ROUND-TABLE DISCUSSION:  
The Endgame: Retiring with Dignity  
Overview of Pension Systems  

Pablo Antolin-Nicolas, OECD
Objective of this roundtable

- Discuss how different pension systems go about at providing income at retirement (pensions): Canada, Japan, Sweden, USA
- I first provide an overview of pension systems across OECD countries, by
  - Reviewing objectives of pension systems
  - Presenting criteria to assess different pension arrangements
Three main objectives of pension systems

1. Avoid people falling into poverty at old age
2. Redistribution
3. Save for retirement
   - Objective 1 & 2: safety net (minimum pension, basic pension) to maintain certain level of income at retirement. Financed from the General Budget (taxes). Not enough
   - Objective 3: make sure people set money aside regularly (e.g. every month) during their working life to finance their retirement
Criteria to assess different pension arrangements

1. Whether they are mandatory or voluntary
2. How pension benefits are financed
   - PAYG: with current contributions
   - Funded: with assets accumulated
3. Relationship btw contributions and pensions
   - Pension benefits are pre-defined (e.g. public pensions, funded DB pension plans)
   - Pensions benefits depend on the amount of assets accumulated at retirement (e.g. DCs, 401(k)s, IRAs, RSPP, Riester, PERCO, PP, ATP, UK auto-enrolment, CEE, individual accounts)
4. Whether there is an employment relationship
   - *Occupational*: access through the employer.
     They include employer-sponsored plans, and plans where employers are responsible for any shortfall; they could include plans where employers just make contributions, or just administer employees’ contributions.
   - *Personal*: access is not through an employer relationship

5. Who bears the risks
   - The employer (employer-sponsored DB plans, the State as an employer, and some plans in which benefits depend on assets accumulated with employer guarantees)
   - The individual (DC plans)
   - The tax-payer (PAYG public pensions, Social Security)

6. Who manages the plans: public or private
Pension systems across OECD countries

- All countries have a combination, just changes the weights
- All countries have PAYG financed public pensions (Social Security).
  - With a minimum/basic pension (safety net), and/or contributory component
- All countries have funded pensions
- Occupational defined benefit plans either mandatory (e.g. Netherlands) or voluntary (e.g. Canada, Germany, Finland, UK, USA)
- Occupational defined contribution plans either mandatory (e.g. Australia, Chile, Baltics, Mexico, Sweden) or voluntary (e.g. Canada, Czech Republic, France, Germany, Slovak Republic, Poland, UK, USA)
- All countries funded personal pension plans, always voluntary
Replacement rate PAYG public pensions

Source: OECD, Pensions at a Glance, 2013
Replacement rates (Total)

Source: OECD, Pensions at a Glance, 2013
Assets in pension funds (% GDP)

Source: OECD, Global Pension Statistics
Main problems going forward

- Shift from DB (benefits pre-defined, employer bears risks) to DC plans (uncertain pensions, individuals shoulder most of the risks)
- (+) Direct and straightforward link between pension benefits and contributions => No financial sustainability problems (DBs)
- (-) There is not a promised retirement income any longer.
- (-) Individuals are now exposed to many risks, and they may not be best prepared to bear them: low financial literacy
- Low contributions
- Adequacy
  - OECD Roadmap for the Good Design of Retirement Saving Plans
- Demographic: people living longer
  - Policy options to address longevity risk
ROUND TABLE DISCUSSION:  The Endgame – Retiring with Dignity
Current & Future Agenda in Pension Fund Scheme in Japan
Short-term slow movement but Long-term improvement

Sadayuki Horie
Senior Researcher and Deputy Chairman of Investment Committee GPIF
Nomura Research Institute (NRI), Tokyo
Overview of Pension Scheme in Japan
Public Pillar is dominant plan in Japan

