The $500 trillion prize

A customer-centric vision for the global pension and retirement market

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Foreword

Managing demographic transformation, particularly pension and retirement systems, is a pressing challenge for the global economy. Whether examining how best to develop defined benefit or defined contribution-based systems to ensure financial well-being in retirement or safeguarding public sector financial solvency, there is simply no easy solution.

Most attempts at reform have sought to bring together various stakeholders across the board – employees, employers, government agencies and retirees – in an effort to enhance investor education, product selection, efficiency and governance. The goal is clear: implementation of a sustainable system to optimize financial well-being in retirement.

We have intentionally chosen a provocative title for this global pension and retirement market survey. It broadly assumes a global population of five billion people – though not all will retire at the same time. We believe the average person needs at least $100,000* in retirement savings – and considerably more in developed countries. Yet, the current size of the retirement asset pool is less than $100 trillion at most. For this survey, we assume a five-fold increase and project that the total pool of retirement assets will approach $500 trillion over the next decade. Achieving that daunting yet essential goal will be an enormous challenge that demands close partnership among all stakeholders.

Five core questions need to be addressed:

- Who underwrites the financial well-being risks in retirement?
- Who is responsible to drive reform and who will pay for it?
- What governance and incentives are required to deliver predictable outcomes?
- What industry operating model is best suited to optimize the customer experience?
- What regulatory environment is necessary to incentivize stakeholders and most effective to ensure retirement security?

These are not easy questions. There are no simple answers. A wait and see approach is not an option. It means stakeholders add additional trillions of dollars of long-term financial liabilities, providers miss out on significant value add and old age poverty rises again. Potential responses differ from government policymakers, plan executives, trustee boards, pension and retirement product providers (including life insurers and asset managers), and corporate employers. Nonetheless, the prize for solving the challenge of pension reform is enormous: building a better retirement world.

We hope readers across the public and private sectors and the pension and retirement value chain find the insights in this report valuable.

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*All amounts are in US dollars unless otherwise noted.

Executive summary

Governments respond to demographic transformation by attempting to reform pension and retirement systems. The reform process is highly complex and demands making a huge array of choices. Few pension and retirement systems effectively educate and empower all stakeholders about the essential choices involved in retirement planning. Thus, public confidence and choice take-up are limited.

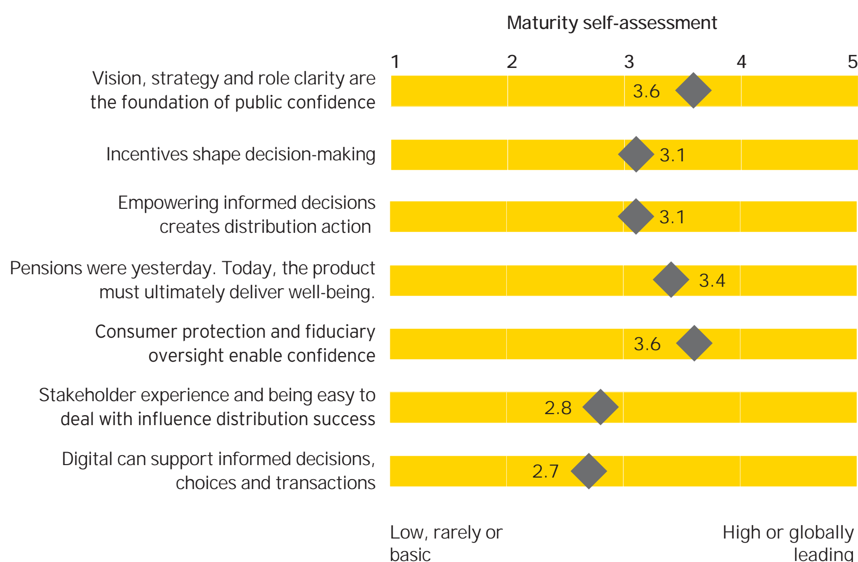
In EY's *Building a better retirement world: Insights for better outcomes in the global pensions and retirement market,* we discussed the broader aspects of the pension and retirement debate and opportunities for providers to address the magnitude of policy reform by challenging key levers and assumptions. The pension and retirement world continues to shift from paternalism to customer-led decisions and choices. This distribution theme is the focus of this year's global pension and retirement market survey.

All stakeholders must step up to the challenge of enhancing and reforming the system of pension and retirement distribution. Many are inadequately prepared and look to governments (and customers) as likely underwriters of last resort for pension and retirement gaps.

We broadly define distribution as the expansion of product offerings by service providers, active well-informed beneficiary participation in those products, and the regulatory environment that ensures transparency, consumer protection, effective incentives and innovation throughout the entire value chain. The biggest challenge facing stakeholders will be the cultural transformation shift from a history dominated by paternalism to a customer-centric world where members and employers have far greater power – and responsibility – to make choices.

> "If I compare our service offerings to peers, I am doing fine. If I compare the services of the entire industry as a whole to where we should all be, we have a long way to go."
>
> US life and pension leader

Figure 1
Seven key findings show stakeholders' maturity self-assessment of their retirement systems



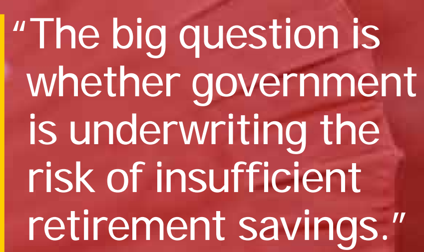
We conducted a global survey of policymakers, regulators, pension and retirement plan trustees and industry executives, focusing on the self-assessed maturity levels of their respective distribution systems. The survey sought to ascertain levels of distribution maturity on a scale of 1 (very low) to 5 (global leader).

As Figure 1 indicates, most responses were in the 3 range, which implies a reasonably high level of maturity. Yet, this self-assessed high level is in stark contrast to the limited pension system structural reform or their public approval around the globe, skeptical public confidence in retirement systems and limited distribution success of widespread participation in retirement plan choices. Opt-out and auto-enrollment are only parts of the solutions, as they work on the same premise they try to overcome: inertia, not informed decisions. Few national retirement systems effectively address the risk of unsuccessful policy reform and, most pressingly, fully understand who will pay for the financial well-being of their retirees. The default answer to the tricky who-will-pay question usually involves some form of increased government spending. A more vocal public debate about public sector financial sustainability may speed the policy reform process.

Product providers surveyed think they have articulated a long-term strategy. Yet, public confidence in retirement systems is still, broadly speaking, limited at best. Far better communication and partnership across the retirement value chain is essential to rebuild public confidence and move toward the $500 trillion goal.

Respondents agree that product providers are still difficult to deal with and offer only limited user-friendly digital interfaces and solutions. An aggressive move into the digital age will enhance client experience, vastly improve investor education and, as such, better empower members to make informed choices.

Clearly, there are many difficult challenges ahead on the long road toward ensuring financial well-being in retirement and building public confidence. The journey will entail a long, evolving process that shifts from a paternalistic model with its high levels of government guarantees and low levels of member empowerment or choice. Ultimately, retirement systems will move toward a customer-centric model where policyholders and beneficiaries make well-informed decisions about their retirement security.



"The big question is whether government is underwriting the risk of insufficient retirement savings."

UK pension executive

About the report

For this report, we conducted more than 200 interviews asking 10 specific questions of top representatives in 21 countries. These included governments, policymakers, regulators and pension industry executives within asset management, insurance and public and private sector pension funds. We aggregated the self-assessments and interpreted the results based on our global experience and qualitative interview comments. The findings are presented on a scale of 1 (lowest) to 5 (global leader), though it is important to note that very few respondents scored themselves as a 1 for any of the categories.

We enhanced the interviews with internal research, insights from our Global Pension and Retirement teams and EY's distribution heat map. The heat map (illustrated on pages 36 and 37) shows short- and medium-term pension and retirement market opportunities globally. EY uses these criteria to assess market size, market demand growth, competitive intensity, industry profitability and market risks. This assists industry leaders and executives in making informed decisions on policy reform and evolving business opportunities.

Policy reform is never easy, but all participants in our survey agree on the need for change. The shift from paternalism and attractive benefits to customer-led decisions on engagement, provider contribution, investment and insurance choices and public approval of reforms is highlighted in Figure 2.

A broad definition of distribution and the 10 elements that will prepare stakeholders for the new world are illustrated in Figure 3.

Figure 2
Balance of power shift from paternalism to a new world of pension and retirement choices

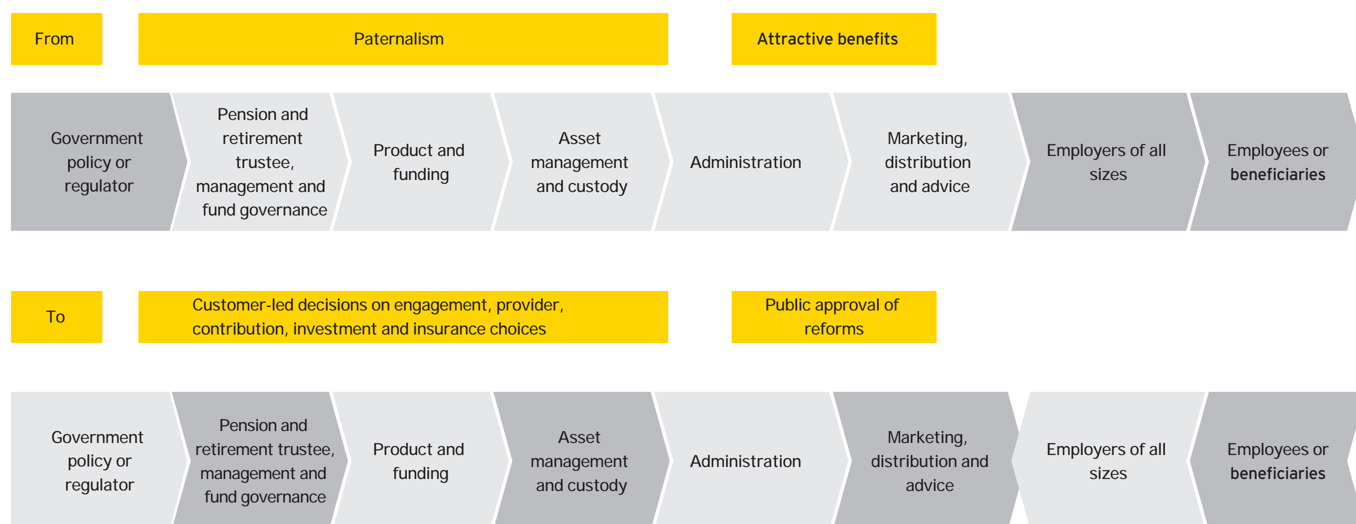


Figure 3
The 10 elements of distribution – are stakeholders prepared for the new world?

- What does this mean for beneficiaries, members and customers?
- What does this mean for different structures and levels of governments and policy makers?
- What does this mean for private and public sector pension and retirement plans and social security agencies?
- What does this mean for private and public sector product providers, including wealth and asset managers, life insurers, etc.?
- What does this mean for large employers, their HR employee benefits polices and pension and retirement plans?

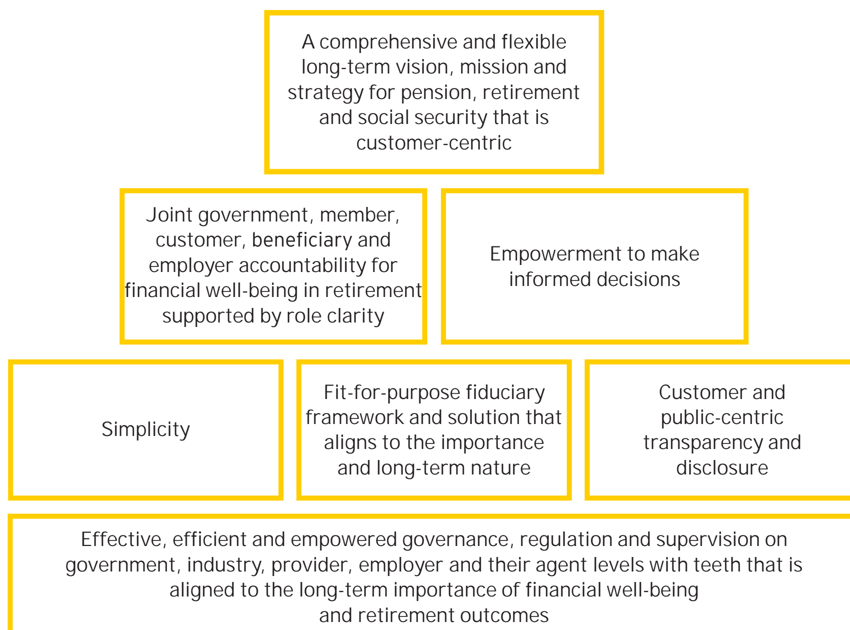
Key findings

Vision, strategy and role clarity are the foundation for public confidence

Many employers and governments make pension and retirement commitments without fully appreciating the long-term financial implications. Demographic transformation, the global financial crisis and public resistance to adjustments forced a major rethink. Paternalism, inadequate governance, and a lack of focus to empower beneficiaries to make informed decisions demonstrate massive gaps in strategy. Leading policymakers and organizations are increasingly aware that they need to shift from a paternalistic perspective to a better understanding of customer needs. Overarching is the government's role as public finance guardian, where long-term social, pension and retirement liabilities play a vital part. Current accounting and regulatory changes in the US and proposed changes across Europe will elevate this role. The upside: this group sets the parameters for the $500 trillion prize. The downside: in many countries, different levels and structures of government underwrite and are tasked with the $500 trillion challenge of ensuring that the means exist to deliver the necessary financial well-being.

Figure 4

What are the seven tenets of successful delivery and distribution of social, pension and retirement policy and solutions?



Strategic clarity enables stakeholders' confidence

All stakeholders acknowledge the long-term nature of pension, retirement and social security. Focusing on the customer or member, as well as the employer, as "contribution administration and remittance agent" uncovers tremendous insights that we define as seven key tenets (see Figure 4). These tenets are vital for delivering successful social, pension and retirement policy.

Rapid change emphasizes a long overdue necessity for a shift in culture and a comprehensive, long-term articulated vision.

More fundamental thinking

Several leading public and private sector pension and retirement providers raise the following strategic fairness and equity issues:

- Who should pay for efforts to invest, and evolve fit-for-purpose solutions?
- Who underwrites the risk of member financial well-being and retirement outcomes?
- How much do people need to address their basic needs?
- Who determines the magic number and how is it measured and monitored?
- Who measures and tracks progress?

Finding adequate answers to these difficult questions limits the debate, which limits progress.

> "Three P's need to align: policy reform, political reality and pragmatism"
>
> Leading global life insurance executive

Study responses: A step change in strategic clarity on system and provider levels is vital.

Policymakers indicate a significant need to further improve long-term strategy. As shown in Figure 5, only two-thirds of survey respondents have a clearly defined long-term strategy, though responses vary on a country-by-country basis.

There is also a need for more clarity and alignment of interests. Customers, employees and beneficiaries rarely differentiate among The World Bank's three pillar model for retirement funding. Strategic clarity and alignment among these different pillars will reduce complexity and increase transparency and confidence.

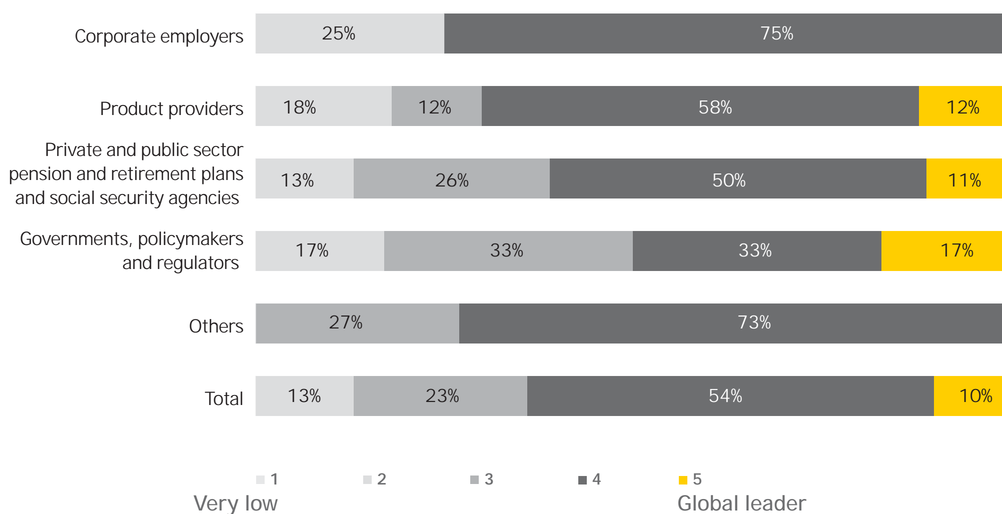
EY point of view

Pension, retirement and social security policies and solutions evolve and mature. The discipline to clearly define and articulate the purpose and long-term vision is critical. Using country or provider peers as the sole reference point supports only a short-term answer that is often politically influenced. The common fiduciary responsibility to "act in members' interest" drives many leading policymakers to look globally and to other industry sectors for guidance.

Private sector providers play a vital role in delivering the strategy, as well as social, pension and retirement policies. Their business strategies must balance maximizing short-term results with the more important long-term goal of successfully optimizing shareholder and member value.

All stakeholders must align and agree upon a long-term strategic policy to restore confidence in the system.

Figure 5
How do respondents view pension and retirement vision and strategy?



2 Incentives shape decision-making

Many countries lack a well-developed, long-term incentive framework to encourage and support accumulation and decumulation of pension and retirement assets or social protection. Three issues highlight this gap:

- The widespread transition from defined benefits to defined contribution transfers risks from employers and governments to individuals through choices.
- Sustainability adjustments to existing systems require public or stakeholder consent or political and legal support.
- Public scrutiny of existing financial retirement or savings support for specific age, life situation or income segments often creates a fierce social fairness debate.

The success of tax-incentive-influenced retirement systems (such as the US 401(k)) shows how such incentives drive member behavior – though time and financial investment is substantial. Slow participation in choices and in many newly developed voluntary systems conversely emphasize the need to consider more parameters for members, employers and providers. For a long time, mandating has been the only promising incentive to deliver timely results. Recent overwhelming success with opt-out, particularly in the UK, demonstrates that other avenues exist to drive "take-up." Reliance on member inertia to opt-out leads to unintended consequences later, as members are not empowered to make informed decisions.

Several key tenets need urgent attention

Three questions increasingly arise:

- Who should pay for incentives for engagement, empowerment and choices?
- Is the distribution of financial incentives fair and reasonable among different stakeholder segments?
- Why do private sector providers (e.g., asset managers or financial advisors) need rewards in the form of cost of capital plus profits from a social service like pension and retirement, and how much is reasonable?

The current debate in several countries indicates three potential issues: (a) communication, transparency or disclosure gaps and lack of understanding of effort; (b) previous absence of a proactive policy debate, solution or governance that may have led to unreasonable behavior of some market participants; and (c) lack of appreciation for commercial reality: private and public sector delivery needs to cover cost and have sufficient surplus to maintain the infrastructure to deliver social policy; the private sector additionally requires compensation for cost of capital.

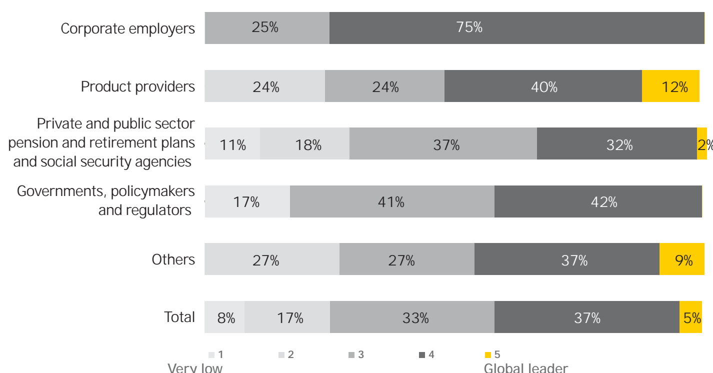
These highly media-attractive debates often erode public confidence and challenge member actions for long periods.

Study responses: Postponing tough reform decisions threatens stakeholders' success.

Incentive maturity generally correlates with overall system maturity, frequency and choice. This differs in many parts of the world and requires more sophisticated solutions.

Historic focus on employee benefits contributes to corporate employers' incentive maturity self-assessment. Leading employers extend their incentive maturity to include their relevant product and service providers, including asset managers and life insurers.

Figure 6
What is the incentive framework maturity across respondent categories?



> "Our current fee debate is only a symptom. The root cause is somewhere else: we never discussed or agreed on our delivery and compensation model for pension and retirement outcomes."
>
> Leading US pension and retirement executive

Opposing incentive maturity self-assessments may escalate or evolve in varying degrees to incentive reviews or reforms in the near future. Incentive adequacy, particularly in a social security context, generates substantial negative media attention globally. This impacts fairness and confidence perception.

The journey toward the $500 trillion goal will impact pension and retirement stakeholders. Benefits from economies of scale in plan administration, investment management and financial advice will pressure pension and retirement plans and product providers to reduce their unit remuneration.

EY point of view

Incentives drive stakeholder behavior. Rapid transformation from the paternalistic model makes incentives a central plank for successful evolution. An effective incentive policy affects all stakeholders in the following ways:

a) Members: Tax incentives may drive participation, but not help members make informed choices.

b) Employers: The role of information and contribution processing agents must change.

Employer incentives must more effectively leverage their trusted role as advisors to engage members in a more effective manner.

c) Public and private sector funds and their product and service providers: All stakeholders need to proactively develop an effective incentive, remuneration and reward framework that encourages sustainability. Reasonable surpluses are essential for all providers to adequately maintain and evolve their infrastructure and capabilities.

d) Governance bodies, policymakers and regulators: Sustainability, efficiency and effectiveness are commonly referred to globally in the industry. These parameters should be expanded to cover incentives for all stakeholders, thus creating better long-term outcomes.

The behavioral and financial change to achieve these objectives will take time to implement.

> "Nobody complains about adequate remuneration for doctors, but people complain universally about paying pension and retirement providers - mostly due to lack of understanding of the effort involved."
>
> Leading Hong Kong pension executive

Empowering informed decisions creates distribution action

Paternalism dominated pension and retirement solutions for two millennia: governments and employers generally paid contributions and carried risks. This limited the perceived need for informed decisions. This paradigm no longer exists in most countries, and the accelerating growth of decisions and choices is shifting most systems from an institutional to a retail business. Adequate empowerment has become a critical element.

Complexity is increasing with the introduction of choices, and the growing importance of decumulation adds another layer. Implicitly, decumulation opens the door to the life insurance and long-term planning universe.

All stakeholders must understand behavioral finance to increase confidence

Most policymakers recognize the importance of decision-making. Auto-enrollment and pre-determined choices are established solutions. Opt-out solutions, based on member inertia assumptions, are rapidly growing in popularity. For some members, those assumptions are incorrect. Leading countries are rapidly embracing the need to fill this enablement and empowerment gap. The converging solutions for pension, retirement and wealth management in several countries are excellent starting points to understand how to empower informed decisions. Recent analytics-based robo-advice solutions are examples of a road map forward.

Few systems and providers realize the importance of adequately empowering employers in the fast-growing world of choices. HR staff is often the first portal for employees seeking guidance. Social validation plays an important role. Much can be learned from the travel, hospitality or life insurance industries. Imagine an independent and trusted retirement adviser platform where members and employers can rate their experiences, search, inform, track and transact. Digital pension and well-being have a significant opportunity to disrupt and transform.

