Building a better retirement world

Insights for better outcomes in the global pension and retirement market
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Introduction

Most countries and stakeholders have been struggling to varying degrees with the financial aspect of longevity and financial well-being during retirement. The aftermath of the Global Financial Crisis (GFC) forced many governments, public and private sector employers, and pension fund providers to reassess their current solutions. We believe there is an opportunity to shape policy and play a beneficial role in empowering diverse stakeholders to make informed retirement decisions.

The GFC acted as a catalyst for stakeholders to focus on the long-evolving financial challenges in retirement. While political and vested interests may impede necessary fundamental reform in many countries, there is general acceptance by industry experts, policymakers and governments that change is needed to rebalance pension and retirement systems. Making long-term decisions in an uncertain environment with many moving parts requires significant experience, leadership, discipline and a vision of the big picture.

Top policymakers, regulators and industry leaders recognize the similarities between global pension and retirement systems. These stakeholders agree that they want to learn from other countries to improve the quality of their decisions and outcomes using international insights and experience to refine their existing systems or design new solutions.

Our report highlights five key components of a robust pension and retirement system:

1. **Financial adequacy.** How much will different beneficiaries need for their financial well-being in retirement? How much will governments and public and private sector employers need to provide in retirement benefits to attract and retain employees?

2. **Financial sustainability.** How much can governments, private sector plan sponsors, public sector entities and future beneficiaries afford to save over the long term to pay for pension and retirement benefits?

3. **Performance.** How can we maximize outcomes and predictability of investments of pension and retirement assets?

4. **Efficiency and effectiveness.** How can we deliver promises efficiently and effectively to all stakeholders while meeting their service expectations?

5. **Political aspects.** What is our long-term pension and retirement vision? What short-term trade-offs must be made to secure political backing?

These five tenets are applicable to most countries, but their relevance varies globally and over time. In this report, we provide global insights and experiences for the pension and retirement review process to help stakeholders build a better retirement world.
Executive summary

Through extensive interviews and research, we identified challenges and opportunities related to pensions and retirement. These are our seven key findings:

1. Need to rebalance benefit expectations with financial resources
2. Local financial markets need to evolve concurrently with growth in pension assets
3. Acceptance of a new level of regulation, supervision, governance and transparency
4. An increasing focus on operational excellence
5. A recalibration of investment functions and investment management
6. Find simplicity in complex systems
7. Need to connect and become customer-centric

As we explore these findings, we discuss the broader aspects of the pension and retirement debate and highlight our point of view on strategic and macro-economic issues. We present significant business opportunities for pension and retirement providers and address the magnitude of policy reform challenges facing country leaders throughout the world.

Greater transparency and learning from international pension systems will lead to increasing scrutiny and comparison of key levers globally. To better prepare for this new aspect of pension and retirement “globalization,” we encourage policymakers to challenge the key levers and assumptions they use for policy reform.
About the report

For this analysis, we conducted more than 80 interviews with top representatives in 18 countries across the Americas, Asia-Pacific and Europe. These were held with governments, policymakers, regulators and pension industry executives within asset management, insurance and pension funds. We complemented the interviews with internal research and insights from our Global Pension practice team and EY’s “heat map,” which was developed to:

- Assist policymakers, political and industry leaders across government and public and private sectors to make informed decisions on policy reform
- Support pension and retirement industry executives to make informed decisions about existing and evolving international business opportunities

Policy reform is never easy, but all participants in our survey agreed on the need for change. Like EY, they are interested in building a better working world in relation to the critical topic of pensions and adequate retirement savings.
Figure 1
EY pension and retirement heat map
Source: EY

Legend of short- to medium-term business opportunities
We applied our criteria to 18 countries, covering many of the larger and emerging pension systems globally. Opportunities were ranked as follows:

- Very large (4-5 stars)
- Large (3-4 stars)
- Significant (2-3 stars)
- Modest (1-2 stars)
- Not assessed
Pension and retirement heat map

Industry executives increasingly identify global similarities in underlying pension and retirement issues, challenges and potential solutions. Many leading executives are combining their domestic experience and market context with international insights to analyze, prioritize and decide on trade-offs to rebalance and refine their solutions. Stakeholders face challenges in the following areas:

