

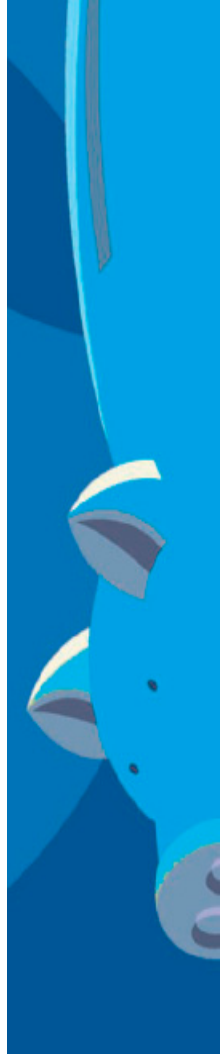


# Pension systems during the financial and economic crisis

Fiona Stewart

OECD, Financial Affairs division

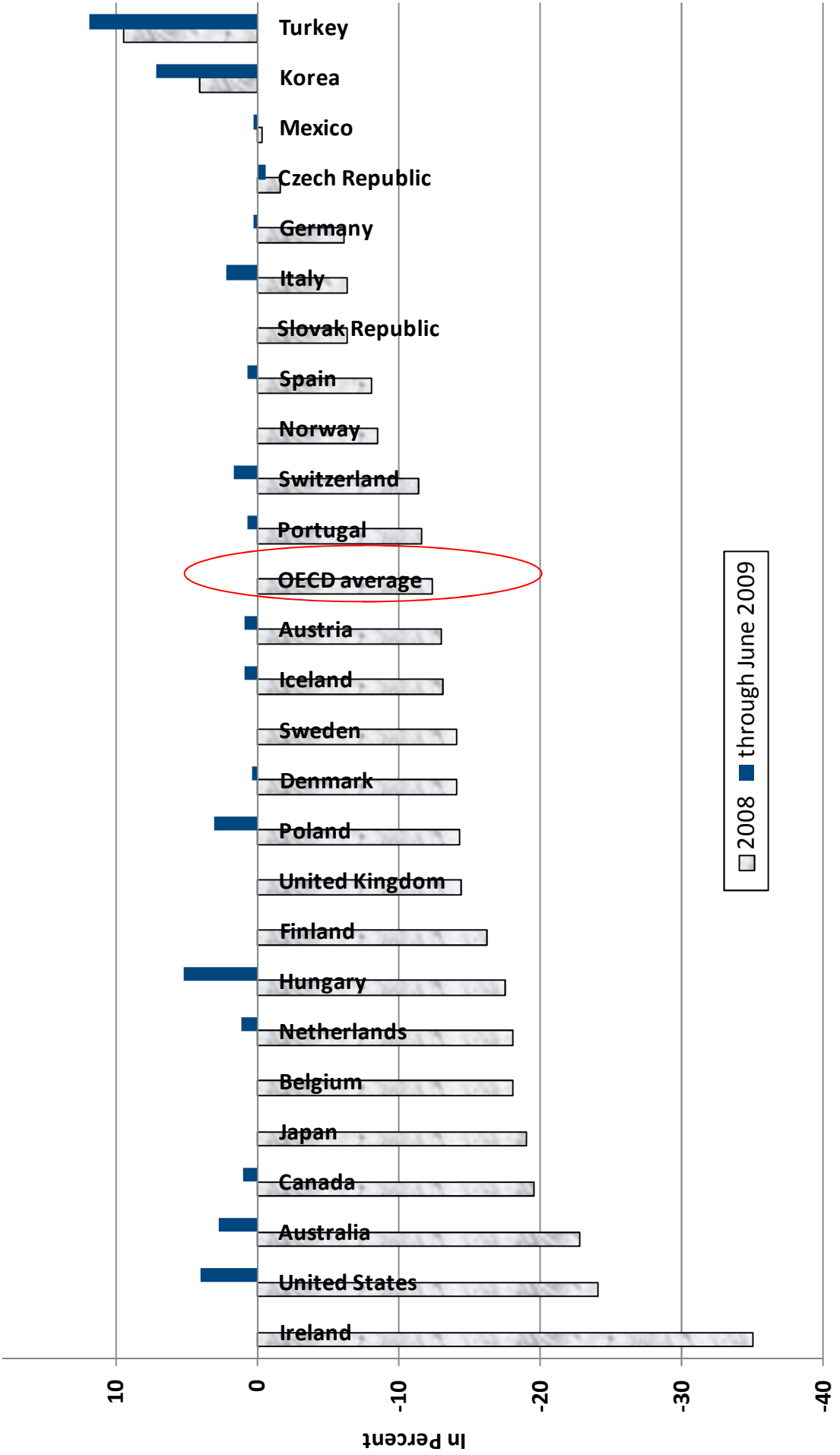
8 October 2009



# Impact of the Crisis on Pensions

- \$5.4tn reduction in pension assets 2008.
- Returns in 2008 range from -35% to +12%
- Asset allocation shifting to conservative investments.
- Pressure on DB funding and benefits.
- Impact on members of DC plans close to retirement and confidence in DC systems hit.