Figure 7
Many dimensions influence ... but what do we mean by successful?

* Customer perspective

Study responses: We must better communicate our self-imposed complexity.

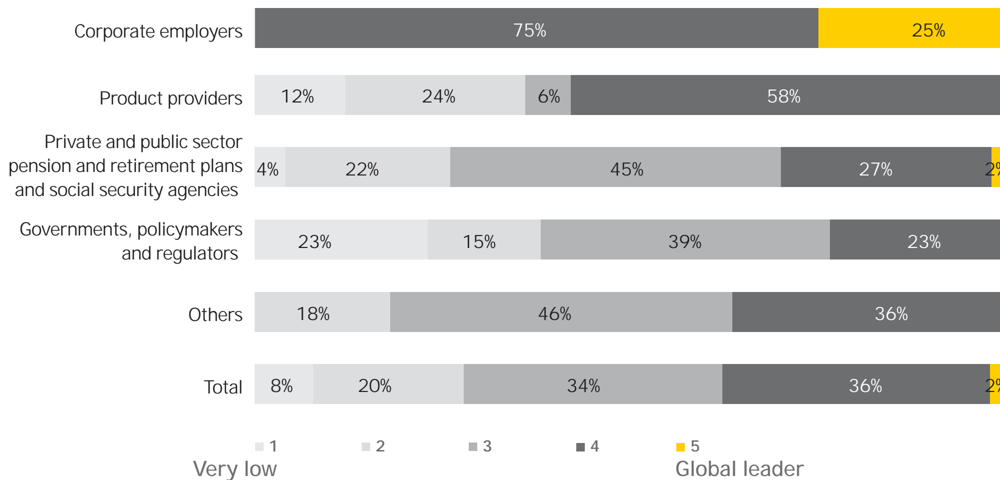
Most participants globally share a diverse assessment of their communication maturity.

Strong intermediation in the US private sector may have raised maturity expectations to differentiate.

Corporate employers are in an easier position as they may benefit from better knowing their employees. Some may have applied lower benchmarks due to the absence of competition.

Many public, and private sector providers, as well as product providers, give themselves high scores.

Figure 8
How do respondents rate stakeholder's communication across categories?



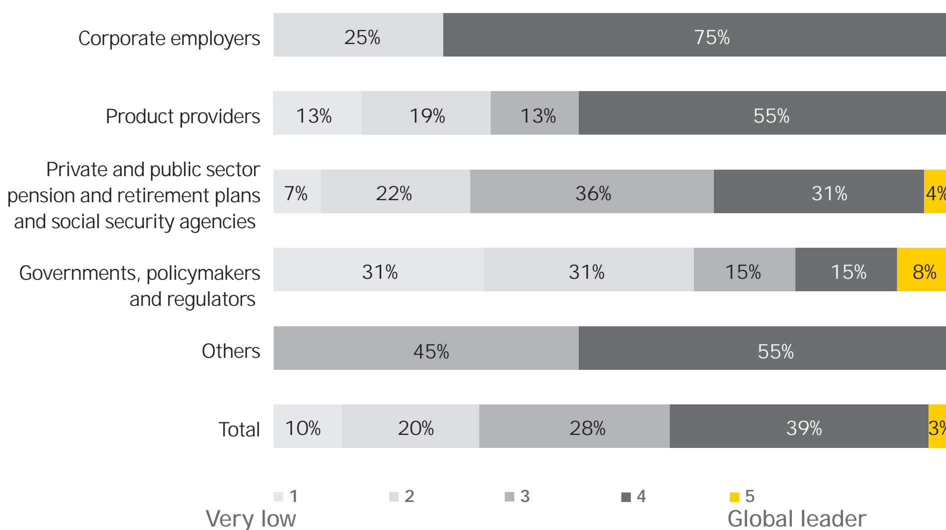
The response diversity indicates that this assessment is not shared by many peers, governments, policymakers and regulators. Moreover, participants' maturity assessment of information adequacy aligns with overall communication. System maturity, reform frequency, breadth, and application of choices correlate with participant responses across different countries.

Most governments, policymakers and regulators acknowledge significant information asymmetry between providers and customers. This impacts long-term, informed decision-making and public confidence. Few leading providers concur with this assessment.

The survey shows a surprisingly large percentage of low policymaker maturity self-assessments. Poor decision-making and limited choice take-up directly impact the success of delivering desired pension and retirement policies and reform objectives. As insurer of last resort, many governments are penalized for their public finance and sustainability. They carry the risk of limited take-up, as well as failed and postponed reforms.

Few leading governments and policymakers act on this crucial point. Many would like to proactively address political and commercial conflicts-of-interest debates and make necessary tough decisions in a disciplined manner. This would increase the needed long-term confidence to push for reforms.

Figure 9
Do respondents deliver adequate and timely information?



Study responses: Financial advice adds value if framework, quality and relevance fit.

Generally, this maturity score aligns to system maturity and exposure to choices. In the private sector, most stakeholders acknowledge the basis for the current fierce US fiduciary debate, but vary on change. Most stakeholders acknowledge the generally low maturity of the public sector pension space in the US and the financial advice space in Canada. Few leaders acknowledge that, in many of these systems, the employee or member pays up to 50% of the annual contribution, often exceeding 10% of their annual remuneration.

We believe many corporate employers may have applied a low benchmark and underestimated the regulatory barriers. The provider, plan and government scores indicate that many stakeholders misjudge regulatory requirements and what it takes to provide this level of service.

Increasing convergence of pension and retirement with wealth management offers great opportunities to enhance retirement outcomes. This aligns with fiduciary responsibilities. Many product providers can leverage highly relevant experience, capabilities and infrastructure. Policymakers must implement solutions to manage the significant information asymmetry, as well as commercial and other conflicts of interests.

EY point of view

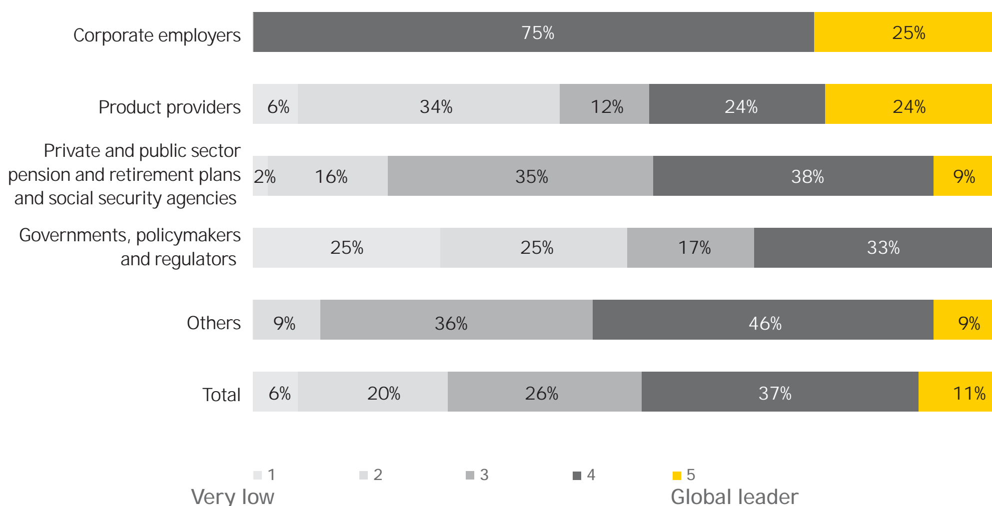
Empowering engagement and informed decision-making must become a key tenet for all systems and solutions. Three evolutionary steps are:

1. Encouraging members and employers to participate: Mandating, auto-enrollment, opt-out and defaults play a vital role.
2. Empowering to make informed decisions: Online and offline communication, tools and financial advice must be fit for purpose and become established solutions.
3. The pension and retirement Internet of Things: Empowering members to take control over decisions is still a long way off for most systems and providers. The move toward crowd investing for self-managed pension funds in Australia or individual retirement accounts in the US is only a small step. Embracing modern technology presents a significant, unexplored opportunity to adequately engage and empower.

Consider additional aspects, including:

- Policymakers require a thorough understanding of member behavior and decision-making.
- All stakeholders need to apply a code of conduct.
- Empowerment to make informed decisions alone is not the single solution for success.
- All solutions must balance long-term benefits with short-term costs.
- Empowerment and informed decisions are a joint responsibility for all. If governments are ultimately the insurers of last resort, stakeholders must understand the long-term implications of decisions.

Figure 10
How do we gauge delivering adequate advice?



4

Pensions were yesterday. Today, the product must ultimately deliver well-being.

The shift to customer centricity for empowerment and advice reveals an unsettling truth: members seek financial well-being as a goal during their lifetime. They prioritize not merely on monthly payments in retirement, but also broader issues such as beneficiary protection, health care and planning for terminal illness. Many customers see social security, pension and retirement solutions as useful tools to achieve the overarching goal of lifetime financial well-being.

This transitional shift from a singular focus on pension and retirement products toward a broader goal of overall long-term financial well-being may uncover substantial alignment challenges between divergent stakeholders, such as pension providers, health insurance and elderly care insurers.

For providers across the board, a new world of opportunities could lead to lower costs to engage and serve.

Figure 11
What is a well-being ecosystem from a consumer, commercial and sector perspective?

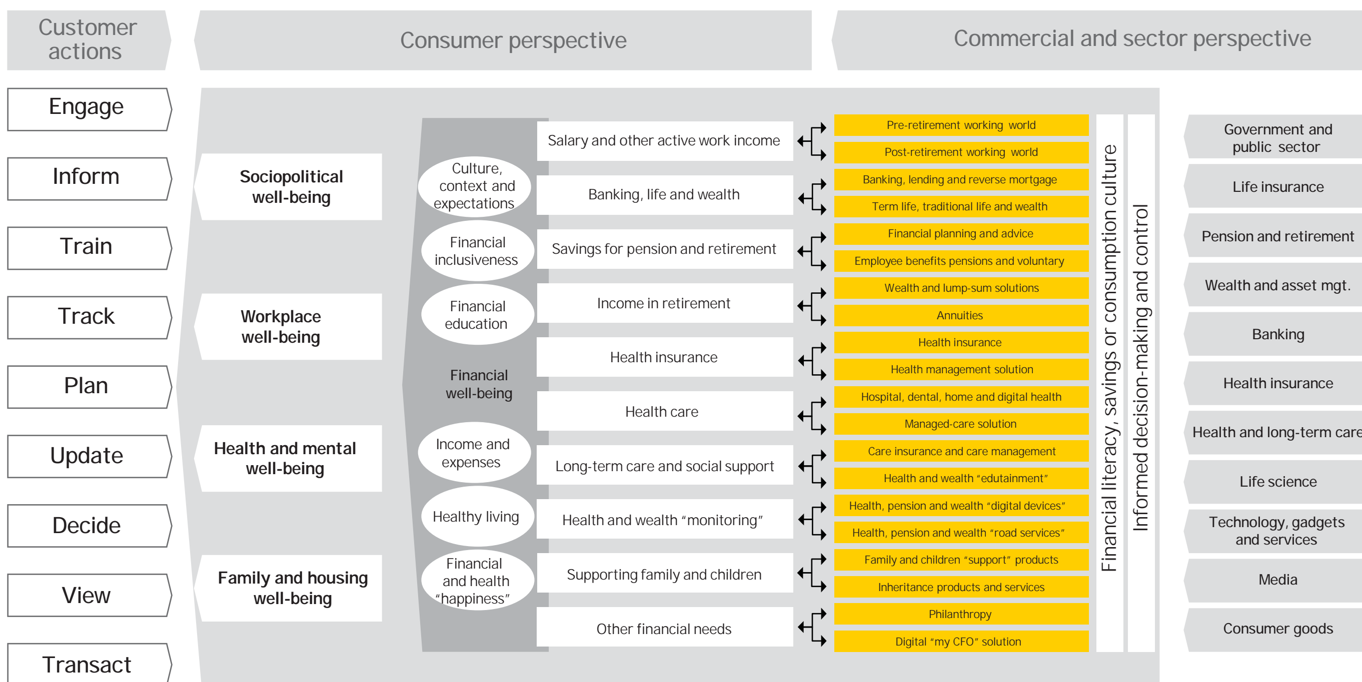


Figure 12
What are the necessary reviews and adjustments to transition to financial well-being?

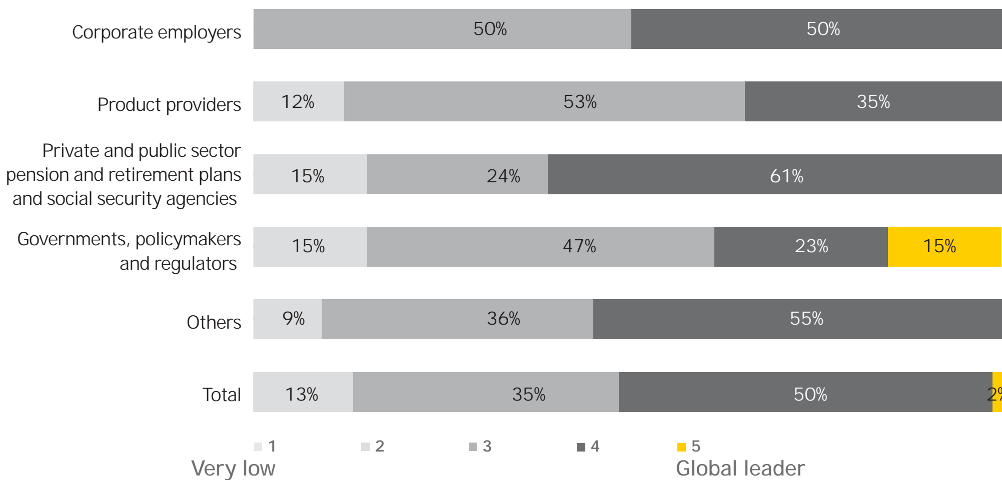
Policy, regulation and supervision level	Pension and retirement	Health	Care	Other
Provider level	Business strategy	Governance	Customers and distribution	Business model "Where to play in the well-being ecosystem?"
	Operating model	Products and services	Data and technology	People and capabilities
	Policies and business processes	Communication	Reporting	Risk, regulation and compliance

The practical transition, behavioral adaptation and changes, as well as the delivery of information, products and transactions, are likely to create a new level of complexity.

"Who is responsible for determining how much you need in retirement and who is doing something about it?"

UK pension executive

Figure 13
How well do respondents understand stakeholder needs?



Study responses: Do we really understand what stakeholders need?

Responses for this category are similar to many customer service and experience studies. Most providers believe they provide exceptional customer service, but only a few customers agree.

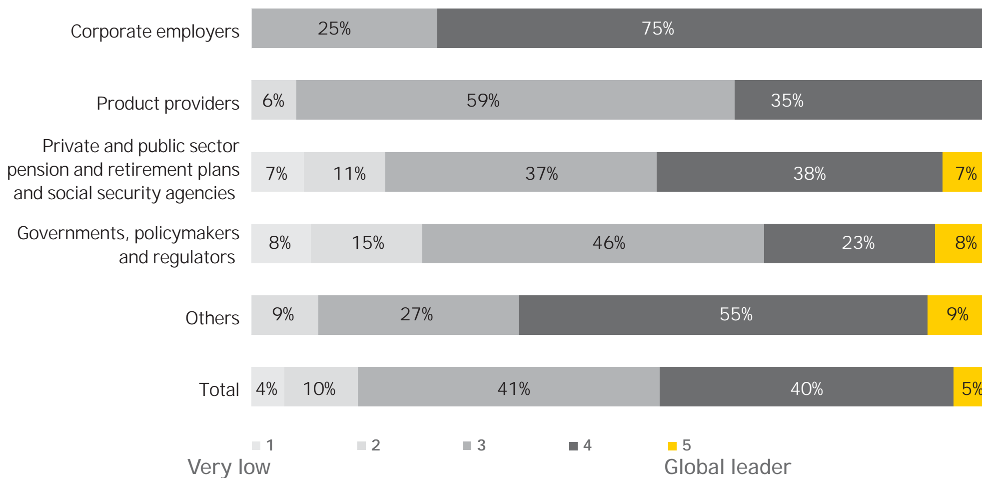
In a traditional employee-benefits environment where the sponsor paid all contributions, the high employer and the public and private plan scores were adequate.

Many participants may have overestimated their maturity in a world of rapid changes to retirement solutions, fast-growing de-risking, and low confidence and take-up rates.

More than 50% of most stakeholder groups acknowledge the need to significantly change current pension and retirement solutions and substantially improve their relevance. Political debates that jeopardize reforms and historic regulation are common barriers.

This broad support to evolve does not align with current reform debate, proposals and changes – and the dominance of historic paternalism displays its power. Members are the "demand side" and seek expansion in areas such as financial well-being. Many governments and providers who represent the "supply side" acknowledge the need for change. As a result, minimal progress is made and selected leading systems and providers are penalized for their actions and innovative thinking.

Figure 14
How do respondents provide truly relevant solutions?



EY point of view

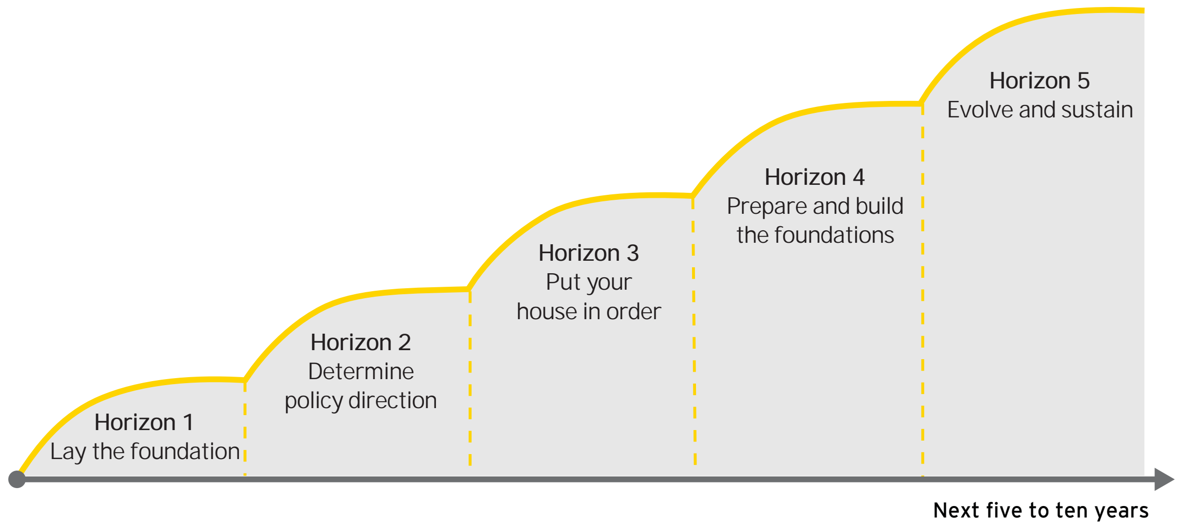
The accelerating shift to customer centricity makes the eventual transition to financial well-being unavoidable.

The growing popularity of the Internet of Things is a great enabler for financial well-being. Fitbits take the same role in pension and retirement as telematics in car insurance or smart metering in utilities. Meanwhile, technology and data analytics can drive informed decision-making and customer take-up.

A few current fundamental planks – such as solidarity, member interest, long-term adequacy, sustainability, efficiency and effectiveness, investment management, who pays and political support – need careful consideration.

A thorough strategic and policy assessment must be conducted early. The demand for financial well-being will drive policymakers to act.

Figure 15
Where is the road map to build the financial well-being ecosystem?



Key considerations	Horizon 1	Horizon 2	Horizon 3	Horizon 4	Horizon 5
	1. Local demand, strategic implications and strategic planks 2. Financial well-being purpose 3. Strategic options analysis for policy and delivery	1. Feasibility and impact assessment of policy options 2. Vision and strategy 3. Financial well-being industry road map, as well as government and industry governance framework	1. Existing gaps in underlying industry solutions 2. Governance and transparency 3. Consumer protection, advice 4. Stakeholder behavior 5. Long-term competition and collaboration	1. New business models 2. Financial well-being and Internet of Things solution 3. Products and services launch in steps or pilots	1. Evolving and sustaining policy, delivery, governance and stakeholders 2. Stakeholder behavior 3. Innovation and evolution

> "We need to talk more about customers' retirement and well-being needs and much less about our products and solutions."
>
> Leading global pension and wealth executive

5 Consumer protection and fiduciary oversight enable confidence

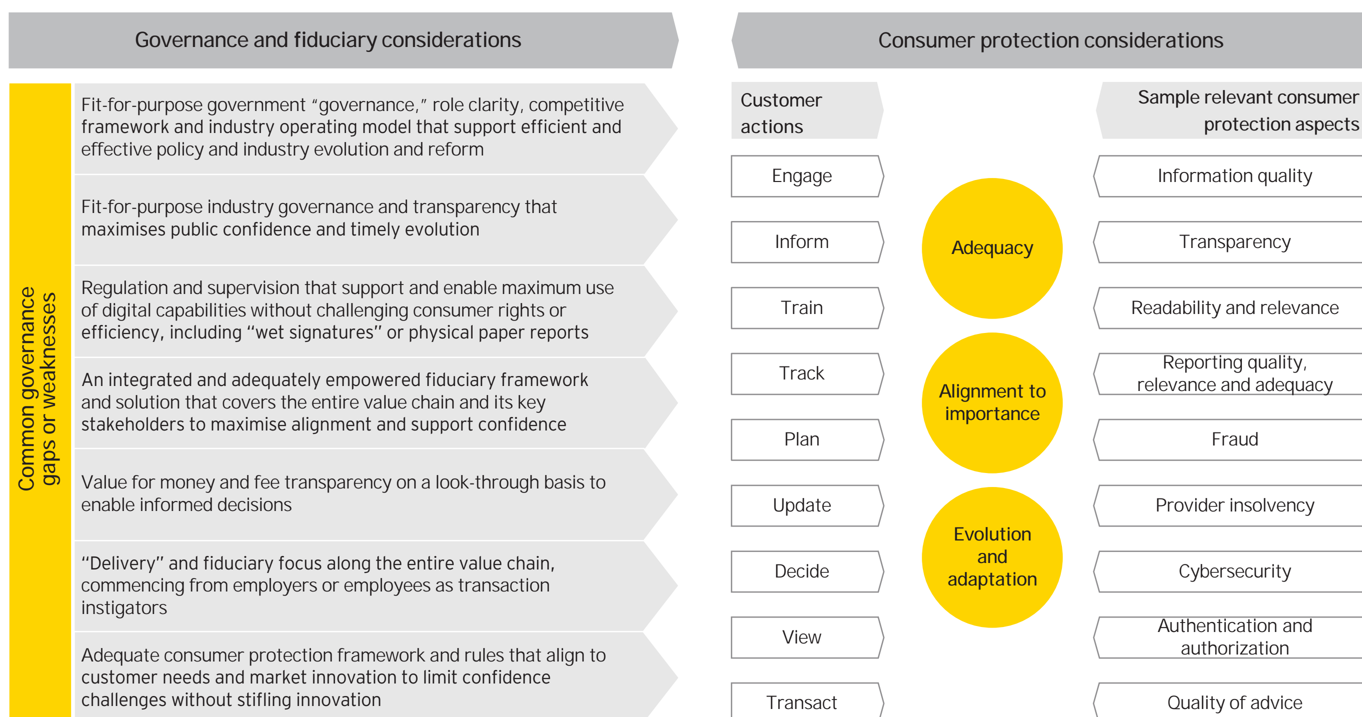
Government, employer and employee-funded pension and retirement products and solutions represent the single largest asset for global populations. Explicit decisions to act and implicit decisions to remain inactive have fundamental and long-term implications for beneficiaries and customers. Protecting the value chain on all levels is essential to drive the right behavior and enable stakeholder confidence. Few pension and retirement systems and their regulation and supervision are aligned to the new world of choices and economic importance. The rapid growth of assets, automation and digitalization will further reveal a variety of regulatory and supervisory weaknesses in many countries.