<table>
<thead>
<tr>
<th>Public Pillar</th>
<th>Occupational Pillar</th>
<th>Personal Pillar</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Basic Pension</td>
<td>● Voluntary</td>
<td>● Tax incentives</td>
</tr>
<tr>
<td>● Earnings-related (employers may partially contract-out)</td>
<td>● DB and DC occupational pension plans</td>
<td></td>
</tr>
<tr>
<td>● 65 (Men and Women: in transition)</td>
<td>● In DC: contribution rate employee ≤ contribution rate employer</td>
<td></td>
</tr>
<tr>
<td>● Contribution Rate (8.383% Employee, 8.383% Employer, for private company employees)</td>
<td>● Tax incentives</td>
<td></td>
</tr>
<tr>
<td>● Replacement rate (Note) – 62.3%</td>
<td>● Pension Assets (2011) – 17% of GDP</td>
<td></td>
</tr>
<tr>
<td>▶ Will go down to around 50%</td>
<td></td>
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</tbody>
</table>

Reforms on Agenda:

- Public pillar, basic pension (flat-rate part for employees): retirement age increase from 60 to 65 till FY2014/FY2019 for men/women
- Public pillar, earnings-related pension: retirement age increase from 60 to 65 till FY2026/FY2031 for women

(Note) By replacement rate, we mean the ratio of the total amount of pension benefits in the public pillar which an exemplifying couple aged 65 in FY 2009 was supposed to receive in the same fiscal year to the average amount of disposable income of working males in FY 2009. The exemplifying couple consists of a husband who worked for a private company from age of 20 to age of 59 with the salary always being the average of male workers’ and was covered by the social security pension scheme for private employees for 40 years and a wife of the same age as her husbands’ who was always a dependent housewife from age of 20 to age of 59

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The three mutual aid associations are to be merged with the EPI scheme on 1 October 2015. So the schemes for employees are to be unified. Their occupational additions are to be abolished and new occupational pension schemes are to be introduced.

<table>
<thead>
<tr>
<th>Mutual Aid Association</th>
<th>Members (as of the end of March 2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual Aid Association for Government Employees (MAAGE)</td>
<td>1.1 million</td>
</tr>
<tr>
<td>Mutual Aid Association for Local Government Employees (MAALGE)</td>
<td>2.9 million</td>
</tr>
<tr>
<td>Mutual Aid Association for Private School Employees (MAAPSE)</td>
<td>0.5 million</td>
</tr>
</tbody>
</table>

Reform of Pension Fund Management is current most important topic under inflationary scenario.
### 2014 Action Plan Map of GPIF & other related parties

Other uncertainties: Governance structure change?

<table>
<thead>
<tr>
<th>Organization</th>
<th>Time frame</th>
<th>GPIF</th>
<th>Ministry of Health, Labor, and Welfare</th>
<th>Japanese Government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>November 2013</td>
<td></td>
<td></td>
<td>Reform recommendation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Announced infrastructure investments with OMERS etc. in next 5 years (2.7 billion dollars)</td>
<td>● Decided on expected return of GPIF = (wage growth rate) + 1.7% (5 years ago, wage + 1.6%)</td>
<td>Less regulations on GPIF such as cost constraints</td>
</tr>
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<td>Less regulations on GPIF such as cost constraints</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Hired HR consultant (TW)</td>
<td>● Replaced Japanese equity managers to much focus on benchmark agnostic managers, smart beta, quantitative strategies</td>
<td>● Redefined risk tolerance: Probability to fail to outperform wage growth rate in comparison with the probability by the 100% bond portfolio</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>Less regulations on GPIF such as cost constraints</td>
</tr>
<tr>
<td></td>
<td>April 2014</td>
<td>Replaced most investment committee members</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>May 2014</td>
<td>Stewardship code signature</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>June 2014</td>
<td></td>
<td>Finalized ALM study/5 year (decision of risk/return target)</td>
<td>Announce growth strategy of financial industries</td>
</tr>
<tr>
<td></td>
<td>September 2014 to March 2015December</td>
<td>● Hire full-time investment committee members?</td>
<td>Agree on GPIF’s decision of policy asset allocation</td>
<td>Change of GPIF Governance Structure??</td>
</tr>
</tbody>
</table>

(Source) Nomura Research Institute

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Reform Roadmap of GPIF
Hiring full-time experts, diversification to alternative assets, index change ...