- Emulating innovative solutions in "reputable" countries or entities
- Identifying what has worked and why
- Benchmarking data of comparable systems

Private and public sector pension providers seek to learn how to protect, improve or innovate their existing business, products and services or to reduce costs. Private sector providers want to know how to grow new business or enter new markets in the pension and retirement space, domestically and globally. Given the long lead time required to see results from reforms and the political sensitivity of tinkering with benefit levels, any new initiatives will require timely action and change in manageable steps. Much can be learned from global collaboration and sharing of knowledge and experience.

EY’s heat map shows short- and medium-term pension and retirement market opportunities globally. It is based on nearly 200 individual qualitative and quantitative criteria in a pyramid of three levels, following established market attractiveness methodologies. At a high level, the EY criteria assess market size, market demand growth, competitive intensity, industry profitability and market risks.
Framing the right questions

Aging and longevity have been debated for decades, but the tide has turned. As the GFC legacy continues to play out across borders, policymakers are confronted by an altered landscape of priorities and assumptions.

The tide has turned

Pension and retirement solutions vary significantly within and between countries due to historic, economic, social and political factors. Asking the right questions will help leaders to accept that the pension and retirement environment has turned and to enable flexibility in responding to the change.

The following nine key categories of questions act as guidance to identify the main issues and as a high-level check list to map the impact of potential reforms.

Country context: Which contextual aspects (savings culture, social and financial support measures or financial market aspects) do we need to change?

Public confidence: How do we build and evolve pension and retirement policy, systems and supervisory solutions that instill and retain stakeholder confidence?

Sustainability: What diverse stakeholder needs and economic long-term developments will deliver sustainable and relevant solutions to governments, providers, shareholders and, ultimately, members?

Long-term vision: What is our long-term view of social security, financial well-being in retirement and sustaining an adequate pension and retirement system? How do we communicate, implement, deliver, supervise and adjust this vision?

Professionalism: How do we establish, maintain and evolve adequate governance and management solutions that act in the best interest of members while recognizing political, social and economic realities, conflicts of interest and risks?

Informed decisions: How do we empower different stakeholders to make informed decisions using quality information and advice via pragmatic, efficient and effective online and offline solutions?

Predictability: What measures do we need to maximize predictability of policy, delivery, adjustment process, investments, and pension and retirement outcomes for all stakeholders?

Ease of approach: What solutions do we need to build, maintain, monitor, evolve and fund to efficiently and effectively deliver across the entire process and maximize a positive experience for different stakeholders?

Relevant pension and retirement outcomes: What decisions are necessary, and when should they be made, to maximize pension and retirement outcomes?

Figure 2

Three key aspects that have altered the landscape of priorities and assumptions

1. Budget and liability focus make retirement a priority
   Funding gaps in both social security and pension and retirement promises can take a major percentage of long-term liabilities. Existing gaps are amplified by the use of lower discount rates and accounting changes for pensions and retirement.

2. Groups of retiring baby boomers make it real
   For over a decade, a large number of baby boomers have retired or are preparing for retirement, and they expect their payments from governments’ social pension systems, public sector pension funds or voluntary pension and retirement accounts.

3. The GFC acted as a catalyst
   Lower than expected investment returns and volatility, as well as increased regulatory transparency, helped explain the amplified domestic and global focus on pensions and retirements.

Source: EY
Seven key findings
Need to rebalance benefit expectations with financial resources

Many systems in developed markets face severe strain due to an expectations mismatch: increasing longevity and expectations of generous retirement benefits versus dwindling financial resources to safely meet those expectations. Following the GFC, deficits in public and private sector pension funding have increased dramatically, and the ability of entities to meet those deficits has substantially diminished. Concerns about funding long-term liabilities are a major public policy issue.

Continued lack of decisive action may potentially lead to another GFC, triggered by pension and retirement shortfalls and widespread old age poverty. All system stakeholders must acknowledge the financial burden left behind for the younger generation and systematically rebalance affordable benefits and expectations of pension and retirement systems. This will require long-term vision, tough decisions and political discipline.