Are consumer protection and fiduciary solutions aligned to industry size?

A recent global study on consumer protection and financial literacy documents that responsible behavior of financial service providers and an ability to protect their interests contribute to economic empowerment. Policies to support broad-based financial inclusion require effective implementation of financial consumer protection and improvements in consumer spending.

Numerous examples document wide-ranging negative implications of consumer protection and fiduciary challenges to consumers. Governments and policymakers are not immune. Accelerating growth of substantial remediation and financial compensation claims amplify the urgent need to act.

Figure 16
What are the considerations for governance, fiduciary and consumer protection?



> "We make it a priority to actively monitor employee and media comments regarding our pension and remuneration schemes."
>
> CFO of a Norwegian corporate employer

As individuals exercise choice and take advantage of options and freedom within the pension and retirement system, any breach or incident may influence their decision-making and confidence. Common traditional and social media attention ensures that messages are spread, which significantly exacerbates the issues.

Do we need to overhaul our regulatory and governance culture and rules?

Participants raised the following three issues:

1. Adaptation and evolution. As pension and retirement systems evolve, initially incomplete, unclear or inflexible strategy, principles and regulation are frequently later backfilled inconsistently with often prescriptive compliance rules. Leading governments and policymakers perform a regular "root to branch review" to address gaps that emerge over time. New solutions are open architecture and have all the elements of a mature system, at least in basic form, complemented by an evolutionary process of review and governance.

2. Fiduciary changes. Most systems have outgrown the nascent stage, where an implicitly well-intended fiduciary was adequate. Corporate governance research documents the benefits of good governance. Leading governments, providers and employers aim for the highest standards of governance along the entire value chain. The long-term benefits for all stakeholders far outweigh managing initial costs and conflicts.

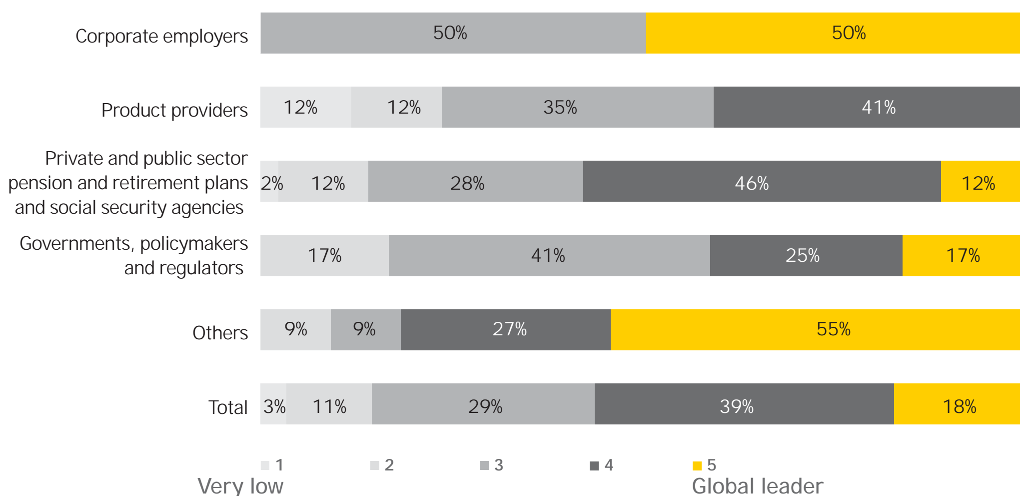
3. Transition from policing and compliance to protection and prevention. Historically, pension and retirement systems focused on policing and compliance. In many countries, this focus has remained while the system and stakeholders fundamentally changed. This creates a compliance burden and significant regulatory gaps following rapid market, product and consumer evolution. Leading governments, providers and employers learn from other industries or other parts of their business to focus on protection and prevention of their brand, customers and business. Strategic guidance is being led by risk, conduct and culture.

Diverse, but generally positive, self-assessment results are a surprise in light of numerous recent incidents and debates.

The gap appears even larger compared to other industries or leading governance standards that align to industry size, complexity and importance to stakeholders, economies and societies.

Regulator and governance maturity principally correlate to system maturity. In the US, for example, responses indicate that deferring the inevitable for fit-for-purpose regulation and governance is closely aligned to industry size and complexity.

Figure 17
Where do respondents stand on regulatory and governance structure?



Many countries and stakeholders appear to struggle substantially with a comparable assessment of regulatory and governance maturity. This indicates a significant alignment challenge.

A large percentage of participants acknowledge the immediate need for regulation and governance in pension and retirement systems to evolve. Thus, the industry must implement leading practice regulation and governance.

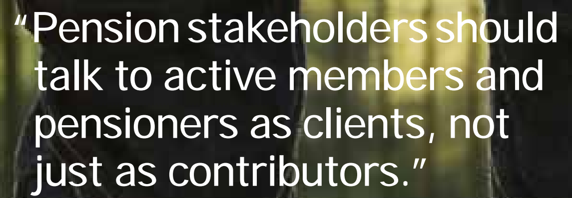
The common time lag to evolve becomes increasingly risky in the new world, where volatility, disruption and the rise of black swans are the norm. The resulting surprises and incidents create a public confidence challenge. Increasing cybercrime, quality of advice incidents or poorly managed conflicts of interest are only the peak of the consumer protection and fiduciary oversight backlog in many countries.

EY point of view

Pension and retirement benefits are the most important financial asset for many members and customers globally. Stakeholders must step up and align their efforts with increased industry support, reform approval and choice complexity to protect decisions, assets, conduct and confidence.

Automation and digital transformation require a policy shift toward protection and prevention to keep pace with rapid change and provider innovation. This foundation, and the necessary adaptions of regulation along the value chain, is needed to instill stakeholder confidence. Modern and evolving compliance rules that protect consumers are necessary, but they need to be smart and fit for purpose.

The industrial nature of most pension and retirement systems and institutions warrants a modern corporate governance-style fiduciary benchmark that protects all stakeholders and delivers long-term mutual benefits. This is a central plank on the journey to $500 trillion. But governance and fiduciary oversight does not stop at providers. Government and industry governance are critical to adapt and evolve swiftly and align with the new norm of products, customers and technologies.



> "Pension stakeholders should talk to active members and pensioners as clients, not just as contributors."
>
> Leading French pension fund executive

Stakeholder experience and being easy to deal with influence distribution success

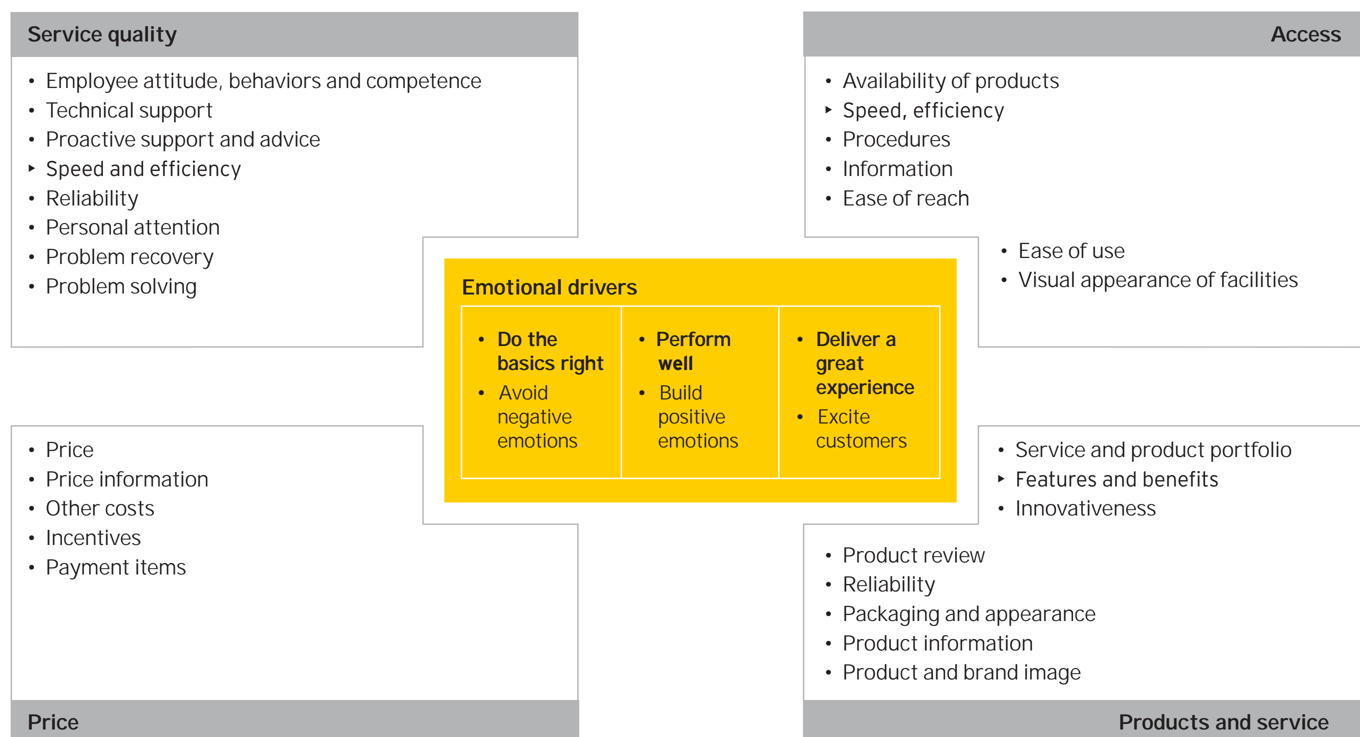
Historically, most pension and retirement policies and delivery solutions focused on product and compliance rather than usability. The accelerating transition from product-centric paternalism to a customer-centric culture and delivery is rapidly elevating the focus on key stakeholder experience. Touch points with the system, the organization and the journey through different life events are moving higher in executives' agendas next to products, investment returns and IT. Those touch points and moments of truth determine experience with the system and the organization, and heavily influence their level of:

- Confidence to engage, act and continually re-engage
- Relevance and openness to learn more about retirement and financial literacy, as well as the system and the provider
- Perception of value for money of products and services
- Customer service, fairness and simplicity and overall satisfaction

The score of these aspects correlates to levels of engagement, participation, take-up, and overall stakeholder confidence.

Leading policymakers and providers differentiate among government, customers or members, employers, the public and their respective agents and representatives as key customer groups. This means that they use easy-to-deal-with scores for employers and net promotor scores for customers and members as part of their pension and retirement balanced scorecard.

Figure 18
Why is customer experience a core proposition? Customer experience and buyer behavior are driven by a number of functional and emotional components, which providers will need to address to maximize the benefits from this unique proposition?



> "Saving in a low-income economy is a challenge. Without some mandatory provision, saving purely on a voluntary basis would not work."
>
> Georgian pension executive

> "We build complexity into complexity to cover more product features without realizing that we lose 95% of customers. This accelerates self-imposed commoditization of our products and services."
>
> Leading global pension and retirement executive

Do we truly listen to our customers? Who are they and what do we know about them?

Improving stakeholder experience and being easy to deal with often centers around the following five aspects:

1. Policy and regulation: Evolving regulatory complexity, choices and connectivity to taxation and social security systems often move improvements to the "too hard" category.
2. Culture: A widespread product-centric and paternalistic culture with a common 80/20 split of take-up is often the hardest aspect for improvement. The implicit loss of control over behavior, process and outcomes is a common barrier for change. Many new systems and solutions fall into the "product-first" trap, which often leads to poor take-up and the need for yet another system or solution.
3. Strategy: The rapid growth of pension and retirement systems leads to an increasing number of regulators and executives applying professional business practices. Customer experience, distribution and easy-to-deal-with rapidly enter the center stage. Accelerating self-imposed commoditization drives more plans and providers to focus and use these aspects as differentiators.
4. Products and services: Product design is often significantly impacted by policy and regulation. Delivery often has a perceived secondary role. Many younger systems quickly face product proliferation. This accelerates self-imposed commoditization, as customers struggle with complexity and revert to price as the common denominator they understand.
5. People, processes, capabilities and technology: A historic lack of focus and underinvestment is common and leads many providers to embark on fundamental improvements and step change transformations in this area. The pension and retirement market is industrializing. Few experts challenge the assumption that changes allow for future evolution and sufficiently enhance agility and innovation.

Study responses: It is likely that we are the most difficult industry in the world to deal with.

Most participants globally confirm, to varying degrees, substantial gaps in being easy to deal with. The poor experience of beneficiaries, members and employers jeopardizes reform approval, engagement and choice take-up rates. Countries with higher choice exposure are generally more aware of the issues as stakeholders tend to make decisions by walking away.

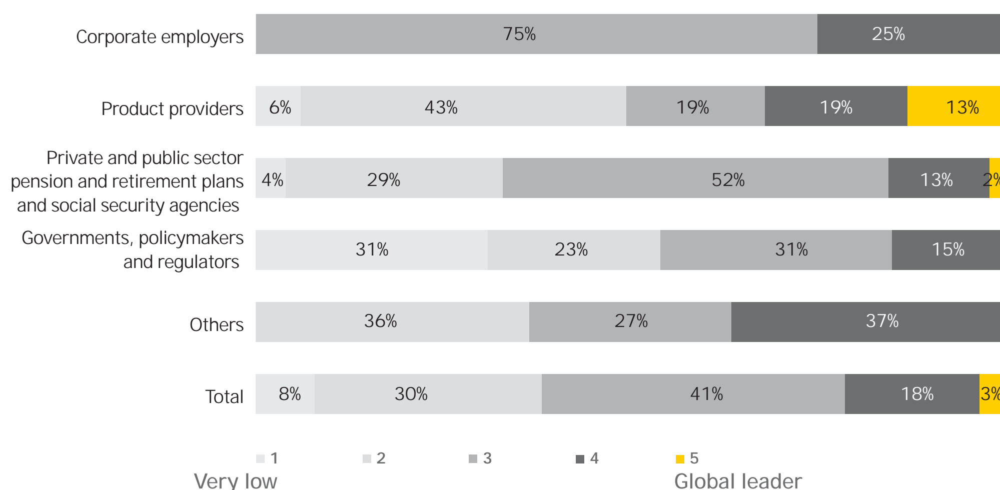
Several aspects stand out when addressing the issue of being easy to deal with. The widely common employee benefits culture of corporate employers may limit their acknowledgement of this fundamental industry issue. A large proportion of public and private sector plans, as well as product providers, score themselves comparatively high, as noted in Figure 19.

Many employers and their payroll providers (or external accountants in their administrative role as contribution data and payment processers, members and beneficiaries) may challenge this assessment. Regulation is often used to justify complexity and as a barrier for change. Providers are increasingly using customer experience and being easy to deal with as a compelling value proposition and differentiator for employers and members.

Surprisingly, more than 50% of governments, policymakers and regulators acknowledge the need for fundamental improvements. Poor data quality and substantially increased cost to serve for employers, plans and providers are additional quantifiable implications of deferring the inevitable. We see little systematic progress in this critical aspect.

> "Clients trust the sector because we give them the chance to choose the asset allocation profile, withdrawal or to change the provider at any time."
>
> Brazilian pension and life insurance executive

Figure 19
How do respondents rate being easy to deal with?



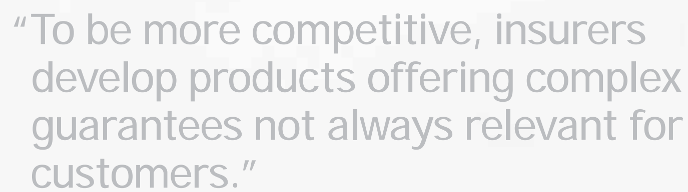
EY point of view

Stakeholder experience and being easy to deal with are key elements for members and employers. This expands when often vitally important professional representatives or agents of members and employers (including financial advisers and payroll providers) become involved. There is a correlation between engagement, successful implementation of choices, and approval of reforms. Moves toward digitalization mean that more members and employers will express views, in turn creating additional confidence challenges.

All stakeholders need to make administration and service delivery a strategic focus, and fundamentally improve member and employer experience and the easy-to-deal-with category. This will expand satisfaction, confidence and informed action.

We encourage all stakeholders to address three overarching issues:

1. How does a professional fiduciary role and the requirement to act in the members' long-term best interest align with slow activity and low importance of administration in general and being easy to deal with specifically?
2. Do we need to introduce administrative equity as a new strategic policy measure to reflect that an adequate infrastructure to support customer experience and being easy to deal with is costly? Improvements in systems and plans mean that large proportions of disengaged or default members or smaller employers expect a similar quality of service. Infrastructure support and choices will quickly create an intense fairness debate that challenges confidence.
3. Do we need to redesign our traditional key performance indicators to an innovative pension and retirement balanced scorecard? Financial aspects such as investment returns or funding levels remain critical. To fulfill our fiduciary role in the new world of choices and reform approvals, it will be crucial to manage the many dimensions: the customer, internal process and delivery, people, the learning process, infrastructure and innovation.



Leading French life insurance executive

For policymakers and providers, measurement is a baseline to understand that employers and members will act by walking away. Mandatory and default solutions are rarely fully immune. Greater member and employer engagement and information are already leading to competition in service and experience. As members are unwilling or unable to understand complex product and investment features, they converge to price and fee comparison, in turn accelerating self-imposed commoditization.

7

Digital can support informed decisions, choices and transactions

Pensions and retirement plans present the single largest source of wealth for many people globally. Leading stakeholders recognize this as they aspire to maximize members long-term retirement outcomes. Providers increasingly introduce wealth-management-style products and services, as well as behavioral finance experience, to successfully differentiate their pension and retirement choice offerings and drive engagement, efficiency and take-up. Few leading policymakers are aligning relevant regulation to adapt.

The digital agenda is slowly reshaping the pension and retirement industry across public and private sectors globally. Many identify digital as an enabler and additional communication and distribution channel.

Few stakeholders focus on the following five additional digital dimensions that accelerate the strategic and operational pension and retirement agenda:

1. Digital engagement, communication and translation between an often paternalistic government and provider and the new norm of customer centricity in a digital world
2. Digital empowerment and informed decision-making at customers' discretion
3. Digital customer experience
4. Efficiency and effectiveness resulting from digital pension and retirement between all stakeholders and through the application of data analytics to drive targeted member and employer engagement, monitor quality of decision-making, advice, take-up, and efficient and effective delivery and supervision
5. Digital disruption of business and delivery models in the core area, in adjacent areas such as the financial well-being or beyond currently defined industry borders through a wider Internet of Things

Digital can accelerate the convergence with wealth, but also deliver much more value

The increasing convergence with wealth and a systematic application of digital can help address most key performance indicators that drive long-term retirement outcomes for members and influence confidence. It can reduce the cost to engage advice, serve, comply and invest.

What is our understanding of digital and our benchmark for digital maturity?

The following key questions remain:

- How much "digital" focus and actions must stakeholders have today to align with their fiduciary roles? Do we need to be leaders or followers?
- How much do we truly need in a world of at least perceived low levels of engagement and defaults?
- Who and what should the benchmark be for our action and position? Peers, other industries?
- How do current key planks such as member adequacy and equity, governance, investments and fiduciary change in a "digital" world?
- What new risks are we facing, and what incentives and behaviors do we need to realign?
- Who pays for the expected substantial investment to build and maintain digital capabilities and infrastructure? How do we retain "equity" between users and disengaged?
- How do we transform current policies and regulation to adapt and support long-term retirement outcomes?

The wealth management and insurance industries are rapidly answering these questions at government and provider levels. The convergence accelerates their exposure and impacts all stakeholders.

Figure 20
How do we develop the necessary alignment in a digital world?

Endless world of possiblilities in other industries and the Internet of Things

Customer perspective

Inform
Engage
Train
Track
Plan
Update
Decide
View
Act/ Transact

Public and private sector provider perspective

Purpose and strategy
Engagement and communication
Engagement
Offerings and capabilities
Customer access
Service tools and experience
Data analytics, segmentation and customer insights

Commercial and regulatory reality, customer value and resistance to change

Regulation and context perspective

Regulation
Financial market
Political and economic context
Online
Offline
In person
Experience
Relevance
Simplicity
Biases
Media
Social media

> "We need to bring our best traditional advice solutions into the digital age to optimize member and shareholder outcomes."
>
> Leading global pension and wealth executive

Study responses: We need a much more aspirational understanding of digital pensions.

Overall digital maturity is low, which is likely to significantly impact confidence, experience, cost to serve and overall take-up in an otherwise rapidly digitalizing world.

Participants have a very diverse self-assessment globally. This is the result of a pension and retirement industry still grappling with their take on digital and the long-term opportunities and threats.

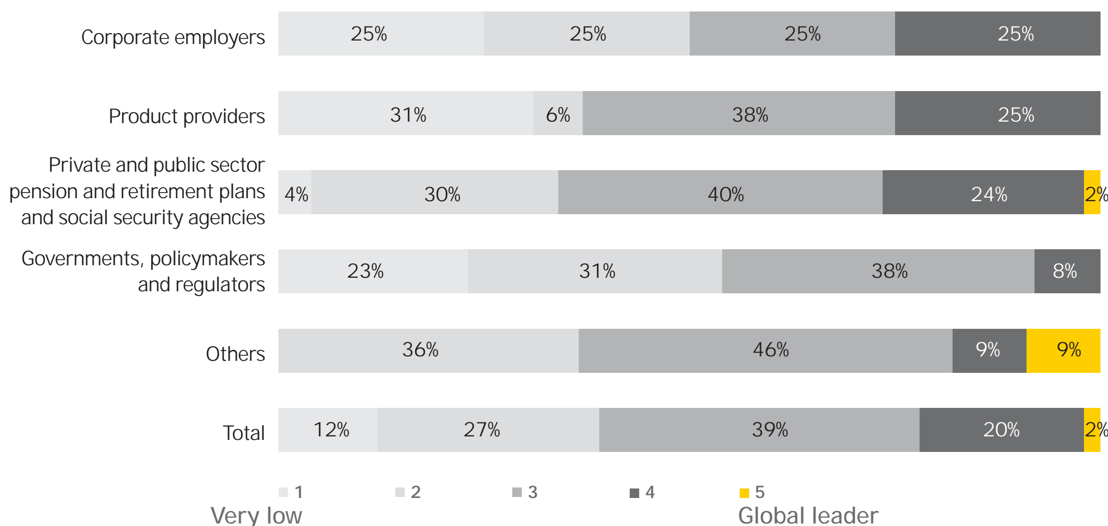
Maturity benchmarks range from social media involvement to a long-term disruptive digital strategy and a systematic use of big data, as well as digital marketing. Exposure to choices and competition is more likely to drive focus on sophisticated digital strategies and solutions to attract and retain members and employers.