<table>
<thead>
<tr>
<th>Portfolio Management</th>
<th>Immediate Actions (March 2014)</th>
<th>Actions after ALM study will be done (2014)</th>
<th>Actions after related regulation changes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>● More flexible portfolio management, higher active weight</td>
<td>● Decision of policy portfolio after ALM study (Autumn)</td>
<td>● Invest to new asset classes (low liquidity, difficult to evaluate values)</td>
</tr>
<tr>
<td></td>
<td>● Change investment return targets and degrees of risk tolerance</td>
<td>● Invest to new asset classes (high liquidity, easy to evaluate values)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Adoption of JPX Nikkei400</td>
<td>● Setting up baby funds</td>
<td></td>
</tr>
</tbody>
</table>

Need for parallel reform between portfolio management & risk management

Risk Management

<table>
<thead>
<tr>
<th>Actions under post-deflationary economy (invest to inflation-linked bonds, risk hedge using derivatives)</th>
<th>Portfolio construction after ALM study and based on forward-looking risk analysis</th>
<th>Advanced risk management treating new asset classes</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Adoption forward-looking risk analysis</td>
<td>● Hiring full-time investment committee members &amp; expert staffs after loosening strict constraints</td>
<td></td>
</tr>
</tbody>
</table>

Governance Structure

<table>
<thead>
<tr>
<th>Adopt mid-long-term performance based fee</th>
<th>Set up independent &amp; expert board of trustee after adequate regulation changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Plan to hire expert staffs</td>
<td></td>
</tr>
</tbody>
</table>

(Source) “Panel for Sophisticating the Management of Public Funds”, 2013 November 20th
Desirable Governance Structure of GPIF
Current goal of Ministry of Health, Labour and Welfare is Pattern 1

Empowered by strong board of directors or investment committee
(Pattern 1)

Minister of Health, Labour and Welfare etc.

Report
Setting the mid-term goals & degree of risk-tolerance
Appointment of the chairman & other board members

Board of Directors

Decision Making
Request for approval of specific investment plans and policies, reporting

Chairman (and CEO), Managing Directors

Investment Management

Investment Committee

Chairman (and other executive officers)

Investment Management

Investment Staffs

Similar to CPPIB
(Pattern 2)

Minister of Health, Labour and Welfare etc.

Report
Setting the mid-term goals & degree of risk-tolerance
Appointment of the chairman & other board members

Board of Directors

Decision Making
Request for approval of specific investment plans and policies, reporting

Appointment of CEO and other executive officers; setting out the fund’s key policies regarding investments; determining specific investment plans and policies; performance assessment; monitoring and oversight

Investment Committee*

Chairman (and other executive officers)

Investment Management

Investment Staffs

Separation of oversight (board of directors) and execution (fund)

(*) The board deliberates and decides on the key goals and main policies such as policy asset mix and asset classes, while more specific investment plan and policies are deliberated and decided at the investment committee consisting of the members of the board and others where appropriate. Establishment of other sub-committees such as risk management committee and governance committee should also be considered.

(Source) NRI based on “Panel for Sophisticating the Management of Public Funds”, 2013 November 20th

Full time managing directors with investment skills can decide on investment decision

Approved in December 2013

Currently try to hire multiple managing directors in investment committee
ROUND TABLE DISCUSSION: The Endgame – Retiring with Dignity

WHAT U.S. STATES ARE DOING

Kathleen Kennedy Townsend
Former Lt. Governor MD, Chair, MD Task Force for Retirement Security
Georgetown University’s Center for Retirement Initiatives
Workers’ concerns over retirement have reached record highs

Percent of workers who are not confident that they will have enough money for a comfortable retirement

Source: Employee Benefit Research Institute and Matthew Greenwald & Associates, Inc., 1993–2013 Retirement Confidence Surveys. Respondents were asked how confident they were in having enough money to live comfortably throughout their retirement years. Workers who are not confident is the sum of workers who responded "Not Too" and "Not At All."
Figure 1: Only Half of Private Sector Employees Have Access to Workplace Retirement Benefits—the Lowest Share Since 1979

