



# EFFECTIVE APPROACHES TO IMPROVE RETIREMENT INCOMES

In the context of behavioural biases and low  
levels of financial knowledge



- Increasing responsibility of individuals for their retirement
    - More challenges in decision-making with funded, personal, DC pensions
  - Behavioural biases
  - Low levels of financial knowledge
- ➔ Improve the design of retirement savings plans accounting for these issues



## Effective approaches: 5 categories

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- Automatic features
  - Default options
  - Simplification of information and choice
  - Financial and non-financial incentives
  - Financial education
- ➔ Policy guidelines to improve the design of retirement savings plans



Countries aiming at high participation in funded pension arrangements could introduce a national mandate for private pensions

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- Compulsion is the simplest, less costly and most effective way to reach high and uniformly distributed participation rates
- Automatic enrolment is a second-best option, success depends on
  - The scale of the implementation of the policy
  - The size of the target population
  - The presence of financial and non-financial incentives
  - The opt-out prevalence



Self-employed and informal workers could be encouraged to voluntarily join the mandatory or automatic enrolment scheme by offering easy access and financial incentives

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- Compulsion and automatic enrolment not easy to implement for these populations
- Make it easy to join the national scheme (e.g. web applications, default options)
- Provide the same financial and non-financial incentives as for employees



## Using default options can simplify decision-making (1/2)

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- Contribution rate
  - Low initial level: reduces opposition to policy/opt-out rates
  - Automatic escalation: ensures that people may contribute enough to cover their needs in retirement
- Pension provider
  - Tender mechanism accounting for costs, quality of service and other variables: default pension provider for new entrants that fail to choose one
  - Enhanced fee disclosure and members' education, as well as price regulation: make sure that all individuals get good value for money with any provider



## Using default options can simplify decision-making (2/2)

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- Investment strategy
  - A life-cycle investment strategy could be established as a default
  - A limited set of available investment options should be provided for those able and willing to choose their own investment strategy
- Post-retirement product
  - Consider protection from longevity risk and flexibility for the design of the default (e.g. PW+DLA)
  - Facilitate shopping around (e.g. platforms to compare all options and bids)



Countries should continue efforts to educate and inform people to increase engagement with respect to pensions

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- Workshops and seminars at the workplace
- Financial advice
- Personalised communication (pension statements)
- More standards, principles and guidelines:  
[www.financial-education.org](http://www.financial-education.org)





# QUESTIONS / DISCUSSION