Common responses to current challenges include the following:

Shift from defined benefits (DB) to defined contributions (DC) — In the shift from often underfunded DB or unfunded pay-as-you-go promises to a new or supplementary DC system, the investment, outcome risks and decision-making is transferred from the plan provider to the individual. Participant contributions will limit future increases in existing pension and retirement liabilities.

Increase retirement age — Many countries are adjusting the retirement age to better align to longevity. Adjustments vary considerably, but countries like the UK may act as a benchmark, proposing a retirement age of 70 years. Later retirement reduces the time of benefit payments and future liabilities.

Reduce automatic benefit increases — Many DB systems (e.g., US public sector) have stopped, delayed or reduced increases, thus reducing future liabilities.

“The financial health of the plan sponsor or government is a key issue, not just the actual pension promise.”

US pension industry executive

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Figure 3
OECD pension gaps in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Replacement rate, % of individual earnings</th>
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<tbody>
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<td>Australia</td>
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<td>UK</td>
<td>mandatory pensions</td>
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<tr>
<td>US</td>
<td>pension gap</td>
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Notes:
Pension gap measures how much people will have to contribute to voluntary private pensions to lift overall replacement rates from the national, mandatory level to the OECD country average, which is 54% of an individual’s pre-retirement income. Data covers only national schemes for private-sector employees.

Soft compulsion and automatic enrollment – Driving member take-up in essentially voluntary systems reduces future liabilities. Several countries are following the UK National Employment Savings Trust (NEST) approach to make participants actively opt out of new voluntary systems. Popular in the US 401k system, all employees are automatically enrolled in a retirement solution at a default rate.

Defined ambition – This approach combines advantageous collective elements of risk sharing, outcome smoothing and collective guarantees with the more flexible elements of DB, individualizing outcome risk and responsibility.

One aspect in the adequacy and affordability debate is discussed less publicly; pensions are a very long-term game. Pension and retirement systems average one working generation, or 40 years, to mature and generate sufficient funding. In the US, the success of 401k plans required more than 30 years to secure 80% penetration of the eligible population. Assessing funding levels, average replacement rates or operating cost and competition is of vital importance. However, concluding that a system has failed or closing a system without adequately considering the time dimension appears dangerous.

**Figure 4**
Three broader aspects in the pension and retirement debate that are rarely discussed

1. **Working longer**
   Increase in life expectancy means more retirement time. The “third” age demands innovative solutions regarding spending offering opportunities and challenges for government and private sector providers to develop products and services. With a declining workforce in several countries, people may need to work longer.

2. **Demographics and politics**
   The increasing percentages of older citizens impact public policy formulation and social and productivity decision-making. Further research for the new “age” is needed to better understand and prepare all parts of society across most countries.

3. **Employment and labor relations**
   Pension and retirement promises are a vital employee benefits tool to attract and retain talent. Future benefit promises may require more flexibility to award, refine and eliminate pension and retirement promises made.

**Source: EY**

**“When it dawns on my students that they will have to pay the bill for current promises, many impulsively want to leave the country.”**

Leading German public sector finance academic

**EY point of view**

Discipline, reasoning and hard decisions will be necessary to make the retirement world better, fairer and sustainable long term. We anticipate a tough transformation process for governments, public and private sector employers and providers that have not yet started.

The political agreement necessary to drive vital changes, particularly benefit reductions and “outsourcing” outcome responsibility will be difficult. Applying behavioral finance insights indicates that developed countries may experience more resistance to change as financial loss is felt twice as strongly as gains. Aligning diverse stakeholders with often conflicting interests and expectations is difficult for most short-term-focused political systems. However, most countries have little time to avoid a demographic earthquake.
Local financial markets need to evolve concurrently

Many emerging market pension and retirement systems face the challenge that assets are increasing at a far greater rate than local capital markets are developing. This strains national financial systems in terms of operational risk, regulatory oversight, liquidity and infrastructure, and may impact sound pension and retirement system growth in local markets. Within that context, individuals interviewed suggested the following key areas that need further attention and better alignment to limit stress:

- **Capital market maturity and investment home bias**: pension and retirement assets in fast-growing countries are reaching inflection points where domestic capital markets approach current limitations in depth, diversity of instruments or legal maturity. Investment home-bias can be an underlying reason for additional pressure. It creates concentration risk and additional volatility, and challenges reliability and sophistication of market instruments vital for long-term pension and retirement system funding.