Private sector wage and salary workers age 25-64 by employer retirement plan sponsorship, 1979-2011

Source: Author’s analysis of CPS Annual Social and Economic Supplement (ASEC), various years.
Declining Retirement Security

Private Retirement Plan Coverage, 1979-2010

Source: EBRI
2014 State Retirement Security Activity

SB 1234
- State-sponsored payroll deduction
- Pooled assets, professionally managed
- Board preparing to issue RFP for market analysis

Bill Defeated
Bill Passed
Task Force
Bill Pending

Source: SEIU, Rock Creek Group
Building Momentum in States
- Studies and Original Research
- Clearinghouse for existing information

Building Awareness
- Through Media
- Thought Leaders
- Everyday People

Bi-Partisan Advisory Board
- Hon. Richard Mourdock—Treasurer of IN
- Hon. Nancy Kopp—Treasurer of MD
- Hon. Tom DiNapoli—Comptroller of NY
- Hon. Janet Cowell—Treasurer of NC
- Hon. Ted Wheeler—Treasurer of OR
- Hon. Mark Gordon—Treasurer of WY
- Hon. Scott Stringer—Treasurer of NYC
- Hon. Clint Zweifel—Treasurer of MO
- Hon. Bill Lockyer—Treasurer of CA
ROUND TABLE DISCUSSION: The Endgame – Retiring with Dignity

Pension Reform – *The Third Rail*

Jim Leech
Retired President and Chief Executive Officer
Ontario Teachers’ Pension Plan
Father of the “Canadian Model”

- Ranked #1 worldwide:
  - Absolute return
  - Value Add
  - Customer service

Liability management as important as asset management
Over the next 20 years 42% of Canada’s work force will retire

Baby boomers, the 45- to 65-year-olds, will join the largest job exodus in Canadian history, moving to the promised land of retirement.

Unless our crumbling pension system is reformed, many of these retirees will find this dreamland a bewildering and disappointing mirage.
Why is there a problem?

- Low savings rate
- Not dying as fast as predicted
- Low projected investment returns

Against backdrop of:

- Reduced workplace pension coverage
- Many existing plans are not sustainable
Jurisdictions studied:

- New Brunswick
- Rhode Island
- Netherlands

Pensions are the *political issue de jour*
Three recommendations for Canadian system:

• Modest expansion of Canada Pension Plan
  • The forgotten “middle”

• “Redefine” Defined Benefits
  • Appropriate allocation of risk

• “Workable” Defined Contribution Plans
  • Those currently without adequate workplace plan
Defined Benefit plans are superior:

- Compel employees to save
- Broader investment opportunities
- Professional management at low cost
- Pool longevity risk
- Constant asset mix

DB is far less expensive and far more effective than any other pension construct
BUT:

- Many stereotypical DB plans are not sustainable
- Require more appropriate allocation of risk
- Hybrid model
  - Base benefit secure; Additional benefits conditional
  - 50/50 contributions with cap
  - Joint sponsorship
  - Robust funding management policy
  - Removed from collective bargaining

Progressive business/union leaders support
Workable DC plan attributes:

- Enrolment is mandatory
- Large pools:
  - Enhance investment opportunities
  - Lower costs
- Fewer investment choices
- Annuitization
Conclusion:

- Retirement income adequacy is the major public policy issue of next two decades
- Time is of the essence
- Pensions are critical to our economy

Will our government/business/union leaders have the guts to grab the Third Rail?
ROUND TABLE DISCUSSION: The Endgame – Retiring with Dignity

15 Min Case Study: Sweden

Ole Settergren, Director Analysis,
Swedish Pensions Agency
Swedish pensions provision

- Pillar 0 – basic income protection by Guaranteed pension, Housing allowance (and tax deductions and various forms of assistance in kind or reduced prices)

- Pillar 1 – an earnings related public pension “DC” style: one scheme pay-as-you-go (with buffer fund), one fully funded

- Pillar 2 – quasi mandatory occupational pension plans (4 large – private blue collar, private white collar, government, municipalities & regions

- Pillar 3 private pensions (tax favored until 2014, abolished from 2015.)
Pillar flows and stocks in % of total Swedish wage sum*