Corporate employers and product providers generally apply more challenging benchmarks. More than 50% of governments, policymakers and regulators acknowledge the fundamental need for digital. Long-term benefits are substantial for all stakeholders.

We see little meaningful and industry-tailored debate and progress. Few leading governments and policymakers challenge themselves in a digital context.

- Are we breaching our obligation as strategic fiduciary and driver of systems and reforms if we defer digital solutions?
- Can digital, big data, analytics, digital marketing and wealth management solutions help restore public confidence and accelerate the transition to choice take-up?
- What steps do we need to take to maximize digital benefits and minimize new digital and transition risks? How much do we need to invest and who should pay? How do we address fundamental areas such as privacy law?

Figure 21
What is the level of digital maturity?



> "Regulation and supervision need to come into the digital age to enable us to maximize effectiveness."
>
> Leading global executive

EY point of view

Innovative digital solutions that combine pension and retirement, as well as increasing well-being and wealth, can assist all stakeholders to better address their mutual core obligation: to maximize outcomes for the retirement phase.

The modest success of reform approval and choice take-up in many countries documents the need to fundamentally challenge and rethink established approaches. Digital can play a pivotal role. Accelerated participation, as well as wider distribution and ongoing delivery, generate important value for all stakeholders. Digital authentication and authorization solutions for proof of life for benefit payments are a simple example that must emerge as basic capabilities.

A compelling value proposition, with a clear focus on being easy to deal with for employers and customers or members, is a vital component to accelerate take-up of choices for members and employers.

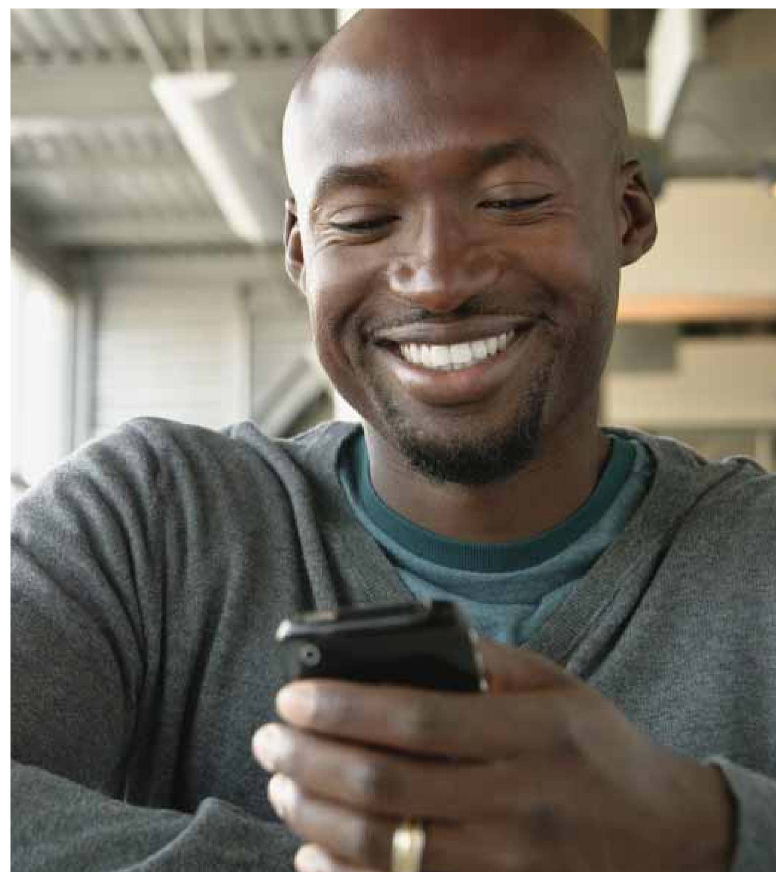
Pension and retirement are highly regulated industries in most countries. Regulation shelters stakeholders from a breadth of improved efficiency and effectiveness of engagement, decision opportunities and challenges in digital transformation. The self-assessment results document this.

Cost of regulation is high and leads to reduced innovation and stakeholder confidence; or indirectly through reduced engagement, informed decision-making, reform approval and choice participation. All government policymakers and other stakeholders need to rethink their interpretations of best interest, long-term retirement outcomes and fiduciary responsibility in the new digital world and evolve policy, governance and delivery. Members, employers and other stakeholders will decide by walking away. Maximizing the opportunities to influence their behavior to make informed decisions is vital.

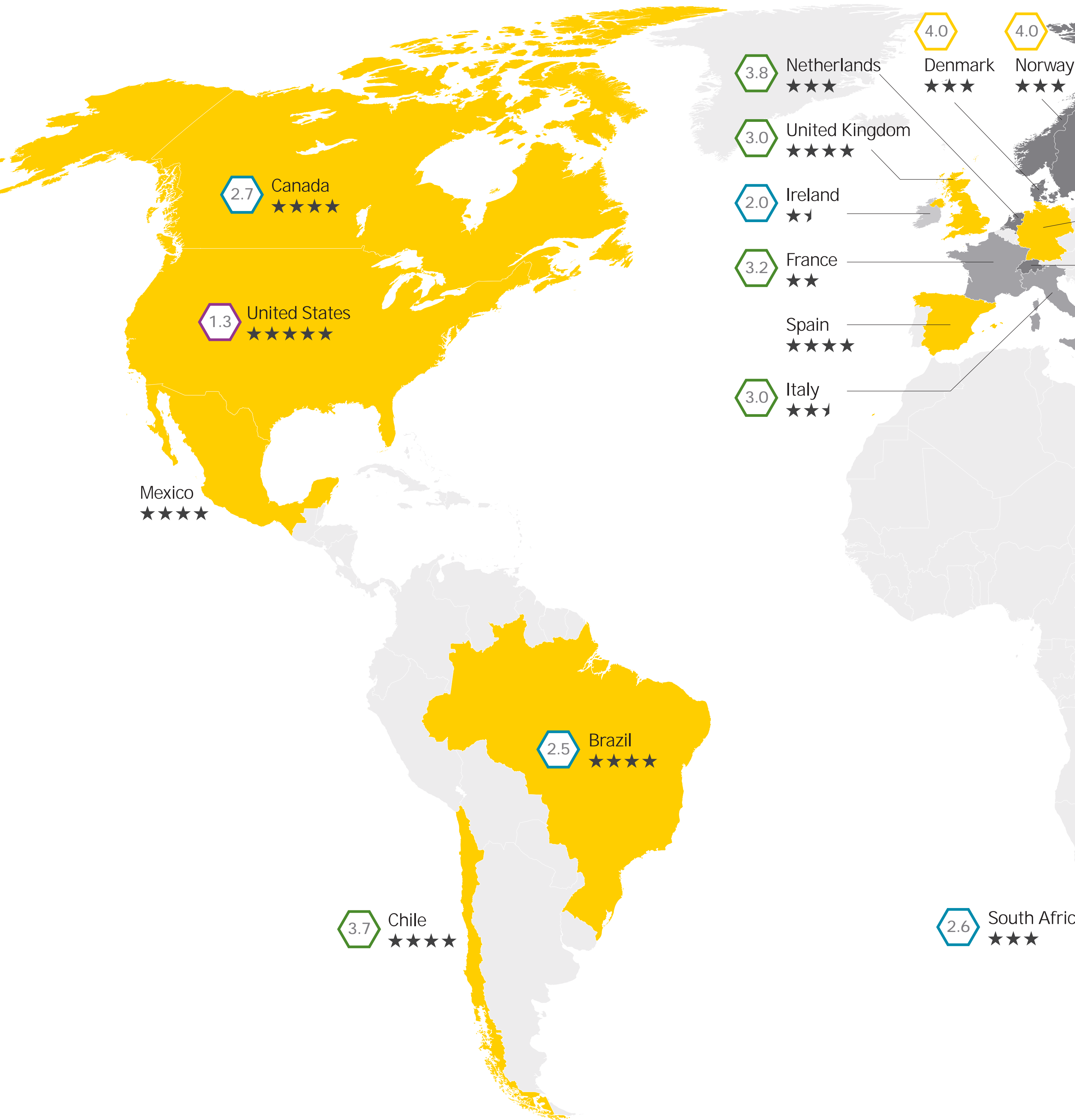
All public and private sector pension and retirement providers must step up to the digital challenge. Digital disruption can bring pension and retirement globally to the 21st century, but it needs to be done responsibly. Commercial reality, return-on-investment and business cases remain critical, but the benchmarks have changed.

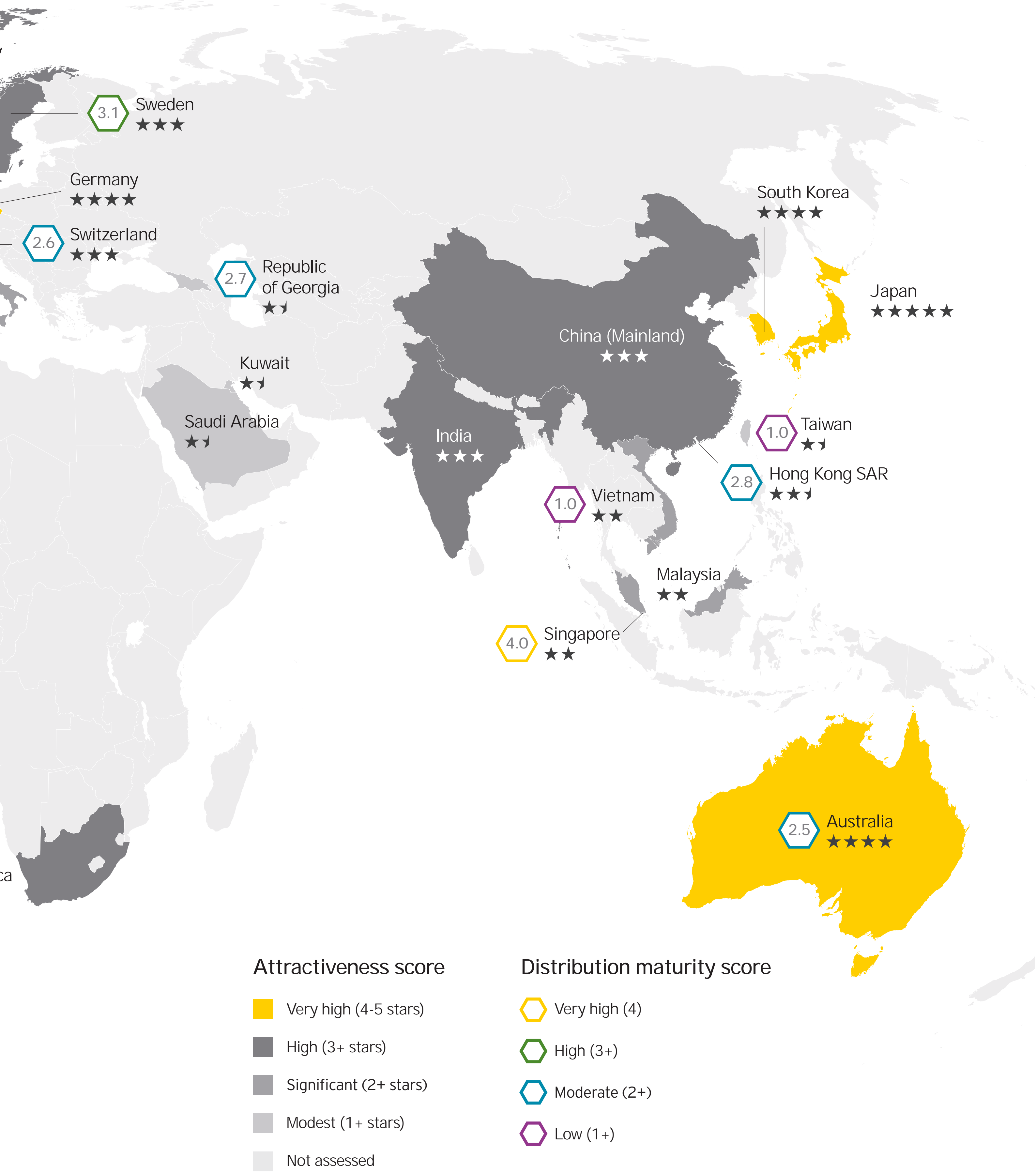
The world is increasingly transitioning to the Internet of Things and beyond. Leading providers and policymakers acknowledge this fast-growing gap. Their widespread results of poor reform approval and choice take-up encourage them to adapt their transition to industrialize and leap frog to evolve directly to a digital pension and retirement world. Their new interpretation of fiduciary means systematic learning from global players and other industries to enable them to build a better retirement world faster.

These stakeholders proactively manage their biggest challenge on the journey to a digital world: the balance between careful and well-thought-through evolution, and retention of stakeholder confidence. Social and media management, a customer-centric culture and proactive customer engagement have emerged as additional new core capabilities.



EY pension and retirement heat map




3.1 Sweden ★★★
Germany ★★★★
2.6 Switzerland ★★★
2.7 Republic of Georgia ★½
Kuwait ★½
Saudi Arabia ★½
India ★★★
China (Mainland) ★★★
South Korea ★★★★
Japan ★★★★★
1.0 Taiwan ★½
2.8 Hong Kong SAR ★★½
1.0 Vietnam ★★
Malaysia ★★
4.0 Singapore ★★
2.5 Australia ★★★★
Attractiveness score
Very high (4-5 stars)
High (3+ stars)
Significant (2+ stars)
Modest (1+ stars)
Not assessed
Distribution maturity score
Very high (4)
High (3+)
Moderate (2+)
Low (1+)

EY global pension and retirement proposition and playbook of services

Governments, public and private sector organizations and their partners face a complex financial and social array of pension and retirement challenges. Our cross-sector teams deploy domestic knowledge and overseas experience to address these issues, helping build a better working world for beneficiaries, employees and members by improving their long-term retirement prospects and instilling financial confidence.

We understand the issues

Our teams have been involved in all stages of pensions and retirement policy design, reform, implementation and supervision, as well as in managing pension funds, risk transfers and dealing with different stakeholders across the globe. While asking the right questions and resolving the important issues quickly, we take into account all perspectives to maximize buy-in.

We can align policy, reform and commercial perspectives

We can quickly translate policy review results and design options into commercial and policy implementation considerations. This will increase focus and limit costly and time-consuming delays, while increasing flexibility for often necessary policy compromises.

We combine insight with experience

With more than 200,000 people and more than 700 offices in 150 countries, we are one of the most globally integrated professional services organizations in the world. From policy design to delivery, our teams cover the entire process and all stakeholders. We can quickly mobilize relevant subject matter specialists who can discuss and resolve deep technical questions, manage the transformation process and put solutions in a political context.

Figure 22:
How can EY services support well-being and retirement outcomes?

Seven key service areas we developed or evolved with excellent credentials to support EY global pension and retirement clients

To achieve the organization's strategic objectives, we assist boards' trustees with (a) effectively and efficiently discharging their strategic or fiduciary obligation and (b) enabling and guiding their organization to focus on and do the right things

To deliver expected outcomes, we assist management in (a) effectively and efficiently implementing the vision, mission and strategy and (b) managing their organization to focus on and do the right things right

To improve predictability, decision-making and outcomes, assist executives with (a) making numbers talk and (b) turning data and information into insights

To improve investment outcomes, we assist organizations with (a) achieving investment excellence by increasing effectiveness and efficiency of the investment function as well as external partners and (b) increasing predictability of investment outcomes by improving role clarity, transparency and decision-making

To improve "value for money," customer satisfaction and retention, we assist organizations with (a) achieving digital and operational excellence by increasing effectiveness and efficiency of the administration function as well as external partners and (b) increasing customer focus and experience as well as robustness and agility to enable growth

To enable growth and increase customer acquisition, satisfaction and retention, we assist organizations with (a) looking through the lens of customers with a compelling proposition and a systematic go-to-market plan, (b) empowering customers to make informed decisions and (c) delivering financial well-being as desired customer outcome

To build a better working world, we assist policymakers, oversight bodies and board/executive teams with (a) balancing (or rebalancing) sustainability, adequacy, efficiency and effectiveness, investment outcomes and political reality to evolve their health, pension and retirement strategies, (b) building, managing and evolving industry governance and oversight of all providers and stakeholders and (c) support, as well as monitor, converting good policy and strategy into predictable policy, business and customer outcomes

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Conclusion

Maximizing pension and retirement outcomes has been a significant challenge. Endless debates, which only defer the inevitable, add a new dimension to the challenge: adequately implementing informed decisions and assigning responsibility. This has shifted the balance of power to customers. Distribution is now a critical capability. Policymakers, systems and providers must step up their transition and prepare for even faster change.

Our global survey reveals that all stakeholders must adapt to the new world. Governments are likely to be the underwriters of last resort for pension and retirement gaps. They have the responsibility to implement longer-term, sustainable solutions and to avoid liability gaps. As the private sector looks to manage the $500 trillion in investments, it has the experience and infrastructure to address distribution challenges. Yet, this comes at a price and requires adhering to rules and ensuring adequate levels of fiduciary responsibility and consumer protection.

Against this backdrop, digital pension and retirement and the financial well-being Internet of Things is a major influence that must rapidly evolve and catch up to the rest of the global economy.

Embracing new opportunities from technology is also a vital step. Data analytics-based targeting of market segments can become an efficient and effective way to improve informed decision-making. Careful preparation is vital to limit unintended consequences. Policymakers must evolve all relevant aspects of their systems to expand confidence and encourage actions. Mandating member participation, as well as pre-selecting specific choices via defaults, still plays a pivotal role. But, culture, customer centricity and distribution capabilities must also adapt to the new world.

Stepping up to the retirement plate requires difficult questions:

- What does the industry need to do and how much are they willing to give?
- How will governments sort out the level of tough positions they face?
- What is the price for private sector providers to address distribution challenges?
- Where can digital play a role in addressing existing weaknesses in distribution maturity?
- How can stakeholders work together to align policy, delivery and context to a new world of choices and reform approval?

Framing the right questions

We used the following points as supporting guidance for our 10 key questions for governments, as well as for public and private sector clients and large employers, to self-assess their distribution maturity.

Long-term pension and retirement vision and strategy: Our clearly defined and communicated long-term pension and retirement vision and strategy for our country or organization support outcome predictability, participation and public confidence, and enable us to deliver reasonable rewards and profits.

Incentives: Existing incentives for employees, beneficiaries and members to take action. The objective is to offer products and services that truly align and drive the right behavior to deliver financial well-being and pension adequacy, security and sustainability.

Governance and regulation: We have an effective and efficient regulatory and governance structure on all relevant levels, such as policy, industry and delivery. This structure withstands the highest levels of public and member scrutiny and transparency, and it continuously evolves and adapts.

Stakeholder need: We truly understand what our retail customers, beneficiaries and employees, as well as our business clients (pension and retirement plans), want from us. We recognize their needs and proactively respond to them.

Fit-for-purpose products and services: Our pension and retirement strategy or policy encourages development of products and services. We offer products and solutions that are truly relevant for the overall financial well-being of beneficiaries, retail customers and members, and for our business clients' objectives.

Simple and being easy to deal with: Our beneficiaries, retail customers and business clients say that we are "simple" to understand and are easy to deal with. We measure this systematically and focus our actions to ensure that we are truly customer- or client-centric.

Stakeholder communication: Our beneficiaries, employees and retail customers would say that we fulfill all their communications expectations and requirements (particularly with regard to message, channel and simplicity) at all times and in all relevant touch points. We measure this as customer or client satisfaction of public confidence.

Informed decisions of our key stakeholders: Our beneficiaries, retail customers and business clients say that we empower them to make informed decisions throughout their lives, to generate financial well-being and to protect and support their interests.

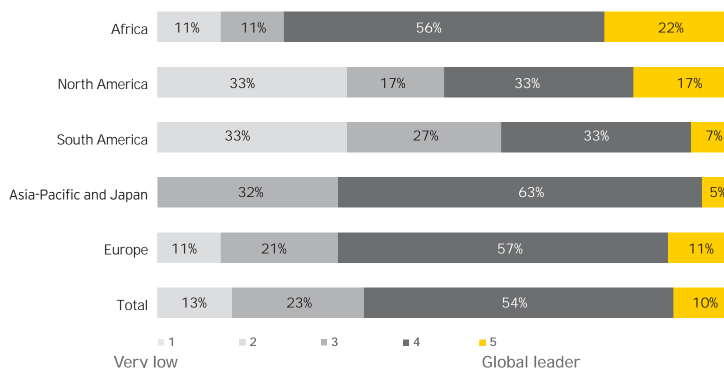
Public confidence to deliver adequate advice: We have the right frameworks and solutions in place so that members, employers and the public can have the confidence to deliver adequate personal financial advice online and offline, manage in volatile times and deliver expected long-term pension or retirement outcomes that they can understand and trust.

Digital pension and retirement solutions: We use modern and digital approaches and fully integrated leading technology solutions in our business for our retail customers or business clients. These solutions are widely used in other industries to enable control and choice of interaction, thus delivering expected outcomes and a positive customer experience.

Regional survey findings

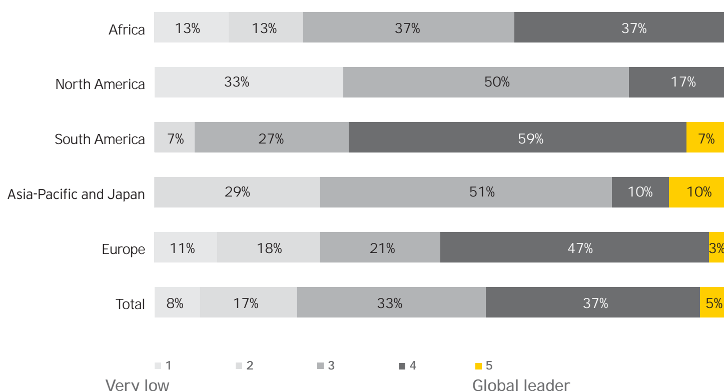
Our survey was based on both global and regional self-assessments. Responses to our 10 questions relate to different levels of distribution maturity when compared to current practices. These regional results use a scoring system of 1 (very low) to 5 (global leader), though very few respondents scored themselves as a 1.

Figure 23: How do respondents view pension and retirement vision and strategy?



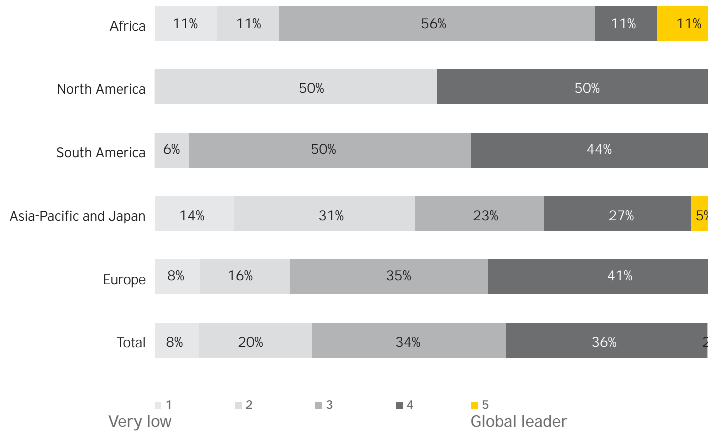
Responses vary on a country-by-country basis and among participants within countries. About two-thirds across geographies believe they have a clearly defined long-term vision and strategy. Participants in most countries disagree with this assessment, indicating different benchmarks have been applied. Qualitative responses and local country debates reveal that most countries and providers globally would benefit from reviewing, clearly articulating and communicating a long-term vision and strategy. Aligning this to the new world of choices and rapid industry growth will restore strategic clarity.