- **Multiple mechanisms to deliver financial well-being in retirement**: some countries offer retirement options such as housing or social security benefits. Alignment or coverage gaps between multiple mechanisms contribute to complexity and often lead to unnecessary burden or unintended financial outcomes. Based on our analysis, aligning regulation and “means testing” across multiple mechanisms is a significant task for many governments and systems.

- **Savings culture and financial and retirement literacy vary by country**: globally, these “soft” elements contribute to less than expected take-up of choice or attractive tax-incentivized voluntary contributions. Increasing numbers of younger and self-directed members necessitate making financial literacy a key focus. Making it a central element of any pension and retirement product and industrializing delivery may help retain member trust and encourage voluntary contributions.

**EY point of view**

The review of pension and retirement systems requires vital aspects to evolve and align concurrently. This works in theory, but proves difficult in practice. To maximize and balance outcomes, many levers in the local market need to evolve. This requires diverse experience and capabilities in the assessment, decision and implementation phases of pension and retirement reforms.

“We need more agility and stress testing in pensions; the past decade demonstrated that vital assumptions can change more dramatically and quickly than we ever thought.”

German industry executive
Acceptance of a new level of regulation, supervision, governance and transparency

“Governments need to pay closer attention to implementing policy and delivery.”

Malaysian industry executive

The size of the pension market and inherent risk to social and economic stability demand an entirely new level of political and public attention, regulation, governance, transparency and scrutiny. In many countries, the pension and retirement industry is as large as the banking sector or annual gross domestic product (GDP). Compared to the level of regulation, supervision, governance and transparency of banking and insurance, the pension and retirement industry in most countries still has a long way to go. Stakeholders will be forced to adapt to new and increased regulation, governance and transparency, but this comes at a cost.

In many fast-growing and mature countries, pension and retirement regulation and supervision are fragmented and evolving, for various reasons:

- A complex mix of government and public and private sector solutions that cuts across financial management, taxation and social security responsibility
- Varying use of outsourcing of government and public sector pension and retirement system “delivery” to the private sector

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Figure 5
Private pension fund assets as % of GDP (2011/12)

Source: Pensions market in focus: 2013, OECD, 2013, p. 39
Varying use of outsourcing to external asset managers, life insurers, administrators, distributors, payment agents and other service providers, many of which are subject to no (or different) regulation and supervision.

Differing regulation and supervision “philosophies” across industries such as asset management, life insurance and banking.

Two aspects require further consideration:

Market and industry development – Key components of the pension and retirement market have evolved over time. Fragmentation and alignment gaps impact necessary industry evolution and innovation to adapt to change and system maturity. Diverging interests limit necessary cooperation among government, employers and providers.

This often delays introduction of common data and process standards or outcome reporting, significantly challenging efficiency, effectiveness and simplicity.

Scheme governance – Following system growth and the GFC, leading pension and retirement systems have improved their governance. Many solutions are aligned to leading corporate governance practice, such as independent professional trustees serving as a fiduciary and strategic board. In less sophisticated systems, governance has rarely evolved beyond a compliance platform. This poses significant strategic and operational risks, i.e. current practices are not aligned to ballooning assets, and pension and retirement entitlements are rising. Governance is increasing globally with independence, empowerment and clear accountability to avoid contagion risks.

“Protecting and appropriately compensating pension and retirement members from provider or sponsor insolvency, financial fraud, identity theft or cyber-crime is underdeveloped globally – in spite of rapid asset growth and automation.”

