



THE ROLE OF SUPPLEMENTARY PENSION PROVISION IN RETIREMENT: DESIGNING PRIVATE PENSIONS TO COMPLEMENT PUBLIC PENSIONS

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Overview

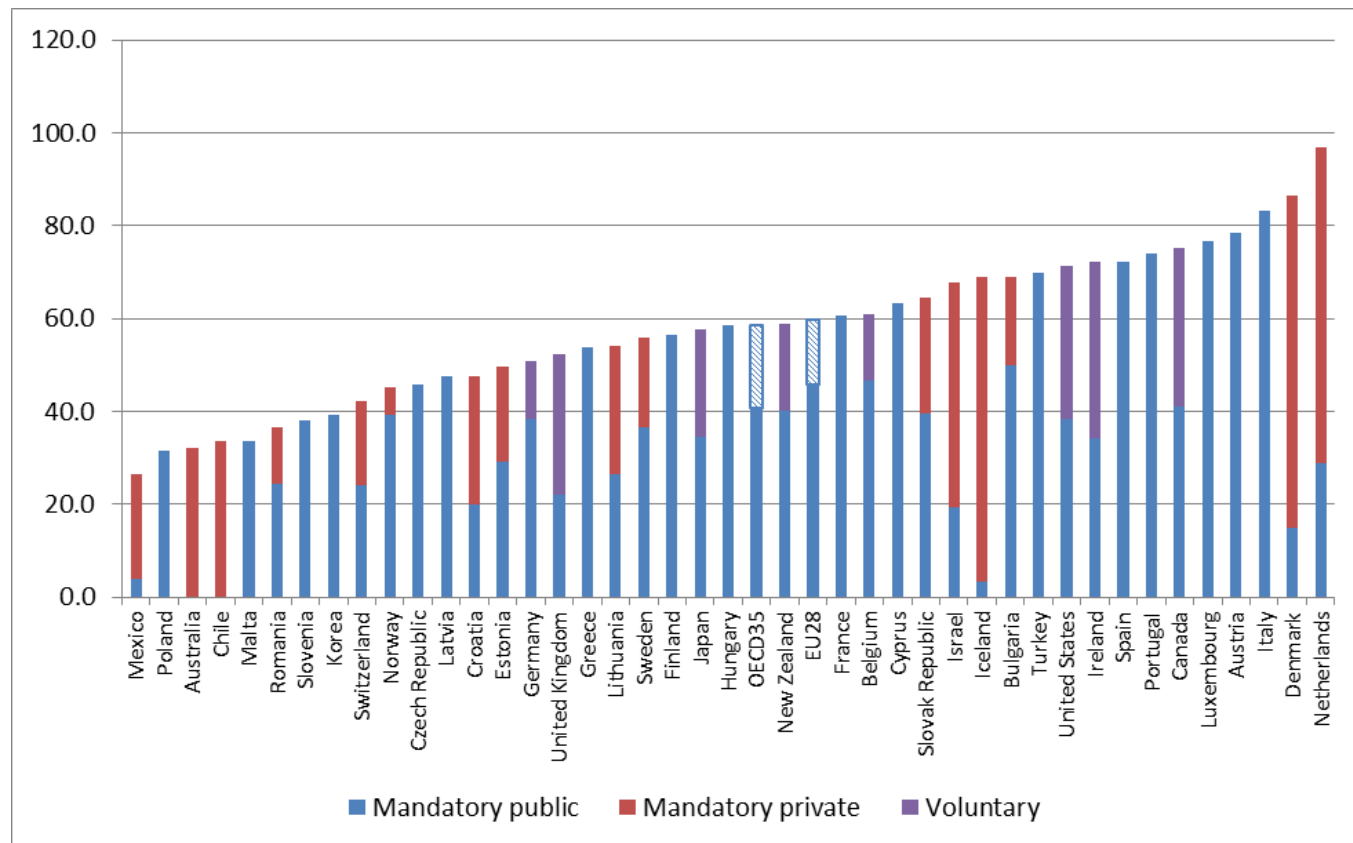
- Role of public and private provision within OECD
- Sustainability and adequacy reinforced by combining public and private pensions
- Complementarity in meeting objectives and offsetting risks
- Different design features to be considered
- Potential transition costs



Public and private provision in national pension systems

Gross pension replacement rates from mandatory public, private and voluntary private pension schemes