Figure 24: What is the incentive framework maturity across geographies?



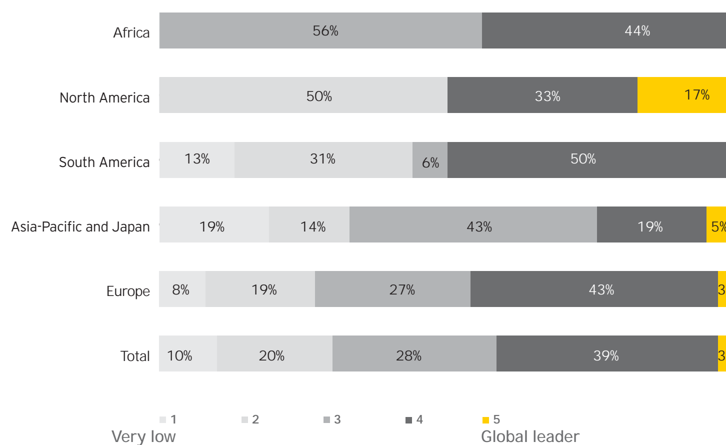
Few countries appear to have a common and satisfactory framework and solution. US and Asia-Pacific and Japan scores are influenced by long overdue discussions on this topic, as well as tax incentive adequacy across customer segments. The diverse European, South American and African responses reflect that most of these countries are currently evolving to the next level of maturity. While some country participants are still comfortable, the increasing incentive for diversity or debate is pressuring evolution and reforms to encourage the right behavior.

Figure 25: How do respondents rate stakeholder's communication?



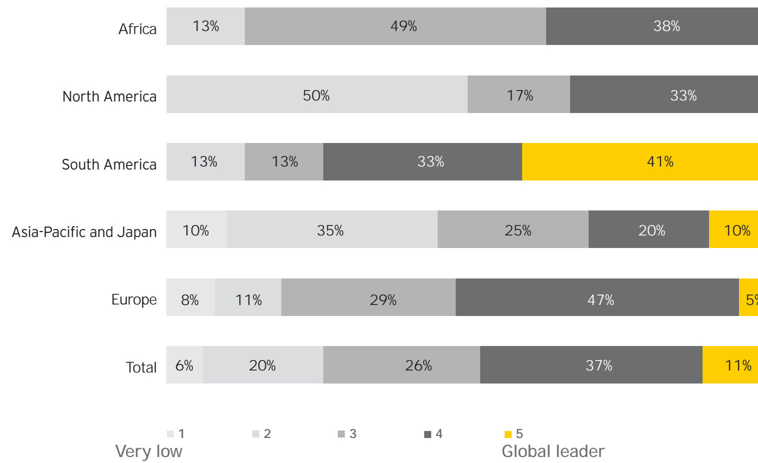
Most regions share a diverse assessment of their communication maturity. This indicates that few countries appear to have a common and satisfactory framework and solution. A still widespread paternalistic approach, product and choice proliferation, as well as complexity from investment and life insurance choices, require immediate changes in communication. The consequence for all stakeholders is significant: rapid growth of self-imposed commoditization, as business executives and customers revert to fees as the common denominator they understand.

Figure 26: Do respondents deliver adequate and timely information?



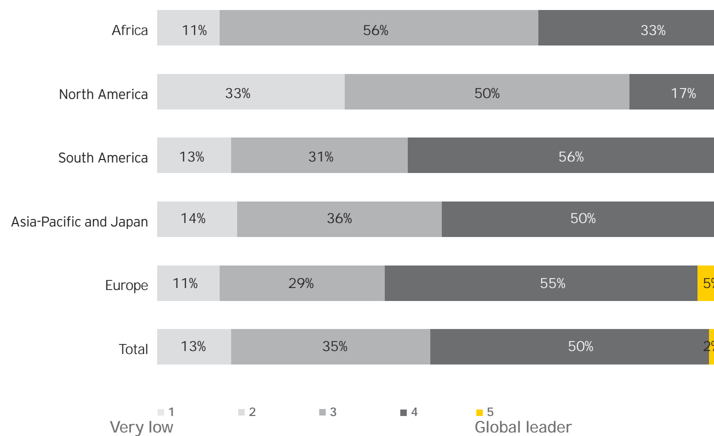
Most regions share a diverse assessment of their information maturity. Few countries appear to have an adequate and satisfactory framework and solution. System maturity, reform frequency, breadth and application of choices correlate with responses across different regions. Fit-for-purpose transparency and disclosure that aligns to system maturity and importance appear to lag behind in a fast growing customer-centric world. In many countries, this leads increasingly to two critical responses: (a) lack of confidence resulting in poor choice take-up and reform approvals, and (b) self-imposed commoditization and sole focus on fees. Consequently, most countries appear to require critical changes to their information maturity.

Figure 27: How do we gauge delivering adequate advice?



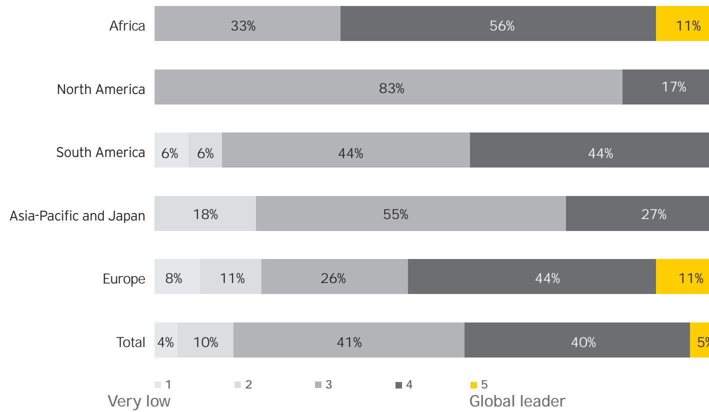
Most regions share a diverse assessment of their financial advice maturity. Few countries appear to have an adequate and satisfactory framework and solution. Maturity scores align to system maturity and exposure to choices. Most stakeholders acknowledge maturity improvement opportunities in this aspect of the public sector pension space in the US and the financial advice space in Canada. The South American responses appear influenced by step change from lower levels in recent years, but more needs to be done to align with rapid industry growth. European responses reflect a two-tier region: UK and Nordic responses appear more ambitious based on the implementation of regulatory changes. In contrast, Continental Europe appears more mature, but participants' qualitative insights and market context indicate they may have applied lower benchmarks.

Figure 28: How well do respondents understand stakeholders' needs?



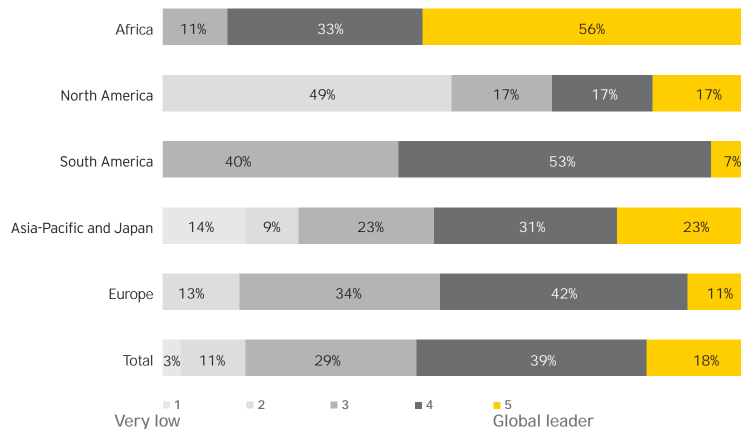
The high score in most regions and countries is in stark contrast to public confidence, reform approval and choice take-up. This reveals that few countries truly focus on the customer and appear to have adequate and satisfactory frameworks and solutions that align to the new world. The self-assessment results emphasize a prevalent paternalistic approach in many countries. Most policymakers and providers appear to grapple with the transition to a customer-centric industry where employers, customers and beneficiaries have the power and choose and approve. Many stakeholders in countries with strong pay-as-you-go or defined benefits penetration may need to accelerate their customer focus and empowerment. Benefit reductions and common substantial employee contributions may rapidly blur the perception and create customer entitlement to focus and control. One question arises: do stakeholders need to fundamentally reconsider the lines between defined contribution where control is common and defined benefits where member contribution may entitle more control?

Figure 29: Are our 2,000-year-old solutions still relevant to stakeholders?



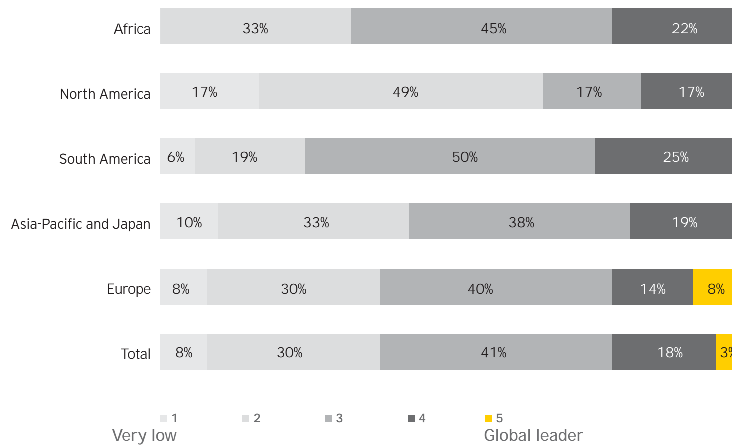
Most regions share a diverse assessment of their product and solution maturity. Scores in Africa, South America, and Asia-Pacific and Japan appear to directly relate to system maturity. The diverse European score indicates two aspects: (a) a strong defined benefits and pay-as-you-go focus that may have led to a paternalistic self-assessment, and (b) growing acknowledgement for change, particularly as choices and reforms are either overdue or continue to rise in some countries. This diversity may substantially challenge future pan-European harmonization, as stakeholders have different starting points. The comparatively low North American scores reflect the growing acknowledgement for fundamental reform to evolve to the next level across the government, social security, public and private sectors.

Figure 30: Where do respondents stand on regulatory and governance structure?



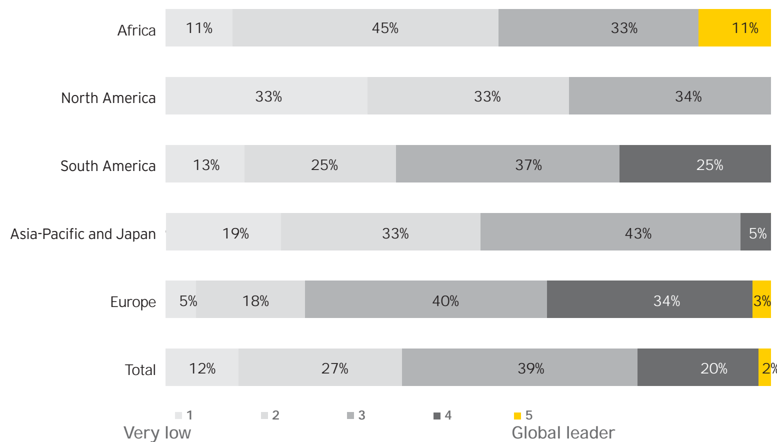
Most regions share a diverse assessment of their regulatory and governance maturity. Principally, regulatory and governance maturity correlates to system maturity, as evidenced by the diversity of response from Asia-Pacific and Japan and Europe. African responses are influenced by the study bias for large employers. Many South American participants may apply a perspective of past achievements versus a whole system life cycle maturity assessment. The US responses indicate deferring the inevitable on fit-for-purpose regulation and governance that is aligned to industry size and complexity. One implication may require immediate attention from all stakeholders: regulatory and governance maturity differences in a country or system commonly lead to fierce public debate, which impacts customer confidence and choices.

Figure 31: How do respondents rate being easy to deal with?



Global participants confirm, to varying degrees, substantial gaps in being easy to deal with. Countries with high choice exposure are generally more aware of issues through aspects, such as low reform approval, engagement and choice take-up rates. The good news: most stakeholders globally acknowledge this fundamentally restricting aspect for engagement and confidence of employers, beneficiaries and members. The bad news: this acknowledgement leads to little visible reform and improvements. Few stakeholders acknowledge that the historically low strategic importance of administration and delivery on a policy and provider level is significantly restricting success in the new world. Some participants raised a vital question: do policymakers, public and private sector pension and retirement plans and their product and service providers need to elevate the strategic policy and delivery importance of administration and being easy to deal with? Business and individual customer journey mapping, an outside-in view, as well as a strategic look at core and adjacent policy (e.g., taxation and social security) may become vital steps.

Figure 32: What is the level of digital maturity?



Self-assessment responses are very diverse globally and within the same countries. Clearly, the pension and retirement industry is still grappling with their take on digital and its long-term opportunities and threats. Some countries and participants applied a very low benchmark, e.g., using the success of their social media site as a benchmark. Many participants raised major concerns that policy and regulation substantially restrict their ability to maximize benefits from digital. Several participants, particularly in North America, recognize the need for significant change in the thinking and implementation of digital as an engagement and empowerment solution and a mechanism to differentiate and attract.

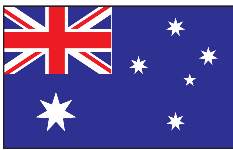
Overview of 30 pension and retirement markets globally

Review period: February to July 2015

Sources: Oxford Economics (GDP, population-related statistics); OECD (number of pension funds, pension fund assets, except Netherlands and France); De Nederlandsche Bank (Netherlands fund numbers and assets)

Direction de la Recherche, des Études, de l'Évaluation et des Statistiques (France fund numbers and assets); Finanstilsynet (Denmark fund assets)

OECD (number of pension funds, pension fund assets – Korea); China Ministry of Human Resource and Social Security (Mainland China fund assets); Mandatory Provident Funds Scheme Authority (Hong Kong fund numbers and assets); Central Provident Fund Board (Singapore fund numbers and assets); Australian Prudential Regulatory Authority (Australia fund numbers and assets)



Australia

Statistics	2013	Dependency ratio	22%
GDP (US$b)	1,600	Number of pension funds[1]	258
Population (m)	23.6	Pension fund assets as % of GDP	105%

Note: Private pension system is referred to as "superannuation."

Market structure

Pillar 1

- Government-funded aged pension
  - From consolidated revenue
  - Means-tested
  - Eligibility at age 65 for men and women

Pillar 2

- Mandatory savings through superannuation guarantee
  - Outsourced to private sector
  - Individual pension accounts provided by superannuation funds
  - Earnings-related
  - Funded, mainly DC
  - Contribution via 9.5% salary deduction by employer
- Many public sector funds are DB

Pillar 3

- Additional voluntary superannuation contributions
  - Government superannuation co-contributions for lower-income earners
  - Tax incentives
- Other private savings

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★ ★

Pillar 1

Recently implemented

- Increasing pension age to 67 between 2017 and 2023

Pillars 2 and 3

Recently implemented/in progress

(A change of government in September 2013 may result in changes to reforms.)

- Minimum retirement age increasing from 55 to 60 over 2016–2025
- "Stronger Super" reform program, launched in 2010
  - Increase in mandatory contributions from 9% to 12% over 2017–2025
  - Introduction of new, simple low-cost default fund from 2013
  - Back-office efficiency reforms
  - Governance and integrity reforms, to improve trustee and fund decisions, efficiency and effectiveness; development of prudential standards by regulator (APRA); largely in effect from July 2013
- "Future of Financial Advice" reforms, to address conflicts of interest in the provision of financial advice and improve trust and confidence of retail investors; voluntary from 2012, mandatory from 2013

Selected sources: Department of Human Services website; Department of Families, Housing, Community Services & Indigenous Affairs website; Australian Trade Commission Website; Australian Government Treasury/Charter Group, A super charter: fewer changes, better outcomes, July 2013; 2015 Intergenerational Report.

[1] Excluding self-managed.

Brazil

Statistics	2014	Dependency ratio	45.57%
GDP (US$b)	2,079	Number of pension funds[2]	269
Population (m)	202.7	Pension fund assets as % of GDP	21.5%

Market structure

Pillar 1

- State pension system with two components
  - Retirement age, which is due after 65 years for men and 60 years for women
  - Retirement contribution, which is due by the general rule after 35 years of contribution for men and 30 years for women
- Both forms of retirement require a grace period of 180 monthly contributions
- Employees contribute a monthly rate of 8%, 9% or 11%, depending on salary
- The company's contribution varies according to the type of activity that it operates
- The General Social Security Regime (RGPS) has its policies designed by the Ministry of Social Security (MPS) and executed by the National Institute of Social Security (INSS)

Pillar 2

- Private employers may offer a supplementary, voluntary pension plan for employees
- Generally, the company offers a joint contribution to the employee to encourage adherence to the plan
- Currently, according to Law 12,618/2012, the new federal civil employees also now have a supplementary pension scheme
- With the change in the rule, the public employees of General Social Security Regime (RPPS) now have limits for granting pensions, in addition to being set up with an extra pension scheme, for employees who are under the RPPS. It covers federal civil personnel.

Pillar 3

- Voluntary individual pension
- Annuity products
- The calculation of retirement benefit varies according to the contributions made during the period of accumulation and profitability of investment funds
- The risk profile for the choice of the invested fund is a factor to be considered
- The most common products are the PGBL and VGBL
- Tax incentives

Reforms

Pension and Retirement Business Opportunity score ★★★★

Pillar 1

In discussion

- Retirement time reduction with full benefit[3] if the sum of age and time of contribution to Social Security equal to a total of 85 years for women, and 95 years for men.
- Currently, to retire with full benefits you must have reached the age and the minimum period of contribution.

Pillar 2

Recently implemented

- In 2012, federal civil employees began to have a pension scheme as a complementary alternative to the deficit of the old model
- The public service in Rio de Janeiro and Sao Paulo already introduced this regime to its employees

Pillar 3

Recently implemented

In discussion

- VGBL Saúde (health) is in discussion
- Ring-fencing of customers VGBL and PGBL assets

Selected sources: IBGE; ABRAPP; SUSEP.

[2] Number of pension funds refers to Pillar 2.

[3] Full benefit corresponds to an average of 80% higher wages. To receive the full benefit, it will be necessary to meet certain conditions.

Canada

Statistics	2011	Dependency ratio	28%
GDP (US$b)	1,780	Number of pension funds	7,870
Population (m)	34.4	Pension fund assets as % of GDP	125.9%

Market structure

Pillar 1

- Old Age Security – basic public pension
  - Government-funded via tax revenue
  - PAYG
  - Means-tested, flat rate
  - Supplement for low-income earners
  - Eligibility at age 65
- Mandatory occupational schemes – Canada Pension Plan (CPP)/ Quebec Pension Plan (QPP)
  - PAYG/DB, funded on a "steady state" basis
  - Contribution rate (50–50 employer/employee)
    - CPP – 9.9%
    - QPP – 10.2%
    - Retirement age of 65
    - Tax-exempt contributions/ investment returns
  - Ontario Retirement Pension Plan (ORPP) coming into effect 1/1/2017
  - Mandatory participation, unless employer provides equivalent workplace pension
  - Contribution rate of 3.8% (50–50 employer/employee)

Pillar 2

- Registered pension plans (RPPs) – voluntary occupational plans
  - Predominantly single employer (some multi-employer/industry-wide funds)
  - Joint employer-employee contributions
  - Plans generally integrated with CPP/QPP
  - Significant number of DB plans, but trend toward DC plans
  - Tax incentives
- Shared Risk Pension legislation introduced in New Brunswick
  - Hybrid plans with no solvency funding
  - Conversion options available for existing DB plans
- Other provinces are proposing similar legislation

Pillar 3

- Personal retirement savings plans
  - Annual contribution limits
  - Tax incentives

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★ ★

Pillar 1

Recently implemented/in progress

- OAS age of eligibility to gradually increase from 65 to 67 over 2023–2029
- OAS/CPP/QPP – incentives to delay retirement/disincentives to retire early, e.g., QPP early retirement factor to increase gradually from 5% to 6% between 2014 and 2016
- QPP contribution rate progressively increases to 10.80% by 2017; from 2018, an automatic mechanism will be implemented to ensure stable funding

Pillar 2

Recently implemented

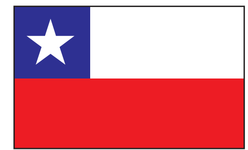
- Introduction of low cost, pooled registered pension plans (PRPPs) – aimed at employees/self-employed who do not have access to employer sponsored plan; voluntary for employees and employers; does not require employer contributions
- Similar product also introduced in Quebec, voluntary retirement savings plan (VRSPs) – mandatory for employers to offer plan; does not require employer contributions; includes auto-enrollment with opt-out option for employees

Pillar 3

- No significant recent or pending reforms identified

Selected sources: IOPS, Country profile: Canada, 2011; Service Canada website; Regie du rentes Quebec website; OECD, Pensions at a glance, 2009 and Private pensions outlook, 2008; Social Security Administration (US), International update, May 2013 and Jan 2012.

Chile



Statistics	2014	Dependency ratio	20.9%
GDP (US$b)	238	Number of pension funds	6
Population (m)	17.8	Pension fund assets as % of GDP	69.5%

Market structure

Pillar 1

- Solidarity Pensions System – funded by tax revenues
  - Old Age Basic-Solidarity Pension (PBS) – means-tested, non-contributory program for people over 65 who do not have savings in any pension system
  - Old Age Pension Solidarity Complement (APS) – state-funded benefit for those over 65 who have contributed to the contributory pension system, and who have a basic pension greater than zero and less than or equal to the rate of Maximum Pension with Solidarity Contribution introduced in 2008
  - Increase the amount of Maximum Pension with Solidarity Contribution for people who have contributed to an AFP

Pillar 2

- Mandatory DC system, individual capitalization system – individual accounts managed by private pension fund administrators (AFPs)
- Contribution rate of 10% by employee – there is a specified maximum salary to which the mandatory contribution applies
- Covers private and public sectors; separate scheme for armed forces
- Participation currently voluntary for self-employed, those in the informal sector or those covered by former system (pre-1981)
- Eligibility at age 65 for men/60 for women
- Contributions, investment returns tax exempt; benefits taxed
- Minimum pension guaranteed by the state depends on the characteristics of the beneficiary
- Gradual extension of mandatory system to certain self-employed professionals over 2008 to 2015: auto-enrollment from 2012, mandatory contribution from 2015 for self-employed
- Employer subsidy for young workers – state contribution for each low-income young worker
- Outsourcing authorized for many functions of plan managers

Pillar 3

- Voluntary pension savings
  - A separate savings account (APV) with the same AFP as the mandatory account or in another financial institution (bank, insurance company)
  - Additional contributions to mandatory account
  - Agreed/Fixed deposits – employer contribution to employee's mandatory account, lump-sum or periodic payment
  - Employer sponsored voluntary pension saving (APVC) – includes employer contributions (introduced in 2008, low take up)
- Contributions tax exempt; benefits taxed
- Rules for APVC aimed at encouraging greater take up by employers and employees

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★ ★

Pillar 1

In discussion

- Proposals aimed at strengthening the solidarity pillar, by extending coverage to a wider income bracket (over 60% of the poorest population currently covered) for both Basic-Solidarity Pension and Pension Solidarity Complement

Pillar 2

In discussion

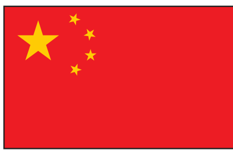
- More flexible investments for DC plans, e.g., limit on foreign investment progressively increased from 60% to 80% over 2010 and 2011; no management fee on AUM
- Fixed fees to fund managers eliminated, only % commission on monthly contributions
- A Pension Committee installed by the new president after the November 2013 elections has been studying various possible changes to the pension system in all three Pillars: improvement of the basic/solidarity pension (Pillar 1), changes to commission system to fund managers, increment of contribution percentage, as well as the retirement age (to 67); and increase the maximum salary level for which there is compulsory pension contribution (Pillar 2)

Pillar 3

In discussion

- The Pension Committee is also studying further incentives for voluntary pension savings individual and group – APV and APVC. (Pillar 3). The president and government have now to decide which of the results to translate into new law proposals.