US pension industry executive

EY point of view

The increasing importance of pension and retirement systems requires improving quality of regulation, supervision, governance and transparency to align to higher expectations. But it also means aligning solutions across states with government and public and private sector-operated solutions to support a sustainable delivery of better retirement outcomes. Individuals interviewed highlighted the need for governance in a pension and retirement system in policy and regulation, strategy and supervision, industry, scheme, investments and operations.
Given the lackluster outlook for expected capital market returns, the pension industry has been forced to step up the drive to improve operational excellence by lowering costs, improving service delivery and the customer experience and enhancing risk management. Such initiatives come at a substantial cost.

Leading pension providers take a more comprehensive view of operational excellence than simple cost analysis, as indicated by the following points.

**Operational context**

Most pension and retirement systems represent a mass transaction system. Many stakeholders collect and allocate contributions (DB or DC), inform and answer queries, maintain records, submit statements and assess and pay benefits. This often generates millions of transactions per year. Experience from similar industries indicates that only two key avenues enable sustainable transaction cost reductions: process automation and reducing exceptions. These require significant, modern and adequate infrastructure that is fit for purpose and can handle data and money. It also needs the alignment of interest and cooperation of many stakeholder groups whose conflicting interests may require behavioral change and trade-offs.

**Definition of pension and retirement “products”**

Traditionally, retirement benefit payments constituted the core element of pension and retirement products. This led to a narrow focus on reducing costs to the lowest possible level to maximize payments. The increasing need for members and employers to choose, contribute more or adapt to pension and retirement system changes led providers to redefine products using a balanced approach to retain members and employers. This new definition includes:

- Features and financial outcomes, i.e., investment performance and long-term benefit entitlements
- Customer experience
- Operational delivery
- Flexibility and agility

**Economies of scale**

Delivery of pension and retirement systems in many countries is very fragmented. Our analysis reveals three scale-related key aspects around cost and operational excellence:

1. **Relevance** – Past double-digit investment returns and substantial long-term liabilities overshadowed focus on global operating costs.
2. **Scale benefits** – Researchers have concluded that delivery benefits from economies of scale in operations and investment management.
3. **Measurement** – Pension and retirement system delivery cost and fees are generally measured as a percentage of assets under management. This assumes that delivery costs grow proportionately to asset volume. Costs for operational tasks, including onboarding members and employers, collecting and allocating contributions, maintaining records, delivering statements or assessing and paying benefits, correlate with member and employer numbers. But the dominant global way to measure efficiency as a percentage of funds under management is a disadvantage for some and overstates the efficiency of high asset pool systems.

“We need to industrialize the pension industry globally to deliver better retirement outcomes.”

Swiss pension industry executive
Transparency

Comparable and comprehensive sources showing the cost and delivery aspects of pension and retirement systems are rare in most countries. This limited transparency makes it difficult to compare and contrast individual providers or systems with domestic or global peers. Without sufficient regulatory or economic incentives, the focus on improving operational excellence is left to individual entities or specific insiders.

Interviewees suggest that future reform needs to take these steps to address transparency:

- Define and evolve an “industry operating model” and standards for how cost and other features are described to enable comparability
- Collect and publish data regularly to encourage learning from others
- Establish a solution that drives continuous improvements and operational excellence, with economic incentives, competition and regulation

“Operational equity between members from large versus small employers: they pay the same fees, but attract different levels of processing costs.”

Chinese industry executive

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EY point of view

Future reform must drive operational excellence to the next level. Emphasizing cost is only one step, but it will assist in “industrializing” the industry. Focusing on customers and employers as vital intermediaries in many systems will require significant behavioral change and stakeholder cooperation.

Industrialization successfully transformed other industries, which may provide useful insights. Leveraging existing experience and infrastructure from other mass transaction industries, such as banking or securities’ processing, can add significant value to improve efficiency and effectiveness, resulting in beneficial retirement outcomes.
A recalibration of investment functions and investment management

The post-GFC capital market environment has forced systems and providers to reevaluate their investment strategy, asset allocation policy and operating models. Most pension systems are wrestling with fundamental questions: their investment beliefs, strategic asset allocation, risk management, investment models and governance. Focusing on short-term results has been a challenge in the ever-increasing DC world.