**Pension funds' nominal investment rate of return in selected OECD countries**  
*(Jan - Jun 09 official data is only available for 17 countries)*



# Policy responses: Public Pensions

- Old-age payments as part of economic-stimulus packages (e.g. Australia, Greece, UK)
- Strengthen safety-nets (e.g. Finland, France, Spain)
- Use public pension reserves for crisis mitigation (e.g. Ireland, Norway)
- **Avoid resorting to early retirement or other benefits** (e.g. early retirements, disability -- negative and persistent effect on labour market)

# Policy responses: Private Pensions

- Flexible timing of annuity purchase (e.g. Ireland)
- Temporarily relax funding regulations for private DB schemes (e.g. Netherlands, US)
- Temporary access for individuals to DC accounts (e.g. Australia, Iceland, US) - But risk of lack of resources in retirement
- Temporary reduction in contribution by employers or governments (e.g. US –corporate / Estonia – public) - But again risk of lack of resources in retirement
- Bail out of DC accounts (e.g. Israel) - But problems of cost, equity, moral hazard
- Move from private accounts to pay-as-you go public scheme (e.g. Argentina)

# Stay the Course: Private Pension Provision for Retirement is Necessary

- Some governments are being pressured to retreat from private pension ...
- ... but public PAYG systems face sustainability problems given ageing populations and are also affected by crisis as unemployment increases
  - Public provisioning should provide adequate retirement income for low income workers – a safety net
  - Incentives to keep working and to increase contributions should be considered to help rebuild pension assets
- Long-term strategy should remain diversification and balanced old-age provision including both private and public pensions

# Retirement Savings are for the Long-term

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

# Supervisory Oversight should be Proportionate/ Flexible / Risk-based

- Monitoring of pension funds has been strengthened by most authorities
  - Stress testing
  - On-site visits
  - Increased reporting
- Coordination – with industry, government ministries & other regulators - has also been stepped up
- Supervisory oversight should be risk-based, focusing on the main threats facing beneficiaries and the pension system as a whole

# Funding and Solvency rules for DB plans should be counter-cyclical

- Flexibility in meeting funding requirements has been shown by authorities (longer time for recovery plans etc.)
- Regulations should encourage appropriate levels of over-funding in good economic times to act as a cushion during difficult economic times
- Funding rules should seek to dampen volatility and encourage smooth contribution patterns
- Avoid over-regulation

# Improve the design of DC Plans

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

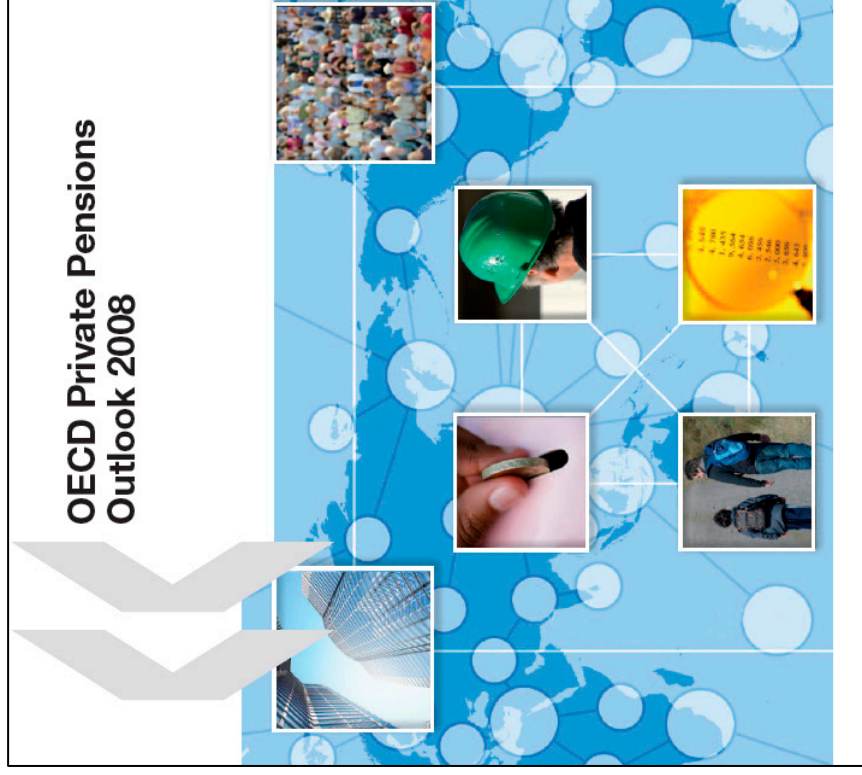
# Improve Governance and Risk- Management of Pension Funds

- Some exposure to too risky investments – risk management not good enough
- Some exposure to assets not understood – governance needs to be improved

# Step up Disclosure & Communication and Improve Financial Education

- National campaigns to explain the long-term nature of pension assets are required to build confidence in pension systems
- Better disclosure of performance and costs is also necessary
- Financial education needed to help beneficiaries (& pension fund managers) to improve understanding of investing, risk and return.

# Further details and contact



Fiona Stewart

[Fiona.stewart@oecd.org](mailto:Fiona.stewart@oecd.org)

[www.oecd.org/daf/pensions](http://www.oecd.org/daf/pensions)