Selected sources: IOPS, Country profile: Chile; Superintendencia de Pensiones website; ISSA, Good practices in Social Security: the pension reform in Chile, 2013; Social Security Administration, International update, Jan 2012 and May 2011; Proposals to improve old age Pension 2013.



China (Mainland)

Statistics	2013	Dependency ratio	13.1%
GDP (US$b)	9,495	Number of pension funds	n/a
Population (m)	1360.72	Pension fund assets as % of GDP	6.3%

Market structure

Pillar 1

- Pillar 1a: Civil servant and state workers
- Pillar 1b: Urban enterprise employee scheme
  - Mandatory to all enterprise employees
  - Social pooling (financed mainly by employers) and participants' contribution to individual account
- Pillar 1c: Urban-rural resident scheme
  - Voluntary; covering rural, unemployed and self-employed resident
  - Social pooling (financed by government) and participants' contribution to individual account
- Eligibility at age 60 (men), 50 or 55 (women)

Pillar 2

- Voluntary occupational pensions called Enterprise Annuities (EA)
  - DC
  - Set up as trust
  - Primarily adopted by large, profitable, mostly state-owned enterprises
  - Only licensed financial institutions are allowed to manage and administer Enterprise Annuity assets
  - Tax incentives

Pillar 3

- Voluntary private pension products/private savings
- Pilot program on tax-deferred pension insurance announced – implementation pending

Reforms

Pension and Retirement Business Opportunity score ★★★

Pillar 1

Recently implemented

- Fiscal transfers from local and central government to "refill" Pillar 1b individual accounts, which has lost funds to local governments looking to cover deficits in the PAYG portion
- In 2015, Pillar 1a was reformed to be consistent with the feature of Pillar 1b

In discussion

- Centralize the capital of social security funds; standardize the pension features in different regions and provinces
- Increase retirement age in the next two years
- Offer universal social security coverage for people who are yet to join the social security insurance of Pillar 1

Pillar 2

Recently implemented

- EA tax deferral in effect since 1 January 2014

In discussion

- A mandatory occupational pension fund called Occupational Annuities for civil servants and state workers is in progress; further details are expected to be announced in near term

Pillar 3

In progress

- State Council has announced that the development of tax-deferral pension insurance scheme would be one of the works to be focused on in 2015.
- Shanghai is scheduled to launch a pilot on deferred individual income tax program in late 2015.

Selected sources: State Council, "Regulations on the reform of pension systems for employees in the civil servant regime," Jan 2015.

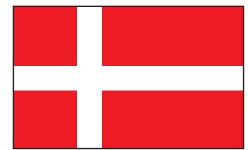
Premier of the State Council Li Keqiang, "Report on the Work of Government," March 2015.

Ministry of Finance, Ministry of Human Resources & Social Security, State Administration of Taxation, "Notice of the Ministry of Finance, the Ministry of Human Resources and Social Security and the State Administration of Taxation on Issues concerning Individual Income Tax on Enterprise Annuities or Occupational Annuities," June 2013.

MOHRSS website, http://www.mohrss.gov.cn/SYrlzyhshbzb/dongtaixinwen/buneiyaowen/201503/t20150311_153717.htm.

Pension fund assets – MOHRSS website: http://www.mohrss.gov.cn/SYrlzyhshbzb/dongtaixinwen/buneiyaowen/201405/t20140528_131110.htm.

Denmark



Statistics	2014	Dependency ratio	35.5%
GDP (US$b)	341	Number of pension funds	n/a
Population (m)	5.7	Pension fund assets as % of GDP	86.9%

Market structure

Pillar 1

- Pension savings in this pillar are mainly to prevent poverty
- Basic pension
  - Public Pension: Basic amount plus add-on. Benefits are dependent on work-related income and are fully tax-financed.
  - ATP Lifelong Pension (Arbejdsmarkedets Tillægspension) – mandatory supplementary pension, fully funded by employer and employee
- Voluntary pensions or social pensions by application
  - Disability Pension: Social pension benefit that may be granted upon application if reduced ability to work (age 18–64 years). Material status dependent
  - Early-Retirement: Employee funded and dependent on year of birth and amount of contributions
  - SUPP (Lifelong Supplement Pension Scheme [ATP]): A voluntary, supplementary labor-market pension for those on Disability Pension

Pillar 2

- Occupational pension with earnings-related contributions, through single company or industry-wide pension funds
- Funded by employer and employee contributions – contribution levels vary, depending on the scheme
- Often a combination of a time-limited annuity scheme and a lifelong Annuity Scheme (See Pillar 3)
  - Contributions of time-limited Annuity Schemes are tax exempt up to a specified limit, benefits taxed
  - Contributions to Lifelong Annuity Schemes are fully tax exempt, benefits taxed
- Individual health and life insurance plans offered, as well as death and disability benefits

Pillar 3

- Private pensions: voluntary private earnings-related pension schemes, often held in banks
- Time-limited annuity disbursements (minimum 10 years)
  - Defined contribution schemes, annual contribution or combination of both
  - Tax deductible up to a specified limit
- Lifelong disbursements (life annuities)
  - Defined Benefits pension savings plan
  - Contributions can be adjusted over the year and can be fixed monthly payments, annual contribution, and/or extra contributions
  - Fully tax deductible with no upper limit
- Retirement savings
  - Non-tax deductible and paid out as one or more payments

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★

Pillar 1

In progress

- Gradually increasing retirement age from 65 to 67 (2009 reform). Every fifth year, the retirement age will be adjusted to the increase in expected total life span (same for early retirement)
- Age at which early retirement can be taken increases from 60 to 64 over 2014–2017; the early retirement period decreases from 5 to 3 years over 2018–2023

Recently implemented

- Entitlement to a full Public Pension now requires 40 years of residence after the age of 15. Tax reforms are expected to decrease payments
- Restrictions implemented in 2013 regarding eligibility for Disability Pension for people under 40 years of age

Pillar 2

In progress

- A special tax on large pension schemes will be gradually phased out from year 2015 (5%) to 2020 (0%)

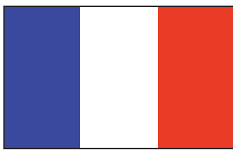
Recently implemented

- Refer to Pillar 1
- Currently Danish tax legislation implies that lump-sum pension schemes can be taxed immediately with a lower percentage (37.5%) than at the time of retirement (40%)

Pillar 3

- Refer to Pillars 1 and 2

Sources: ISSA, 2013, ATP, borger.dk, Forsikring & Pension (Danish Insurance & Pension Association).



France

Statistics	2014	Dependency ratio	56.46
GDP (US$b)	2.935	Number of pension funds	n/a
Population (m)	66.3	Pension fund assets as % of GDP[4]	9.7

Market structure

Two-tier system – (Pillar 1) – public pension + supplementary mandatory occupational schemes (Pillar 1 bis according to EU laws considered as Pillar 2) based on points system (in average, retirement indemnities represents 72% of the last salary)

Pillar 1

- Basic earnings-related public pension (PAYG/DB)
- Various categories: general scheme for private sector workers, separate schemes for certain occupational groups, public sector workers and self-employed
- Funded by employer and employee contributions (8.5% and 6.85%, respectively, for the general scheme for private sector workers)
- Retirement rights are based on period of contributions
- The public system also has a non-contributory minimum pension for the elderly
- Public Reserve Fund established in 1999 to fund deficits in PAYG pension system

Pillar 2

- Mandatory occupational schemes (PAYG/DB), based on collective agreements
  - Main schemes: AGIRC (for executives) and ARRCO (for employees)
  - Funded by employer and employee contributions
  - Contributions tax exempt, benefits taxed
- Mandatory retirement Indemnities (DB plan): employer is required to pay a lump-sum to employees at retirement age. Typically around six months salary, depending on the applicable collective bargaining agreement
- Optional supplementary DC pension schemes (Art 83, PERCO) funded by employers and employees
- Optional Supplementary DB pension schemes (Art 39), generally provided to top executives and funded by employers only
  - Most companies are currently closing these schemes to new entrants

Pillar 3

- Voluntary private earnings-related pension schemes (PERP):
  - DC pension savings plans
  - Contributions are tax deductible

Reforms

Pension and Retirement Business Opportunity score ★★

Pillar 1

Recently implemented/in progress

- 2013 Pension reform
  - Years of contribution required for full pension progressively increasing from 40 to 43 years by 2035
  - Further increase in employee/employer contributions
- Creation of a hardness category to decrease the legal age of retirement for some people

Pillar 2

- Additional taxation for supplementary DB pension schemes
- Projects in progress aiming to develop optional DC pension schemes provided by companies
  - Loi Macron: proposals for developing DC plans in SME, lower social benefit charges and promoting pension assets management with recommended allocation

In discussion

- Future reform with corrective measures for mandatory occupational schemes (ARRCO/AGIRC), which are in deficit

Pillar 3

- No significant recent or pending reforms identified

Selected sources: IOPS, OECD, INSEE, World Bank.

[4] Private pension assets, mostly insurance contracts.

Germany

Statistics	2011	Dependency ratio	39.5%
GDP (US$b)	3,604	Number of pension funds	182
Population (m)	81.7	Pension fund assets as % of GDP	5.4%

Market structure

Pillar 1

- Earnings-related PAYG system
- Funded by employees, employers and government subsidies; contribution rate of 18.7% split equally between employee and employer up to the earnings cap of €72,600 p.a. (2015)
- Means-tested safety net for low-income pensioners
- Pension entitlement is based on pension points earned over an individual's working life (years of contribution + level of earnings); only income up to the earnings cap qualifies
- Separate, partially funded schemes for various professions (e.g., doctors, lawyers, architects)
- Normal retirement age increases from 65 to 67 up to 2029

Pillar 2

- Employers may offer a supplementary, voluntary pension plan for employees
- The German pensions law allows five vehicles for corporate pension schemes (2011):
  - Direct commitment via book reserves (52% of total)
  - "Pensionskasse" (24%) or direct insurance (11%) – both insurance-based vehicles
  - Support fund (7%), pension fund (5%)
- Plans are predominantly DB, but some are hybrid; there are no pure DC plans
- Tax incentives for contributions and investment returns, benefits taxed
- Many companies operate contractual trust arrangements (CTA) for their direct commitments, which replicate US/UK pension funds under Roman law

Pillar 3

- Individual pension plans, comprising annuities, endowments assurance, investment fund savings plans and bank savings plans ("Riester plans")
- For self-employed, pension contracts that provide for the payment of a lifelong pension ("Rürup plans")
- Tax incentives for contributions and investment returns, benefits taxed

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★ ★

Pillar 1

Recently implemented (effective 2015)

- Unreduced old age pension for employees with 45 years of service and at least age of 63. This reversed some parts of the last pension reform.
- Interest credits for parents (e.g., childcare at home) were introduced.

In progress

- No major changes planned by this government. Next general election is 2017.

Pillar 2

Recently implemented

- Introduction of asset-pooling fund, Investment-KG (part of AIFMD implementation; enacted 2014)

In discussion

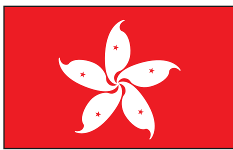
- Government is discussing strengthening corporate pension arrangements for small and medium size companies.
- Discount rate calculation under German GAAP will likely move from a 7-year to a 12-year average to relieve companies from the financial impact of low interest rates.

Pillar 3

In discussion

- The low interest rate environment is a threat to insurance carriers, due to their heavy investment in bonds and past interest guarantees between 4.0% and 1.25% p.a. The Association of German Insurers wants lawmakers to remove these guarantees.

Selected sources: IOPS, Country profile: Germany, 2011; Occupational Pensions Association (ABA), 2014; Association of German Insurers (GDV), 2014.



Hong Kong SAR

Statistics	2014	Dependency ratio	19.8%
GDP (US$b)	290	Number of pension funds	4,974
Population (m)	7.3	Pension fund assets as % of GDP	38.1%

Market structure

Pillar 1

- Social Security Allowance Scheme
  - Old Age Living Allowance – means-tested, for those aged 65+
  - Old Age Allowance – not means-tested, for those aged 70+
  - Scheme is flat rate, government-funded
- Civil Service pension schemes
  - Old Pension Scheme (OPS) for pensionable civil servants who were appointed before 1 July 1987
  - New Pension Scheme (NPS) for pensionable civil servants who were appointed between 1 July 1987 and 31 May 2000
  - Civil Service Provident Fund (CSPF) Scheme for officers who joined civil service on new entry terms on or after 1 June 2000. The government's contribution follow progressive contribution rates based on service year.

Pillar 2

- Mandatory Provident Fund
  - Mandatory, contributory occupational scheme (employer and employee each contribute 5% of wages)
  - The minimum and maximum relevant income levels are HKD 7,100 and HKD 30,000, respectively
  - Fully funded, DC
  - Three types of schemes – Master Trust Schemes (35 schemes), employer-sponsored schemes (1 scheme) and industry schemes (2 schemes)
  - Employers and employees can make additional voluntary contributions
  - Tax incentives (excluded voluntary contribution)
- Occupational Retirement Schemes (ORSO schemes)
  - Voluntary occupational retirement schemes
  - Mostly defined contribution schemes
  - The rules of individual ORSO schemes are specified in the respective governing rules of the schemes.

Pillar 3

- Voluntary retirement savings
- No tax incentives
- Voluntary contributions to MPF
- No specific Pillar 3 scheme

Reforms

Pension and Retirement Business Opportunity score ★★½

Pillar 1

Recently implemented

- Old Age Living Allowance was launched in 2013. Before that, those aged 65 to 69 were covered by the previous Normal Old Age Allowance

Pillar 2

In progress

- MPF
  - Allowing phased withdrawal of MPF benefit
  - Terminal illness included as an additional ground for early withdrawal
  - Streamlining and automation of administration processes

In discussion

- Introducing "Core Fund" – a standardized, low-fee, default investment option in all schemes

Pillar 3

- No significant recent or pending reforms identified

Selected sources: (per HK tab) HK Social Welfare Department website.

HK Civil Service Bureau website MPFA, "Mandatory Provident Fund Schemes Statistical Digest," March 2015.

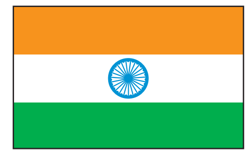
MPFA, "MPFA Newsletter," Issue No. 18, March 2015 5. MPFA, ORSO Scheme Statistics, 31 March 2015 (per Stats tab).

GDP at current market price – HK Census and Statistics Department website, http://www.censtatd.gov.hk/hkstat/sub/sp250.jsp?tableID=030&ID=0&productType=8.

Old dependency ratio – HK Census and Statistics Department website: http://www.censtatd.gov.hk/hkstat/sub/sp150.jsp?tableID=004&ID=0&productType=8.

Number of pension funds & Pension fund assets – HK MPFA statistical digest: http://www.mpfa.org.hk/eng/information_centre/statistics/mpf_schemes_statistical_digest/files/Dec_2014_Issue.pdf.

India



Statistics	2014	Dependency ratio[5]	8.0%
GDP (US$b)	1,996	Number of pension funds[6]	n/a
Population (m)	1,260	Pension fund assets as % of GDP[7]	11%

Market structure

Pillar 1

- India lacks a robust Pillar 1 system. However, for people at the lower end of the economic strata, there are several central and state government-run means-tested, targeted, social assistance programs and welfare funds. These constitute India's Pillar 1 schemes, in which the pension benefit is minimal.
- A few of them are:
  - Indira Gandhi National Old Age Pension Scheme (IGNOAPS): Provides social security to aged citizens living below poverty line (BPL).
  - Annapurna Scheme: People uncovered under IGNOAPS are eligible for 10 kg of grain under this scheme.
- According to academicians, Pillar 1 pension benefit does not reach the intended recipients, due to the inefficiency of the benefit distribution mechanism.

Pillar 2

- In India, Pillar 2 comprises a host of pension schemes with a different set of rules and regulations. The most prominent schemes are:
  - Central Civil Services Pension: Employees of the Central Government, recruited prior to 1 January 2004, are eligible for a maximum monthly pension of 50% of an employee's average basic pay in the last 10 months of his or her service.
  - General Provident Fund: A voluntary DC scheme for Central Government employees.
  - Employee Provident Fund Organization Schemes (EPFO): Mandatory pension fund for India's organized sector.
  - Atal Pension Yojana: APY is focused on unorganized sector. Beneficiaries would receive a fixed minimum pension of Rs. 1,000 to 5,000 per month, after the age of 60, depending on their contributions (Rs. 42–1,454) and age of joining (18-40 years).

Pillar 3

- In India, Pillar 3 includes Public Provident Fund (PPF) and the individual pension/annuity plans offered by life insurers, mutual fund pension plans and the National Pension System (NPS) for non-government employees and any other personal savings of individuals for after retirement.
  - NPS: NPS, a Pillar 2 scheme, was made available to all Indian citizens with effect from 1 May 2009.
  - Public Provident Fund (PPF): The benefits include total accumulations that can be withdrawn after 15 years of service.
  - Mutual fund pension plans: These are defined contribution schemes and are typically open to subscribers who are at least 18 years old.

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★

Pillar 1

- No significant recent or pending reforms identified

Pillar 2

Implemented

- The Government of India has now moved from a DB pension system to a DC pension system, known as National Pension System (NPS). All new government recruits will now be a part of NPS w.e.f 1 January 2014.
- Pension Fund Regulatory and Development Authority (PFRDA) tweaked investment guidelines for government sector subscribers of NPS by allowing pension funds to invest 5% more in corporate debt and reduce exposure in G-Secs by 5%.
- The foreign direct investment (FDI) limit in the sector has been raised to 49%.

In discussion

- Committee set up to review investment guidelines for NPS has recommended: shift in investment strategy from passive to active fund management; relaxing investment norms for pension funds; and giving investors freedom to decide the assets they want to put their money in and how much they want to invest.

Pillar 3

Implemented

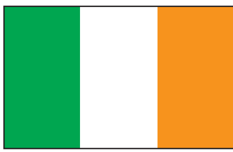
- All the pension funds regulated by Pension Fund Regulatory and Development Authority (PFRDA) can now invest up to 5% into real estate trusts.
- NPS rules for private sector allow maximum exposure to equity of 50% as compared to 15% in case of government employees.

In discussion

- Foreign funds may be invited to manage schemes run under NPS. Currently, eight pension fund managers manage private-sector funds and only three run by nationalized financial institutions are allowed to manage government funds.

Selected sources: World Bank, IMF, Pensions business in India, EY, 2013, PFRDA.

[5] As of December 2013.
[6] As of December 2012.
[7] As of December 2012.



Ireland

Statistics	2014	Dependency ratio[8]	18
GDP (US$b)	229	Number of pension funds	n/a
Population (m)	5	Pension fund assets as % of GDP	58%

Market structure

Pillar 1

- Pillar 1 consists of public pension plans financed on the PAYG basis. The public pension plans offer two types of benefits:
  - A basic flat-rate benefit to all retirees that meet the contribution criteria. It is further composed of State pension contributory (SPC) and State pension transition (SPT). SPT is a transition pension which is used to pay people who have retired at 65, a year before retirement age of 66.
  - A means-tested benefit meant for those who have not contributed or have not contributed enough. This is called the State pension non-contributory (SPNC).
- The retirement age is 66.

Pillar 2

- Occupational schemes, set up by employers, form Pillar 2 of the Irish pension system. They can be established either as DB schemes or DC schemes.
- All benefits paid from a company plan are subject to maximum limits set by the tax authority (Revenue Commissioners).
- Occupational pension plans for the private sector are funded in contrast to occupational plans for public-sector employees, which are generally not funded.

Pillar 3

- Private pension plans in the form of Retirement Annuity Contracts (RACs) and Personal Retirement Savings Accounts (PRSAs) form Pillar 3 of the Irish pension system.
- These plans are offered by financial service providers, such as insurance companies and banks.
- It should be noted that RACs can only be used by individuals without access to occupational pension plans.
- Retirement is not a perquisite and benefits normally become available between the ages of 60 and 75 or at any time in the event of serious ill health.
- On maturity of the contract, 25% of the funds can be paid as a tax-free lump-sum while the remaining funds can be used to purchase an annuity.

Reforms

Pension and Retirement Business Opportunity score ★½

Pillar 1

Implemented

- The pension age is scheduled to increase to 67 years in 2021 and to 68 in 2028.
- SPT was abolished in 2014.

Pillar 2

Implemented

- Pensions Authority introduced new guidelines for financial management of DB schemes in 2015, focusing on trustee scheme governance.
- New rules with respect to wind-up of DB schemes (in case the DB schemes are not fully funded and not able to meet liabilities) have been implemented.
  - The rules reduce the rights of current pensioners and improve the priority given to future pensioners.

Under discussion

- New "Universal Retirement Savings Group" formed in 2015 to develop a road map and timeline for mandatory workplace pensions.

Pillar 3

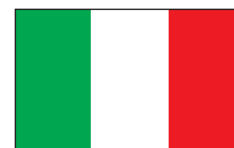
Implemented

- There are no standard terms or maximum charges for RACs.
- PRSAs can be of two types:
  - Standard PRSA: a contract that has a maximum charge
  - Non-Standard PRSA: a contract that does not have maximum limits on charges

Selected sources: IMF; World Bank; Towers Watson; OECD.

[8] As of December 2013.

Italy



Statistics	2014	Dependency ratio[9]	33
GDP (US$b)	2,171	Number of pension funds	496
Population (m)	60,7	Pension fund assets as % of GDP[10]	6%

Market structure

Pillar 1

Public Pension issued by Istituto Nazionale Previdenza Sociale (INPS)

- It is a compulsory PAYG plan comprising various branches.
  - However, the current reformed system mimics a funded system, in the sense that the pension level of each retired employee will be based on the amount of contributions she/he poured into the public pension scheme.
- Minimum of 20 years of contribution is required for public- and private-sector employees.
- Currently, retirement age is set at 66 years for all male employees (public- and private sector) and for women who work in the public sector, while for women in the private sector it is set at 63.

Pillar 2

- It has two components:
  - Contractual pension funds: created by employers' associations and trade-unions.
  - Open pension funds: run by banks, insurance companies and investment management companies.
- Subject to lower tax rates, as compared to other investment products.
- Upon termination of employment for any reason, employers have to pay a termination indemnity (Trattamento di fine Rapporto or TFR) to its employees.
- The retirement age is the same as in Pillar 1.

Pillar 3

- Open pension funds run by financial institutions also offer voluntary pension plans and form part of Pillar 3.
- Also, traditional social security assets (Piano Individuale Pensionistico, PIP) offered by insurance companies and other financial intermediaries form an integral part of Pillar 3.
- Majority of the funds under Pillar 3 are DC plans.