Percent of individual earnings, average earner

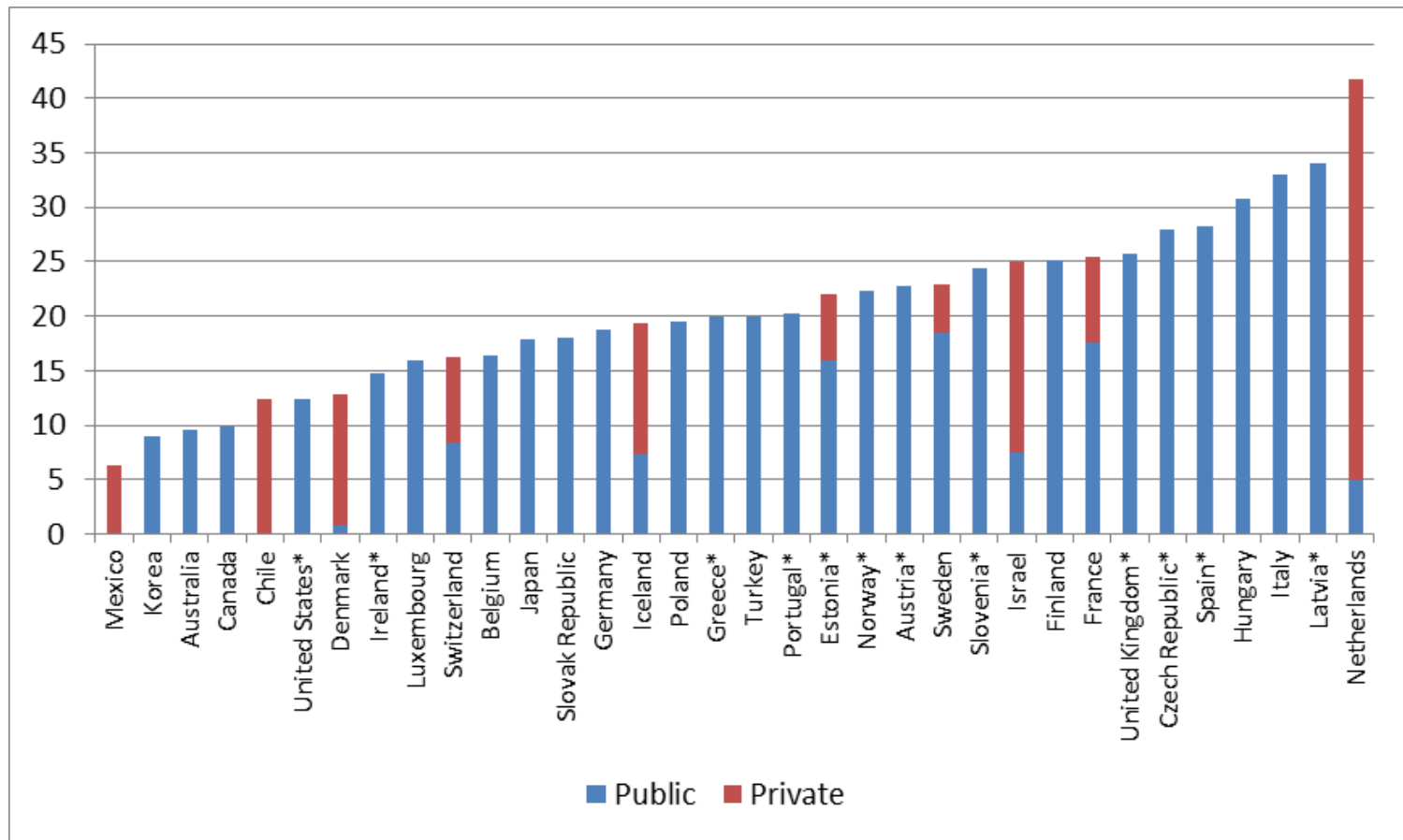


Source: OECD Pensions at a Glance 2017



Role for supplementary pensions?