<table>
<thead>
<tr>
<th></th>
<th>Premiums</th>
<th>Funded assets</th>
<th>Pensions paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public (0-pillar)</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Public earnings-related (1 pillar)</td>
<td>18</td>
<td>100</td>
<td>16</td>
</tr>
<tr>
<td>Occupational (2 pillar)</td>
<td>10</td>
<td>122</td>
<td>5</td>
</tr>
<tr>
<td>Private (3 pillar)</td>
<td>1</td>
<td>28</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>251</td>
<td>26</td>
</tr>
</tbody>
</table>

*In 2012 wage sum was 1467 billions SEK
Strategy 1 – High, costly, forced savings for future pension
Relative importance of pillars in Swedish pension provision, % of total

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<tr>
<td>Public earnings-related (1 pillar)</td>
<td>62</td>
<td>40</td>
<td>63</td>
</tr>
<tr>
<td>Occupational (2 pillar)</td>
<td>34</td>
<td>49</td>
<td>21</td>
</tr>
<tr>
<td>Private (3 pillar)</td>
<td>4</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
Strategy 2 – mix, or mess of all “strategies”

Important tax financed zero pillar – quite cheap (? , 3 % of wage sum) for tax payers due to massive forced savings and quasi mandatory occupational pensions.

DB – under replacement by DC - in Sweden we claim this to be true also for the PAY-AS-YOU-Go financed major part

Major pension provision will always be PAY-AS-YOU-GO …

OECD recommends a pluralistic supply of pensions, public, occupational, private. I agree.

As a result pensions will remain “messy”. While most of us only receive salary from one employer at a time we are saving to future pension, and receiving pensions, from several pension providers.

The “solution” is – holistic pension information … more on that soon
Some arguments for life long forced savings for retirement income

- People in general are irrational, or myopic, or have an “inexplicable” high discount rate for future income relative to income now

- It reduce “free riding” by those who would not save if they are free to decide (given that there exists social ambitions for minimum standard)

- Large compulsory plans reduces administrative costs

- Political economy – democracies tend to introduce earnings-related pay-as-you-go financed pension plans

- To free work places from unproductive older workers in a socially acceptable way
Strategy 3 – significant increased retirement age

<table>
<thead>
<tr>
<th>Born in year</th>
<th>Turns 65 in</th>
<th>Life expectancy at 65 (actual and projected)</th>
<th>Retirement age that neutralizes the effect life expectancy increase has on replacement rate (in DC)</th>
<th>Expected time as retiree from “neutral retirement age”</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>1995</td>
<td>82 years, 5 months</td>
<td>65 years, 0 months</td>
<td>17 years, 5 months</td>
</tr>
<tr>
<td>1945</td>
<td>2010</td>
<td>84 years, 8 months</td>
<td>65 years, 6 month</td>
<td>19 years, 4 months</td>
</tr>
<tr>
<td>1955</td>
<td>2020</td>
<td>85 years, 9 months</td>
<td>67 years, 1 month</td>
<td>19 years, 3 months</td>
</tr>
<tr>
<td>1965</td>
<td>2030</td>
<td>86 years, 9 months</td>
<td>67 years, 9 months</td>
<td>19 years, 8 months</td>
</tr>
<tr>
<td>1975</td>
<td>2040</td>
<td>87 years, 8 months</td>
<td>68 years, 4 months</td>
<td>20 years</td>
</tr>
<tr>
<td>1995</td>
<td>2060</td>
<td>89 years, 2 months</td>
<td>69 years, 4 months</td>
<td>20 years, 1 month</td>
</tr>
</tbody>
</table>

Increase: 6 years, 9 months | 4 years, 4 months | 2 year, 8 months
Strategy 4 – increased transparency

Micro level – detailed, individual and holistic pension information

Macro level – balance sheet for national PAY-AS-YOU-GO scheme & automatic financial balance
Strategy 4 – increased transparency

Micro level – detailed, individual and holistic pension information

Macro level – balance sheet for national PAYAS YOU GO scheme & automatic financial balance