Reforms

Pension and Retirement Business Opportunity score ★★½

Pillar 1

Implemented

- Starting 2012, the pension amount will be calculated on the basis of the amount of contributions paid. However, it will not be applicable to employees who had met pension eligibility by December 2011.
- As a result of austerity measures, retirement age will be lifted to 66 (in all cases) by 2018, when men will then need to make 42 years of contributions to claim a pension and women 41.

Pillar 2

Implemented

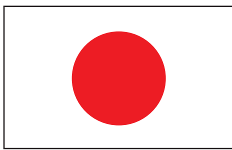
- All pension funds now operate on a defined contribution (DC) basis, as this is the only permitted type of pension plan.
- Rules around the investment restriction were changed in 2014, allowing much greater investment freedom.
- From 1 July 2008, at joining, pension funds must deliver the "standard pension plan" to its members. Members can then compare the estimated future pension with their needs.

Pillar 3

- No significant recent or pending reforms identified

Selected sources: World Bank, IMF, Towers Watson, Euracs.eu, ISTAT, COVIP.

[9] *As of December 2013.*
[10] *As of December 2012.*



Japan

Statistics	2012	Dependency ratio	46%
GDP (US$b)	5,961	Number of pension funds	n/a
Population (m)	126.9	Pension fund assets as % of GDP	n/a

Market structure

Pillar 1

- National Pension System (NPS)
  - Flat rate contributions and benefits
  - Government subsidizes 50% of payments
  - Eligibility at age 65

Plus

- Mandatory employment-related pension
  - Mutual Aid Pension (MAP) – public-sector employees
  - Employee Pension Insurance (EPI) – private-sector employees
  - 17.474% contribution (50% each employer and employee) of standard monthly salary and bonus
  - Modified PAYG

Pillar 2

- Voluntary occupational pensions:
  - Employee Pension Funds (EPF) – DB; can substitute Pillar 1 employment-related pension; numbers declining in favor of DB and DC corporate pension plans
  - DB and DC corporate pension plans – relatively new; DC plans gaining in popularity
  - Mutual Aid plans – specifically for small businesses
- Tax incentives

Pillar 3

- Personal voluntary retirement savings
- National Pension Fund
  - Individual DC accounts for self-employed or employees whose employers do not provide pension plans
  - DB plans for self-employed
- Tax incentives

Reforms

Pension and Retirement Business Opportunity score ★★★★★

Pillar 1

Recently implemented

- Macroeconomic indexation
- MAP to be merged with the EPI

In progress

- EPI contribution rate increase to 18.3% by 2017
- NPS contribution increase by 2017
- Gradual increase of eligibility age from 60 to 65 (by 2025 for men and 2030 for women for the earnings-related component)

Pillar 2

In discussion

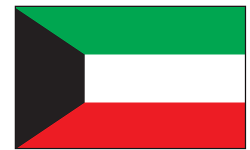
- Phase out of EPF system after a transitional period. EPF to be converted to alternative type of plan by transferring substituted benefit obligations and corresponding assets to government
- Equal footing between DB systems and DC systems
- New scheme for reducing burden on the part of SMEs
- System that is provided with characteristics of both DB and DC systems
- Expanding pension plans' portability, amplifying the range where individual-type DC is applicable

Pillar 3

- No significant recent or pending reforms identified

Selected sources: Japan Ministry of Health, Labour and Welfare website.

Kuwait



Statistics	2014	Dependency ratio	3%
GDP (US$b)	185	Number of pension funds	n/a
Population (m)	4	Pension fund assets as % of GDP	n/a

Market structure

Pillar 1

- Kuwait has a comprehensive Social Security System that covers all Kuwaiti nationals.
- The system is financed mostly by the state. It covers pensions, disability, sickness benefits and free public health care.
- However, there are no state pension plans for foreign expatriates.
- Retirement age: 50 years with 15 years of contributions for men and women or 43 years with 15 years of contributions for married women and women with children.
- Old age benefits: The maximum pension is 95% of insured's earnings and 100% in case of military personnel.

Pillar 2

- Social Security system in Kuwait covers all employees who are citizens of Kuwait. There are special systems for the self-employed and military personnel.
- Foreign workers do not have access to pensions in Kuwait. However, certain state institutions and some international firms have corporate pension schemes. Therefore, it is advisable for foreign workers that they continue to contribute to pension schemes in their respective homeland.

Pillar 3

- Pillar 3 is represented by Voluntary Contribution System, Social Security System.
- It is meant for Kuwaiti nationals who are living outside Kuwait.
- The beneficiaries must pay contributions at the rate of (15%) monthly in a way that the monthly salary shall not exceed KD2,750 or US$9,109 and not be less than KD230 or US$761.

Reforms

Pension and Retirement Business Opportunity score ★½

Pillar 1

In discussion

- The pensionable age will increase gradually to age 55 by 2020, and in the case of married men and women with children, age will be increased to 50 by 2020.

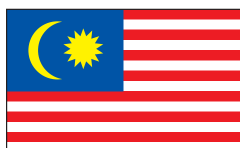
Pillar 2

- No significant recent or pending reforms identified

Pillar 3

- No significant recent or pending reforms identified

Selected sources: IMF; World Bank; Internations.org; Public Institution for Social Security, Ministry of Finance, Kuwait.



Malaysia

Statistics	2014	Dependency ratio[11]	8%
GDP (US$b)	343	Number of pension funds	n/a
Population (m)	30	Pension fund assets as % of GDP	60%

Market structure

Pillar 1

- Government provides the following retirement schemes:
  - Pension Scheme: provides financial security for retired government employees.
  - Employees Provident Fund (EPF): meant for non-pensionable public service employees. It operates via mandatory savings in the form of monthly contributions, from both employee and government.
  - Armed Forces Fund Board (LTAT): benefits are contributions, death and disablement benefits to armed forces.
- The compulsory retirement age for public-sector employees is 56. For civil servants, it is 58.
- Malaysia also has certain schemes targeted at the least advantages in the name of 1Malaysia People's Aid (BR1M).

Pillar 2

- EPF also covers private-sector employees. Savings are accrued for each employee through contributions from employees and their employers.
- The employee contributes 11% and the employer 13% to EPF. For employees who receive wages/salary exceeding RM5,000 (US$1,330) the employee's contribution remains the same, but employer's contribution is reduced to 12%. (Employer and employees can voluntarily choose to increase this contribution.)
- The EPF has a total of 14.29 million members, as of March 2015.

Pillar 3

- Pillar 3 is largely represented by Private Retirement Scheme (PRS). It is a defined contribution pension scheme, which allows people (or their employers) to voluntarily contribute into an investment vehicle for the purposes of building up their retirement income.
- Tax relief is given for contributions up to RM6,000 or US$1,599 a year for PRS.

Reforms

Pension and Retirement Business Opportunity score ★★

Pillar 1

- No significant recent or pending reforms identified

Pillar 2

Implemented

- The recently implemented reforms stipulate plan members should have a minimum amount of savings in the account correlating to their age. By the age of 55, members are expected to have accumulated at least RM196,800 (US$52,520).
- The withdrawal options have been multiplied. A member is now able to choose amidst monthly payments or one-time lump-sum withdrawals or mix of both.

Pillar 3

Implemented

- The system requires that 70% of the funds be in a sub-account not available until retirement. The rest can be in sub-account B, which can be tapped early, upon payment of an 8% penalty fee.

Selected sources: IMF; World Bank; Towers Watson; Malaysian government website; Employee Provident Fund website.

[11] As of December 2013.

Mexico

Statistics	2013	Dependency ratio	15%
GDP (US$b)	1,295	Number of pension funds	1,037
Population (m)	117.4	Pension fund assets as % of GDP	16.8%

Market structure

Pillar 1

- Minimum guaranteed old age pension for members of mandatory pension system under Pillar 2 whose personal accounts are below a certain threshold
- Paid and administered by IMSS and ISSSTE, state owned and operated with funding from state, employers and employees
- Based on minimum wage
- Must have ~25 years of contributions to mandatory pension system under Pillar 2 to be eligible for old age pension
- Retirement age of 65

Pillar 2

Mandatory funded DC system

- Individual capitalization system – individual accounts managed by private pension fund administrators (AFORES)
- Contributions: employer 5.15%, employee 1.125%, government 0.225%; government also contributes subsidy to accounts
- Additional 5% contribution from employer for housing account (reverts to retirement account if not used)
- Voluntary for self-employed and informal sector workers
- Eligibility at age 65; ~25 years of contributions required

Voluntary private occupational pensions (set up by employer):

- Generally DB but trend toward DC or hybrid for new funds
- Different tax incentives for mandatory vs. voluntary systems

Pillar 3

- Supplementary contributions to mandatory pension fund – by employer and/or employee, regularly or on an ad hoc basis
- Voluntary retirement accounts
- Some tax incentives

Reforms

Pension and Retirement Business Opportunity score

Pillar 1

In discussion

- Automatic pension scheme aimed at creating universal retirement coverage, with automatic enrollment for all citizens upon reaching 18 years of age
- Guaranteed universal pension for low-income persons over 65 – will not be available to those who are members of other existing pension systems

Pillar 2

Major reforms in 2007:

- ISSSTE, one of the two main social security institutions, moved from DB to DC scheme with guaranteed pension (other main social security institution, IMSS, made similar transition in 1997)
- Amendments to administrative fee structure – restrictions on fees
- Number of funds for each AFORE increased from two to five – different risk levels for each fund

Other reforms:

- Further gradual liberalization of permitted investments in recent years
- In 2012, changes to AFORE fund structure (combining of funds)

Pillar 3

In discussion

- Recent IRS reform proposal suggests the elimination of tax incentives for private pension plans

Selected sources: OECD, Pensions at a glance, 2011; IOPS, Country profile: Mexico, 2011; Social Security Administration (US), International update, Nov 2012 and Dec 2011; CONSAR, Mexico's pension system: a growing funding source for long-term and productive projects, 2013; BBVA, Pension reforms in Latin America: balance and challenges ahead, 2010.

Netherlands

Statistics	2014	Dependency ratio	52%
GDP (US$b)	798	Number of pension funds	365
Population (m)	16.9	Pension fund assets as % of GDP	179.7%

Market structure

Pillar 1

- Mandatory, funded on a PAYG basis
- Contributions of 17.9% (2015) via tax on income – employees only, no employer contribution
- In principle, all residents between the ages of 15 to AOW retirement age are insured; entitlement to AOW (old age) pension accumulates at rate of 2% for each year of insurance
- Flat rate, linked to minimum wage
- Social assistance available to those with a total income less than 70% of the minimum wage
- Eligibility at age 65 +3 months (2015); retirement age to rise to 66 by 2018 and 67 by 2021

Pillar 2

- Quasi mandatory – most employees covered by industry-wide pension funds pursuant to collective agreements
- Earnings related
- Employer-specific plans are either a company pension fund, insurance scheme or IORP (DC plans only)
- Nearly 90% of occupational plans are DB, but DC and hybrid plans are increasing
- Contribution levels for employers and employees determined by collective bargaining; employers' share generally represents 60% of contributions
- Tax incentives
- Net pension insurance

Pillar 3

- Annuities or endowment insurance
- Pension savings products via banks
- Tax incentives (limited for endowment)

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★

Pillar 1

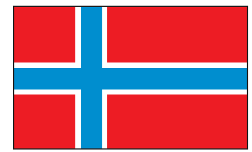
Pillar 2

- Pension communications act: This act intends to improve communications on pensions. The act is expected to come into force 1 July 2015.
- General pension fund act: This act introduces a pension vehicle and intends to improve the different employer's options to choose between pension providers. A general pension fund is allowed to apply ring-fencing. Ring-fencing in this respect stands for the obligation to separate the assets of the different pension schemes and the own funds (assets with respect to the pension vehicle itself). The act is expected to come into force 1 January 2016.
- Reconsideration of the rules on (collective) transfer of pension capital: The draft act is expected to be introduced early 2016.
- Approval rights works council: The approval rights on pensions of the works council will be extended per 1 July 2016.

Pillar 3

Selected sources: OECD Pensions outlook, 2013 and Pensions at a glance, 2014; World Bank, Netherlands Bureau for Economic Policy Analysis (CPB),www.overheid.nl.

Norway



Statistics	2015	Dependency ratio[12]	24%
GDP (US$b)	513	Number of pension funds	n/a
Population (m)	5	Pension fund assets as % of GDP[13]	165%

Market structure

Pillar 1

- Pillar 1 is represented by National Insurance Retirement Pension scheme. The National Insurance pensions are state pensions from the government.
- Contributions at the rate of 18.1% of monthly income are transferred to the pension account and can be accumulated subject to a maximum of NOK 620,000 or US$78,425.04.
- Retirement age is flexible and is possible between ages 62–75.
- From 2015, all years are taken into account when calculating the pension entitlement as opposed to an average of the 40 years that was the former rule.
- For those currently taking benefit of their pension, the benefit amount is adjusted in accordance with average salary increase as of 1 May 2015.
- Changes to disability pension regulations are introduced as of 1 Jan 2015, whereby new recipients of the disability pension will receive 66% of former salary (up to NOK 530,000 or US$67,040.76) subject to regular income tax.

Pillar 2

- Norway provides for mandatory occupational pension system. Occupational pensions are of three types in Norway:
  - DB schemes: Some public-sector firms and large employers offer DB schemes to their employees. In Norway, these DB schemes are clubbed with the national insurance plan (Pillar 1) to provide an overall target benefit.
  - DC schemes: Private-sector employees mostly offer DC schemes. Maximum contribution levels were increased in 2014 to 18.1% on salary between 7.1 and 12 times National Insurance Base amount (known as Grunnbeløp or G).
  - Hybrid schemes: introduced in 2014, this scheme comprises both DB and DC elements. So far, the prevalence of hybrid schemes is low.
- Employees also enjoy the provision to retire early and start taking benefit of their pension plans. This is done under contractual pension plans or AFP, subject to certain rules and regulations.

Pillar 3

- Pillar 3 comprises voluntary pension contracts and annuity contracts. Insurance companies dominate Pillar 3.
- Tax benefits are available.

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★

Pillar 1

Implemented

- According to reforms introduced in 2011, pensioners can opt to draw 0%, 20%, 40%, 60%, 80% or 100% of their benefit entitlement.
- The reforms also allow for partial retirement, i.e., where the pensioner retires partially (continues to work in some manner) but there is no reduction in pension.

Pillar 2

Implemented

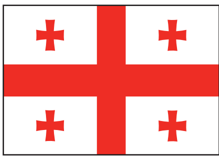
- Under DC plans, a minimum of 2% of employees' salary is transferred to a pension fund or an insurance company.
- Previously, the retirement age in case of contractual pension was set at 66, but now it has been reduced to 62.

Pillar 3

- No significant recent or pending reforms identified

Selected sources: IMF; World Bank; Towers Watson, DNB; Guardian.com.

[12] *As of December 2013.*
[13] *Represents the ratio of Norway's Government Pension Fund Global (GPFG) to Norway's GDP.*



Republic of Georgia

Statistics	2015	Dependency ratio	52.2%
GDP (US$b)	14.5	Number of pension funds	n/a
Population (m)	3.73	Pension fund assets as % of GDP	n/a

Market structure

Pillar 1

- Pillar 1 is in a nascent stage in the Republic of Georgia. In 2014, the mandatory funded pensions were put in place by the government.
- Retirement benefit is set at GEL150 or US$67 per month for beneficiaries.
- Retirement age is set at 65 years for men and 60 years for women.

Pillar 2

Pillar 3

- An alternative source or alternative saving system operates in Georgia, which resembles Pillar 3. However, the tax treatment of future withdrawals is still unclear, which creates uncertainty for potential participants.

Reforms

Pension and Retirement Business Opportunity score ★

Pillar 1

- Pension benefits are expected to be indexed in line with the growing cost of living. From September 2015 pension amount will rise by 10 GEL (US$4.5).

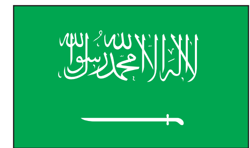
Pillars 2 and 3

(Quasi-mandatory private pension system)

- The most viable solution for Georgia would be the introduction of a quasi-mandatory system.
- Corporations have to offer a 2% contribution rate that would be transferred to pension fund on monthly basis. If an employee accepts the offer then he/she will have to match with an additional 2% from personal income. In such case, the government will match with an additional 2% from current flat rate income tax of 20%. Total contribution rate would become 6% of gross salary.
- If the employee or employer has a desire to contribute an extra 3% (in total, each contribution shall not exceed 5%), it will be exempt from 20% income tax (that would be an additional tax benefit of 0.6% to 3% of contribution).
- The system would be a Defined Contribution type.
- Participation will cover everyone legally employed below the age: 50 for men, 45 for woman.
- 2%+2%+2% No minimum cap would be imposed on contributions. However, government contribution would be imposed by 2% of Monthly 2,000 GEL. An additional 3% of the annual contribution should not exceed 4,000 GEL.
- Accumulated assets would be transferred in case of death.

Selected sources: National Statistics Office of Georgia, www.geostat.ge.

Saudi Arabia



Statistics	2014	Dependency ratio[14]	4%
GDP (US$b)	773	Number of pension funds	n/a
Population (m)	31	Pension fund assets as % of GDP[15]	126%

Market structure

Pillar 1

- Saudi Arabia has a generous pension system with replacement rates of close to 100%.
- Pillar 1 is represented by Public Pension Agency (PPA) which covers public-sector employees, i.e., both government civilian and military personnel.
- It has an exchange of benefits system that preserves service years and contributions for employees who move from public sector to private sector.
- Retirement age for Saudi government employees is 60. However, in the case of army personnel, it is different for different positions.
- It should be noted that like most of the Gulf countries, foreign workers are excluded from the retirement system of Saudi Arabia.

Pillar 2

- Pillar 2 is broadly represented by General Organization for Social Insurance (GOSI), which covers the retirement benefits of private-sector employees.
- Similar to PPA, GOSI also allows for exchange of benefits system that preserves service years and contributions for employees who move from private to public sector.
- The rate of contribution is 18% of total income, of which the employer pays 9% and the contributor pays 9%.
- Retirement age is set at 60 years.

Pillar 3

- The social insurance law allows for certain categories of Saudis to voluntary contribute.
- Saudis who qualify for voluntary contributions are professionals, industrialists, people engaged in agriculture and tradesman and Saudis based out of foreign land.
- The contribution rate is set at 18% of monthly income.
- Benefits can be availed once the contributor has achieved the age of 60 years or above.

Reforms

Pension and Retirement Business Opportunity score ★ ½

Pillar 1

Implemented

- In July 2014, the pension age has been increased to 62 for Saudi government employees.

Pillar 2

- No significant recent or pending reforms identified

Pillar 3

- No significant recent or pending reforms identified

Selected sources: IMF; World Bank; Towers Watson; Public Pension Agency website; General Organization of Social Insurance website.

[14] *As of December 2013.*
[15] *As of December 2013.*

Singapore

Statistics	2014	Dependency ratio	13.8%*
GDP (US$b)	308	Number of pension funds	n/a
Population (m)	5.4	Pension fund assets as % of GDP	n/a

Market structure

Pillars 1 and 2

- Main pillar is the public mandatory Central Provident Fund (CPF)
- Only Singapore citizens and permanent residents are eligible for membership on the CPF
- Contributory scheme (funded, DC) for multiple needs, e.g., health care, home ownership, insurance and investment; comprises Ordinary Account (OA), Special Account (below 55)(SA), Retirement Account (above 55) and Medisave Account
- For monthly earnings above S$750, employer and employee respectively contribute 16% and 20% of the monthly earnings to the employee's CPF account; contribution rates are subject to revision by the government
- Foreign employees, Singapore employees working overseas and self-employed are exempted from CPF contribution
- When members reach age 55, the Retirement Account (RA) is created using their CPF Minimum Sum to provide a regular basic income from their draw-down age (DDA) for about 20 years in retirement; members are also eligible for CPF LIFE lifelong payments from their DDA
- From age 55, all cash balances can be withdrawn after setting aside the CPF Minimum Sum and Medisave Required Amount
- Voluntary CPF contributions can be made to members' or dependents' RA or SA accounts, subject to CPF Annual Limit for each calendar year; entitles members to tax relief while setting aside more retirement savings

Pillar 3

- Supplementary Retirement Scheme (SRS) – voluntary personal private pension scheme that complements the CPF
  - Individual accounts with various investment options
  - Employers can contribute at the direction of the account holder
  - Tax incentives – contributions to SRS are eligible for tax relief, investment returns accumulate tax-free, 50% tax concession upon withdrawal at retirement

Reforms

Pension and Retirement Business Opportunity score ★ ★

Pillars 1 and 2

Recently implemented

- Increase in Medisave employer contribution rates starting 1 January 2015
- Increase in CPF contribution rates for older workers starting 1 January 2015
- Singapore Citizen or Permanent Resident will be placed on CPF LIFE subject to meeting certain balances in the RA
- Once on CPF LIFE, members are not required to join the Retirement Sum Scheme
- CPF Advisory Panel set up in September 2014 to review ways to enhance the CPF system

In progress

- Higher CPF salary ceiling (i.e., ordinary wage ceiling) will be raised from S$5,000 to S$6,000 with effect from 1 January 2016
- The government will provide an additional 1% extra interest on the first S$30,000 of CPF balances from the age of 55 with effect from 1 January 2016

In discussion

- Introduction of Basic Retirement Sum (BRS), Full Retirement Sum (FRS) and Enhancement Retirement Sum (ERS)
- Clearer Choices over CPF LIFE Payouts and the Retirement Sums to set aside – panel recommended that CPF members who want higher CPF LIFE payouts should be allowed to voluntarily top up their CPF LIFE premiums with savings or cash up to the ERS
- Flexibility for a lump-sum withdrawal at the DDA – the advisory panel recommended that CPF members be given the option to withdraw up to 20% of their Retirement Account Savings at the Payout Eligibility Age

Pillar 3

- No significant recent or pending reforms identified

Selected sources: OECD, The World Bank Website; CPF Board, Singapore Budget 2015 on CPF enhancements; Singapore Government News, Ministry of Finance website; Singapore Ministry of Health website; Ministry of Manpower, Singapore Department of Statistics website.

**Based on 2013 data from The World Bank.*

South Africa

Statistics	2014	Dependency ratio[16]	9%
GDP (US$b)	354	Number of pension funds	3,000
Population (m)	54	Pension fund assets as % of GDP	66%

Market structure

Pillar 1

- Pillar 1 comprises the social old age grant. It is a means-tested system (a means test is a determination of whether an individual or family is eligible for government assistance) and is the main source of income for 75% of the elderly population (2.9 million) in retirement. Eligibility criteria is:
  - 60 years of age
  - Be a South African citizen or permanent resident
  - The maximum amount that one can get from April 2015 is ZAR1,410 or US$118 per month.
- The cost of the program is 1.5% of GDP, according to the South African government.

Pillar 2

- Under Pillar 2 are the various pension and provident fund arrangements associated with formal sector employment, in either the private or public sectors.
- Provision is voluntary for employers, but if employers offer a retirement plan, they can compel employees to join.
- Around 60% of formally employed South African workers participate (~6 million workers) in Pillar 2.
- Most private-sector workers are in DC funds (although private-sector DB funds still have significant AUM).

Pillar 3

- Pillar 3 represents voluntary saving. In South Africa, the self-employed may not participate in occupational retirement funds and are compelled to use the same vehicle as others use to supplement Pillar 2 provision.
- Under Pillar 3, therefore, are included contractors, consultants and other professional people, who undertake retirement funding for themselves.