Mandatory pension contribution rates for an average worker in 2016

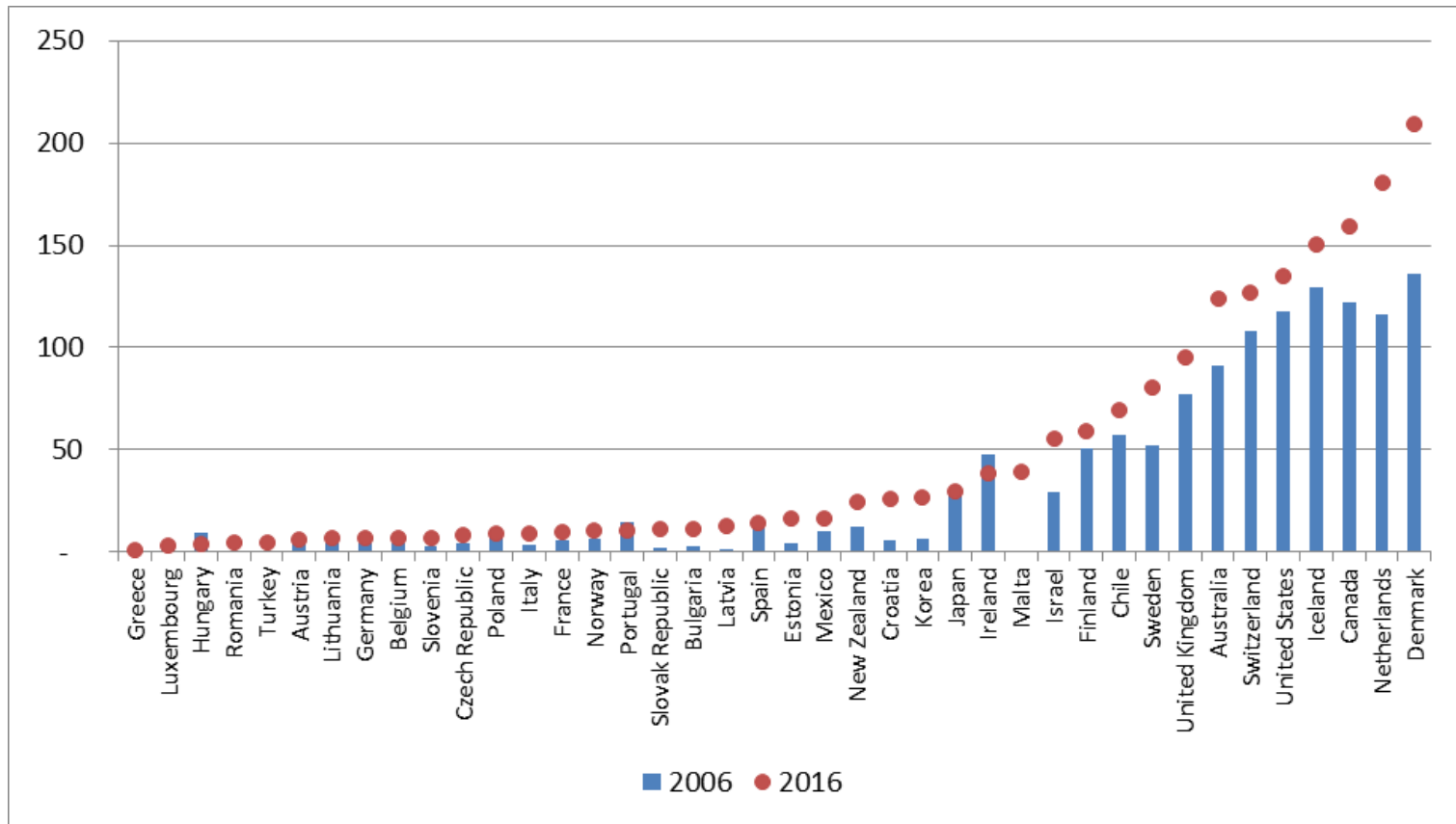


Source: OECD Pensions at a Glance 2017



Growth in assets in funded pensions

Total assets in funded and private pension arrangements, in 2006 and 2016
As a percentage of GDP



Source: OECD Pensions at a Glance 2017



Multiple objectives

- Primary objectives
 - Poverty relief
 - Consumption smoothing
- Secondary objectives
 - Redistribution
 - Coverage
 - Inter- and intra-generational equity
 - Replacement rate
 - Labour force participation



Multiple risks

- Ability to contribute
 - Labour market and social risks
- Adequacy of contributions to fund retirement
 - Macro-economic, financial market and operational risks
- Demographic changes
 - Longevity risk
 - Cohort size



Design features

Design feature	Relevance for objectives/risks
Funded	Incentive to participate in labour market Pool of savings for broader economy Within DC, each cohort self-funding Governance critical
Unfunded	Inter- and intra-generational risk sharing Redistribution
DB	Insurance especially against longevity risk Risk pooling
DC	Adjust to demographic changes Adaptable to changing labour markets
Mandatory	Consumption smoothing Coverage Affordability? Behavioural
Voluntary	Institutional and operational capacity



Building a complementary system

- Mixed pension system
 - Basic + PAYG public: longevity risk, labour market and social risks
 - Funded private: consumption smoothing and replacement rate
- Do incentives match up across public and private arrangements
 - Retirement age
 - Means testing
- Interactions with other policy areas
 - Taxation



Transition costs

- Supplementary pensions intended to relieve fiscal burden
- Reduced contributions to public system
- How to smooth the fiscal cost
- Proportion of contributions diverted from public to private arrangements
- Institutional arrangements in place



Conclusions

- Public and private arrangements can introduce complementary design elements into the pension system
- Growing role for funded private pensions in consumption smoothing improves sustainability
- Likely to expose individuals to greater risk – policy makers may want to build in insurance elsewhere
- Transition costs should be carefully managed



THANK YOU!
QUESTIONS OR COMMENTS?