assets, with the OECD estimating declines of $5.4tn (over 20%) at the end of 2008. This is putting pressure on funding levels for defined benefit pension plans, and has served a severe blow to members of defined contribution (DC) plans close to retirement, denting confidence in many DC systems.

Policy responses to the crisis have been diverse. Representatives of the Organisation of Economic Coordination and Development (OECD) and the International Organisation of Pension Supervisors (IOPS) examined these responses in light of their international guidelines and best practices, making the following recommendations in their Working Paper *'Private Pension and Policy Responses to the Crisis'* released today:

- **Stay the course: complementary private provision for retirement is a necessity**

- Some governments are being pressured to retreat from private pension…
- …but public PAYG systems face sustainability problems given ageing populations and are also affected by crisis
- Private pensions still have a major role to play to maintain balanced sources of retirement income

- **Saving for retirement is for the long-term**

- Some flexibility allowing access to pension assets may be necessary in difficult economic times...
- …but should be strictly controlled to avoid too much ‘leakage’ from the system
- Reducing contributions also risks creating a long-term shortage of pension assets

- **Supervisory oversight should be proportionate, flexible and risk-based**

- Monitoring of pension funds has been raised by most authorities (via stricter stress testing, more frequent on-site visits and increased reporting)
- Coordination – with industry, government ministries and other regulators - has also been stepped up
- Supervisory oversight should be risk-based, focusing on the main threats facing pension fund beneficiaries and the pension system as a whole

- **Funding and solvency rules for DB plans should be counter-cyclical**.

- Flexibility in meeting funding requirements has been shown by authorities (longer time for recovery plans etc.)…
- …thereby avoiding ‘pro-cyclical policies’ and allowing pension assets to act as long-term investors and potentially stabilizing forces within the global financial system
- Debate has also reopened over whether mark-to-market accounting rules should be suspended

- **Use the safety net to address issues of insufficient income at retirement.**

- Public provisioning should provide adequate pensions for low income workers
- ‘Top ups’ for DC accounts are hard to administer affordably or fairly
- Incentives to keep working and to increase contributions should be considered to help rebuild pension assets

- **Improve the design of DC plans, including default investment strategies.**

- Default, life-cycle funds can help protect those close to retirement
- Guarantees for DC accounts may be considered – but it is unclear what level is necessary or who would pay for these?
- Flexibility should be allowed in the timing of annuity purchases

- **Improve the governance and risk management of pension funds**

- Some of the loss in pension assets may have been due to exposure to too risky investments – implying that pension fund risk management needs to be strengthened
- Some pension funds were also exposed to assets which were not fully understood – showing that pension fund governance needs to be improved

- **Step up disclosure and communication and Improve financial education**

- National campaigns to explain the long-term nature of pension assets are required to rebuild confidence in pension systems
- Better disclosure of performance/ costs etc. is also necessary
- Financial education is needed to help improve the understanding of investing, risk and return etc.

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Notes for Journalists

The Organisation of Economic Coordination and Development (OECD) is an international organization that brings together the governments of countries committed to democracy and the market economy from around the world to support sustainable economic growth; boost employment; raise living standards; maintain financial stability; assist other countries' economic development; and contribute to growth in world trade. The Organisation provides a setting where governments compare policy experiences, seek answers to common problems, identify good practice and coordinate domestic and international policies

Further information and the Working Paper can be found on the private pension's page of the Organisation's website www.oecd.org/daf/pensions

The International Organisation of Pension Supervisors (IOPS) is an independent international body representing those involved in the supervision of private pension arrangements. The Organisation currently has over 60 members and observers representing supervisory bodies from around 55 countries and territories worldwide - from Australia to Zambia - covering all levels of economic development and bringing together all types of pension and supervisory systems.

The major goal of the IOPS is to improve the quality and effectiveness of the supervision of private pension systems throughout the world, thereby enhancing their development and operational efficiency, and allowing for the provision of a secure source of retirement income in as many countries as possible.

Further information and the Working Paper can be found on the Organisation's website www.iopsweb.org

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