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★

Pillar 1

Implemented

- To tackle poverty among the elderly, the government has proposed a social security and retirement reform. This will be done by building a robust Pillar 2 and implementing risk pooling to benefit the poor.
- The proposed mandatory contributory earnings-related savings and benefits system will be a funded system with contributions accumulating in individual accounts rather than financed on a PAYG basis.

Pillar 2

Implemented

- Mandation or auto-enrollment has been introduced, as discussed under Pillar 1.
- From 1 March 2017, employer contributions to all types of retirement funds will be treated as a fringe benefit in the hands of employees.
- Employees will be able to deduct employer and employee contributions up to 27.5% of max (remuneration, taxable income), with a cap of ZAR350,000 (US$29,166) p.a.
- Rules to encourage annuitization of provident funds.

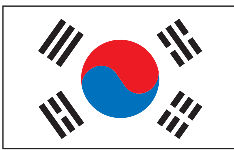
Pillar 3

Implemented

- Establishment of a tax-free account for short- and medium-term savings to encourage more discretionary savings by giving greater tax support to savers.
- Uniform tax treatment of retirement contributions across all pension funds, provident funds and retirement annuity funds.
- Increase in the tax-free lump-sum amount paid out of retirement funds at retirement from ZAR315,000 to ZAR500,000 or (US$26,250 to US$41,666).

Selected sources: World Bank; IMF; Towers Watson; National Treasury, Republic of South Africa.

[16] *As of December 2013.*



South Korea

Statistics	2011	Dependency ratio	22.8%
GDP (US$b)	1,115	Number of pension funds	n/a
Population (m)	48.9	Pension fund assets as % of GDP	17.9%

Market structure

Pillar 1

- National Pension System
  - Partially government-funded, DB
  - Employer and employee contribute 4.5% each, based on employee's income
  - Basic and earnings-related portions
- Basic old age pension
  - Tax-based and means-tested
  - 5% of average earnings of national pension
- National basic livelihood security scheme
  - Last resort of the safety net, government-funded social assistance program
- Eligibility at age 60

Pillar 2

- Private pension schemes
  - Retirement (Severance) pay plan – traditional lump-sum system, mandatory
  - Retirement (Corporate) pensions system – Voluntary, employees can contribute; allows DB and DC plans; can convert severance plans into corporate plans
- Public occupational pension schemes
  - For civil servants, private school teachers and military personnel
  - PAYG
  - Hybrid Pillar 1/Pillar 2
- Tax incentives

Pillar 3

- Voluntary individual pension
- Annuity products
  - Personal pension insurance/ retirement insurance
  - Personal pension trust/ retirement trust
- Some tax advantages, depending on product

Reforms

Pension and Retirement Business Opportunity score ★★★★

Pillar 1

In progress

- Pension age to rise to 61 in 2013 and 65 by 2033 (1998 reform)
- National Pension System replacement rate reduced from 70% to 48.5%, further decreases of 0.5% p.a. down to 40% in 2028 (2007 reform)

In discussion

- Benefit levels under Basic Old Age Pension to increase from 5% to 10% by 2028

Pillar 2

Recently implemented

- July 2012 amendments:
  - Permits employee to choose both DB and DC plans together (previously, had to choose one)
  - Strict requirements for interim severance payouts, relaxes requirements for DC plan withdrawals
  - Introduces the individual retirement plan (IRP), a DC-type plan for individuals; self-employed will be permitted to set up an IRP from July 2017
- Minimum normal retirement age of 60 introduced, from 2016 for employers with 300 or more employees, 2017 for others

Pillar 3

Recently implemented

- Additional tax incentives to encourage saving
- Tax amendments to encourage recipients to convert lump-sum payments to annuities

Selected sources: National Pension Research Institute, Pension reform options in Korea, 2013; Asian Development Bank Institute, Demographic changes and pension reform in the Republic of Korea, 2009; OECD, Pensions at a glance, 2009; Korea Capital Market Institute, The revision of the Employee Retirement Benefit Security Act and defined contribution plans, Aug 2011.

Spain

Statistics	2011	Dependency ratio	34.3%
GDP (US$b)	1,480	Number of pension funds	1,570
Population (m)	46.4	Pension fund assets as % of GDP	12.5%

Market structure

Pillar 1

- State pension system with two components:
  - Means-tested non-contributory old-age pension – tax funded
  - Earnings-related, contributory pension system – PAYG/DB formula
    - Mandatory for all employees and self-employed
    - Employee contributions of 4.7% and employer contributions of 23.6%
    - Special schemes for certain civil servants (central government, justice) and military
- Eligibility at age 65

Pillar 2

- Employers may enter into voluntary pension agreements with their employees, typically via:
  - Group insurance contracts; and/or
  - Creation of a pension plan
  - These schemes must be external to the employer
- Mainly DC, some mixed DC/DB, and a small number of DB plans
- Employers usually provide 65%-80% of contributions for DC plans; DB plans financed mainly by employer
- Low coverage (due to generous Pillar 1 pension) – more common among larger employers and companies with international exposure

Pillar 3

- Individuals can participate in tax-qualifying pension schemes set up as individual plans
  - Personal pension plans are DC
  - Associated plans are DB, DC or hybrid
- In terms of assets, Pillar 3 is larger than Pillar 2
- Tax incentives

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★ ★

Pillar 1

Recently implemented/in progress

- Retirement age to progressively increase to 67 over 2013-2027
- Increase in the number of contribution years required for pension entitlement
- Incentives for workers to remain in the labor force past retirement age/ discourage early retirement

In discussion

- Pension steering committee proposals: strengthen sustainability factor from 2019 – pension revaluation based on life expectancy and social security system's financial position in prior years
- Limit on inflation indexation from 2014 onward, caps on pension increases

Pillar 2

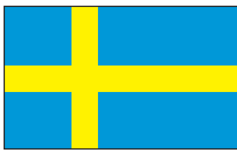
In discussion

- Government wants to encourage development of occupational pensions – recommendations pending, may include auto-enrollment

Pillar 3

- No significant recent or pending reforms identified

Selected sources: OECD, Private pensions outlook, 2008; IOPS, Country profile: Spain, 2009; Social Security Administration (US), International update, Jan 2013; Insurance Europe, Income tax treatment of 2nd pillar pension products (as of December 2012).



Sweden

Statistics	2011	Dependency ratio	36%
GDP (US$b)	540	Number of pension funds	n/a
Population (m)	9.4	Pension fund assets as % of GDP	63.3%

Market structure

Pillar 1

- Overall system is in transition from a PAYG system to a funded approach
- Three tiers:
  - Guaranteed minimum pension – funded from taxation
  - Earnings-related pension – notional DC scheme; all employees contribute 16% of wages
  - Premium pension – employees pay additional 2.5% of wages, with contributions invested in investment funds selected by the worker
- Eligibility at age 65

Pillar 2

- Quasi mandatory: most employees covered by industry-wide pension funds under collective agreements
  - Four main types: blue collar and white collar employees in private sector; central government and local government employees in public sector
  - Two main funds, restructured from DB to DC plans
- Special plans for certain occupational groups/industries
- Employers not part of a collective agreement can offer voluntary pension plan, via:
  - Pension fund
  - Group insurance contract
  - Book reserves – DB schemes
- Occupational pension plans are usually of the insurance type

Pillar 3

- Mainly two products:
  - Traditional/unit-linked insurance
  - Individual pension accounts either held in investment funds or bank accounts
- Tax incentives

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★

Pillar 1

In discussion

- Proposal that the pension age be increased, based on a "recommended retirement age" adjusted annually to life expectancy
- Ways to encourage older workers to continue working
- Proposal to restructure Sweden's five national buffer funds into a single fund or three funds to reduce management costs and gain benefits of scale

Pillar 2

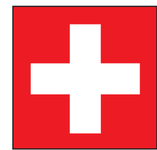
- No significant recent or pending reforms identified

Pillar 3

- No significant recent or pending reforms identified

Selected sources: OECD, Private pensions outlook, 2008; Swedish Pension Agency, Annual report 2012; Swedish Investment Fund Association, Facts and myths about the premium pension, Jan 2013; Nordic Region Pensions & Investment News, Country Focus: Sweden – Set up of probe into occupational fund regulation signals a ministry u-turn, 1 April 2013; Esmerk Swedish News, Sweden: Agency proposes change to reduce pension fluctuations, 26 Feb 2013; Social Security Administration (US), International update, May 2013.

Switzerland



Statistics	2011	Dependency ratio	28.3%
GDP (US$b)	663	Number of pension funds	2,265
Population (m)	7.8	Pension fund assets as % of GDP	106%

Market structure

Pillar 1

- Old-age and survivor pension insurance (AHV) – mandatory and mainly PAYG; since 1999, AHV has been partly subsidized by VAT revenues
- Aims to cover the basic needs of retirees
- Contribution rate of 8.4%, split equally between employer and employee; government also contributes approximately 20% of the cost of the benefits (16.4% provided by the federal government, 3.6% by the cantons)
- Men are eligible from the age of 65, women from the age of 64. Benefits depend upon the years of contribution and the relative average income over the period

Pillar 2

- Mandatory occupational pension (BVG) – voluntary for the self-employed
- Contribution rate varies from 7% to 18%, depending on age; contributions increase with age
- Employer contributions must at least match employee's – most company pensions offer more
- Prescribed minimum benefits – but many large employers offer higher benefits
- Pension funds must be established as separate legal entities – these are mainly foundations or cooperatives
- Larger employers generally have their own foundation, either autonomous (finances all benefits) or semi-autonomous (finances retirement benefits, reinsures death and disability benefits)
- Smaller employers generally use a multi-employer foundation
- De-facto hybrid DB/DC schemes – gradual shift to DC

Pillar 3

- Comprises two categories:
  - Tied or restricted access ("Pillar 3a") – aimed at employed individuals, offers tax incentives, subject to contribution limits and withdrawal restrictions
  - Flexible ("Pillar 3b") – available to everyone, no tax incentives, no contribution limits and can be withdrawn at any time
- Managed by insurance companies and specially authorized banking foundations

Reforms

Pension and Retirement Business Opportunity score ★ ★ ★

Pillar 1

In discussion

- "Pensions 2020," an extensive reform program proposed by the Federal Council for Pillars 1 and 2. Pillar 1 proposals include:
  - Raise retirement age for women from 64 to 65 from 2020
  - Increase VAT by one percentage point by 2020 and a further percentage point in 2030 (additional subsidy for AHV)

Pillar 2

Recently implemented

- Major restructuring of regulatory framework implemented in 2012 – establishment of new pension supervisory commission

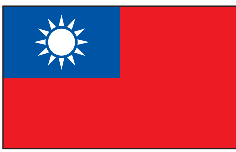
In discussion

- Under "Pensions 2020," proposed reforms to the BVG pension funds will mean tighter entitlement rules, including a gradual reduction in conversion rates (currently 6.9% for men and 6.85% for women)

Pillar 3

- No significant recent or pending reforms identified

Selected sources: Pensions & Development Network, Country database: Switzerland; Federal Social Insurance Office website; Swiss Federal Administration website; EURACS, Pension summary: Switzerland, 2013; European Pensions, Staying strong, Feb 2013.



Taiwan

Statistics	2014	Dependency ratio	16%
GDP (US$b)	502	**Number of pension funds**	n/a
Population (m)	23	Pension fund assets as % of GDP[17]	18%

Market structure

Pillar 1

- It broadly comprises two types of programs:
  - Non-contributory: It is a social assistance program for the poor elderly population. Some academicians even categorize it as Pillar 0.
  - Contributory program: It is a contributory program and its building blocks are:
    - Labour Insurance Scheme: provides retirement protection to private-sector employees
      - Retirement age: 60 years
      - Contribution rate: 2%–15% of monthly income
    - National Pension Programme: covers those who are not eligible for the Labour Insurance Scheme and the Labour Pension Programme
      - Retirement age: 65 years
      - Contribution rate: 7.5% of monthly income

Pillar 2

- Labour Pension Programme is the foundation of Pillar 2. The Labour Pension Programme is available to all employees, except for public-sector employees and private school staff members who have their own occupational pension schemes.
- Contribution rates
  - Employers: 6% of an employee's income
  - Employee: Nil
- Retirement age is 60 years under the Labour Pension Programme.

Pillar 3

- Pillar 3 is represented by a provision of voluntary employee contributions under the Labour Pension Programme.

Reforms

Pension and Retirement Business Opportunity score ★½

Pillar 1

Implemented

- Labor insurance premiums will rise by 0.5% a year over 23 years until they reach 18.5%.
- Under the National Pension Programme, contribution rates will be raised after every two years to a maximum of 12%.
- Pensions for civil servants will no longer be based on the final salary earned before retirement; instead it will be calculated on an average of the salary for the final 15 years of work.

Pillar 2

Implemented

- Benefits under the Labour Pension Programme will be made in the form of monthly payments if the contributions have been made by the employee for at least 15 years. Otherwise, a lump-sum payment will be made.

Pillar 3

- No significant recent or pending reforms identified

[17] *As reported by Bureau of Labour Funds, Ministry of Labour, Taiwan.*

United Kingdom

Statistics	2014	Dependency ratio	35%
GDP (US$b)	3,153	Number of pension funds	53,725
Population (m)	63.7	Pension fund assets as % of GDP	98%

Market structure

Pillar 1

In transition, major reforms from 6 April 2016

- Basic State Pension (BSP) – flat rate, PAYG, funded by National Insurance contributions
- "Triple-lock guarantee" determines increases: highest of CPI inflation, earnings and 2.5%
- BSP + Second State Pension (S2P) moving to a single-tier flat rate from April 2016
- Pension Credit – supplement to BSP for low-income pensioners, means-tested; income-related benefit comprising two parts: guarantee credit and savings credit
- Eligibility at age 65 for men; rising from 60 to 65 for women over 2010–2018; must meet requirements for number of years' contributions for BSP (currently 30)

Pillar 2

In transition, major reforms over 2013–2018

- Workplace pensions
  - Employers must provide scheme, which must meet certain minimum standards
  - Auto-enrollment, but employee can opt out
  - Funded through employee and employer contributions, and government tax relief
  - Unfunded schemes – unapproved and financed from corporate funds, primarily for executives
- Existing workplace pensions is a mix of trust-based (DB, DC, Hybrid) and group contract-(DC) based schemes
- Many DB schemes closed to new members. Open plans mainly DC

Pillar 3

- Personal pension plans – "contract-based DC plans"
- Stakeholder pensions – DC, low cost; aimed at self-employed and low-income employees
- Self-invested personal pensions (SIPPs) – typically for DC pensioners who have not bought an annuity; wide asset choice
- Additional voluntary contributions (AVCs) – member can increase benefits from their workplace pension by contributing more
- Individual Savings Accounts (ISA) – can be accessed before retirement, members can receive government tax relief, less tax relief than on SIPPs

Reforms

Pension and Retirement Business Opportunity score ★★★★

Note: Reforms reflect changes proposed by Pensions Commission report in 2005, resulting in Pensions Act 2008 (workplace pension reforms) and Public Sector Pensions Services Act 2013.

Pillar 1

Recently implemented

- Facilitation of people working beyond age 65
- Reduced years of contributions for full BSP, from 40 to 30 years
- Changed the method of calculation for annual indexation on BSP; "Triple-lock guarantee" introduced in 2010

In progress

- Pension age for both men and women increases in stages to 68 over 2018–2046; timescale subject to review, may be brought forward
- Increased years of contributions for full BSP, from 30 to 35 years
- Most people won't be eligible for Savings Credit if they reach State Pension age on or after 6 April 2016
- Government announced plans to keep the "Triple-lock guarantee" increase to BSP

Pillar 2

Recently implemented

- Removal of S2P contracting-out option for private-sector DC schemes and occupational DB schemes (April 2016)
- DC members have new flexibility on how they can access their pension savings: no longer required to purchase an annuity
- New duties on employers to provide access to a workplace pension scheme – implementation over 2012–2018 (based on number of employees)
  - Employers must automatically enroll employees into a qualifying occupational pension
  - NEST (National Employment Savings Trust) established as a low-cost qualifying pension, with individualized savings accounts
  - Mandated total minimum contributions of 8% (3% employer) from Oct 2018 (phased in over 2012–2018)

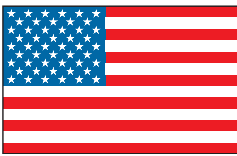
In discussion

- "Defined Ambition" – proposals for new occupational pension model, with risk shared by employee/employer

Pillar 3

- Employers who use group versions of personal pension plans as occupational pension plans are subject to applicable reforms under Pillar 2
- Ongoing reforms designed to give DC pensioners more choice and information when purchasing an annuity, as well as more alternatives to annuities

Selected sources: The Pensions Regulator website; Pensions Policy Institute website; National Employment Savings Trust (NEST) website; HRMC website: Index Mundi website.



United States

Statistics	2015	Dependency ratio	50%
GDP (US$t)	17.4	Number of pension funds	717,000
Population (m)	321	Pension fund assets as % of GDP	29%

Market structure

Pillar 1

- Social security, financed by payroll taxes (6.2% employer, 6.2% employee)
- PAYG
- Earnings-related pension with progressive benefit formula (i.e., lower-income earners receive higher replacement rate)
- Means-tested supplement for low-income earners
- Separate schemes for railroad employees, government employees
- Retirement age of 66, progressively rising to 67 (for those born in 1960 and later); can choose to retire from age 62 (early retirement, reduced benefits) to 70 (delayed retirement, automatic percentage increases from full retirement age)

Pillar 2

- Employers may set up an occupational pension plan for employees (single or multi-employer)
- Wide variety of DB and DC plans available – majority are voluntary DC plans
- 401(k) plans most popular DC plan – employee salary deductions, often with matching employer contributions (typical example: employer matching 50% of employee contributions, up to 6% of salary)
  - Target Date Funds (TDFs) are the dominant 401(k) vehicle, with automatic asset allocation adjustment as retirement approaches. Tax benefits may be limited if covered by Pillar-2 plan investment; TDFs are a Qualified Default Investment Alternative (QDIA)
  - Roth 401(k) plans also available – greater flexibility, tax advantages
- Public sector: state/local/federal government employee retirement accounts (DB, DC)
- Employer/employee tax benefits

Pillar 3

- Personal private pensions via Individual Retirement Accounts (IRAs):
  - Allows rollovers and contributions from employer-sponsored plans
  - Includes annuity options
  - Roth IRAs – introduced in 1998, offer different advantages (particularly tax – contributions are on an after-tax basis, distributions not subject to income tax thereafter)
- Qualified annuities offered by life insurers
- Tax mostly deferred until distribution (not Roth IRAs)

Reforms

Pension and Retirement Business Opportunity score ★★★★★

Pillar 1

In progress

- Gradually increasing retirement age from 65 to 67 by 2022

Note: Special employer-sponsored IRAs available for smaller businesses and sole proprietors under Pillar 2, e.g., Savings Incentive Match Plan (SIMPLE), Simplified Employee Pension plans (SEP); these operate in a similar way to Pillar 2 options.

Note: Federal budget deficit and pressure for tax reform may put pressure on tax incentives under Pillars 2 and 3.

Pillar 2

- Major reforms effected by 2006 Pension Protection Act:
  - For DB plans – new funding standards, special rules for at-risk plans, full funding required (seven-year transition)
  - For DC plans – higher contribution limits, facilitate automatic enrollment, tax incentives to stimulate participation in occupational pension plans, creation of QDIA (provides a safe harbor for investment of contributions in the absence of active election by participant; some insurers now presenting annuities as "QDIA-friendly")

Recently implemented

- Moving Ahead for Progress in the 21st Century Act (MAP-21) in 2012 – mitigates effect of low-interest-rate environment by allowing longer historical periods for determining discount rates; extended by Highway and Transportation Funding Act of 2014 (HATFA). "Acts undermine 7 years to full funding criteria of PPA."

Pillar 3

Recently implemented

- Effective 2010, eligibility to convert from traditional IRAs to Roth IRAs has been extended to high-income earners via removal of income cap

Selected sources: OECD Private pensions outlook, 2008 and Pensions at a glance, 2009; IOPS, USA: pension system overview, 2009; Social Security Administration website; EBRI, Employee benefits in the United States – an introduction, update as at March 2011; ICI, The US retirement market, first quarter 2013, June 2013, IMF, US Department of Labor, US Census Bureau, World Bank.

Vietnam

Statistics	2014	Dependency ratio	9%
GDP (US$b)	184	Number of pension funds[18]	1 or 5
Population (m)	90.7	Pension fund assets as % of GDP[19]	9.4% for one government social insurance fund or 10 % for five funds including the government's and life insurers

Market structure

Pillar 1

- In Vietnam, retirement benefits or pension benefits are part of the nation's social insurance operation.
- From 1945 to 1995, social insurance system covers civil servants, employees of cooperatives and unions, state officers, police officers and officers of the armed forces.
- Since 1995, the scheme has become a contributory scheme and expanded to cover private-sector employees as well.
- Retirement age: 60 years, in the case of men, and 55 years in the case of women.
- Minimum contribution of 20 years is required to be eligible for retirement benefits.

Pillar 2

- As stated under Pillar 1 section, the social insurance system (which forms Pillar 1) has been expanded to cover private-sector employees.
- Employees with contracts of at least three months are eligible for this scheme.
- The monthly contribution rates are 26% of monthly salary where 8% comes from employees and 18% is contributed by the employer (with few exceptions). Monthly salary level used to determine monthly social insurance contribution should be no less than a general minimum monthly salary level or a minimum monthly salary level applicable for the respective region (or 7% higher than minimum monthly salary level applicable for the region in the case of trained workers) and not to exceed 20 times of a general minimum monthly salary level at the time of contribution. Current general minimum monthly salary level is VND 1,150,000 (approximately US$53)

Pillar 3

- Vietnam has a provision for voluntary pension benefits coverage for self-employed persons and other persons without compulsory coverage.
- Monthly voluntary contributions rate is set at 22% of a chosen level of monthly earnings, starting from 2014. The minimum level of monthly earnings chosen by social insurance voluntary participants is the general minimum monthly salary level and the maximum monthly salary level that can be chosen is 20 times the general minimum monthly salary level.

Reforms

Pension and Retirement Business Opportunity score

Pillar 1

- On 29 May 2015, Vietnam Government has issued Decree No. 53/2015/ND-CP that revised retirement ages for officials holding specified positions that are covered in Labour Code No. 10/2012/QH13 – Article 187. According to Decree 53, for specified government positions, retirement ages for men will be 65 years old, and for women will be 60 years old, effective from 15 July 2015.

Pillar 2

- According to the Social Insurance Law No. 58/2014/QH13 issued on 20 November 2014, employees with contracts of at least one month are eligible for the nation's compulsory social insurance scheme, effective from 1 January 2016. This lowers the eligibility requirement for compulsory social insurance from having a minimum of three months contract in the current Law No. 71/2006/QH11.

Pillar 3

- No significant recent or pending reforms identified

[18] *This includes: one government social insurance fund, four pension funds from life insurers selling pension products (PVI Sunlife, Manulife Vietnam, Daiichi Life and AIA Vietnam).*

[19] *Represents ratio of Vietnam's Social Insurance Funds' AUM (an SWF and estimated life insurers' pension funds to total GDP).*

Selected sources: IMF; World Bank; Ministry of Justice (MoJ), Vietnam government; General Statistic Office of Vietnam, Towers Watson.

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