Risk management

The GFC exposed significant investment risk management gaps across many systems and providers. Some providers ventured into the unknown without fully understanding the risks. These gaps led to unplanned operational and strategic risk-taking and contributed to less-than-expected investment performance.

Many interviewees indicated that funds and systems must address:

- Aligning risk management to the current size and complexity of pension and retirement systems, providers, the investment management industry and investment instruments used
- Aligning to expected further increases in pension and retirement assets, liabilities and payments
- Preparing for the Black Swan – the new norm of unpredictable markets and limitations of conventional models and solutions

Another unresolved question is how to include members in investment risk management solutions. DC members are increasingly required to run their pension and retirement portfolios and make investment decisions. Default investment options, target date, lifestyle funds and sophisticated decision support tools are part of the answer.

However, the increasing popularity of DC solutions requires expanded investment risk management solutions that better address member needs. Outsourcing investment decisions to members without empowering them to make the right decisions can impact the delivery of long-term retirement outcomes.

Investment operations

Most pension fund investment operating models grew organically, varying across global and asset classes within one provider. Cumulatively, unclear roles and responsibilities, asset growth, market complexity and operational risk management and governance gaps have been exposed over the past five years. Lower-than-expected investment

“Double-digit returns can make you take your eyes off the ball internally.”

US pension industry executive

“Pension funds and asset managers need closer cooperation to resolve big challenges such as decumulation.”

US industry executive
returns and increasing fee pressure are encouraging more pension and retirement providers to review and improve their investment operations and operating models. Leading providers have two aspects in common: 1) a level of professionalism and sophistication that mirrors the size of assets under management; and 2) a strict delineation between front, middle and back office to maximize independence and decrease operational risk.

Decumulation
An increasing number of baby boomers, most prominently in the US, are allocating funds to prepare for asset “consumption” during retirement. Most pension and retirement system providers are wrestling to varying degrees with decumulation and appropriate product solutions. Life insurers are generally better prepared to reap the benefits, but solvency requirements and lower expected long-term investment performance challenge the supply of guarantees and annuity-type products.

“Most investment principles and answers have existed for years, but are poorly followed by many entities.”

Canadian industry executive

**EY point of view**
The GFC provided a wake-up call to recalibrate the investment function and broader investment management space. Future solutions need to align to the increasing size of pension and retirement assets. Only with robust systems and predictable outcomes will public confidence be restored.
In most global markets, pension and retirement systems are overly complicated. Information, communication, product selection, operations, payments or roles and responsibilities are rarely clear to the ultimate beneficiaries. This limits system confidence, engagement and willingness to contribute voluntarily or exercise choices. Few pension systems actively manage those dimensions. Low voluntary savings rates, low participation of young savers and low take-up in switching or voluntary pension and retirement solutions are widespread evidence of this lack of engagement. Rebalancing or reducing existing promises without adequate replacement through other measures leads to lower retirement savings and potentially widespread old-age poverty. Therefore, improving buy-in, understanding and informed decision-making among members is vital.

Many reasons justify this sector's complexity:

- Highly intricate system of government and social security services
- Multiple product characteristics
- Complex system of taxation and tax incentives
- Historic nature of many promises with multiple layers of “grandfather” clauses
- Legal protection to limit system abuses

Most pension and retirement systems have declining or insufficient benefits, so it is essential for members to:

- Save for retirement early to increase the number of years in the system
- Increase voluntary contributions
- Build other provisions for financial retirement

These three levers require member attention, interest and early understanding of the need for retirement savings, as well as public trust in the system to act. Complexity reduces member engagement, making voluntary contributions less likely. This directly counters what many governments want, which includes:

- Introducing and expanding DC systems
- Introducing investment, providers or other choices.
- Increasing participation of younger generations and the self-employed

“Consumers want engagement when they want it, not when providers have traditionally provided it.”

Australian industry executive

EY point of view

Improving member buy-in, understanding and informed decision-making is a vital priority, and increases member take-up of choices and voluntary contributions. But simplicity is not just an issue for younger generations; older people demand even simpler solutions. Policymakers and providers must give “simplicity” a name and accountability. Perhaps the new role of a “Chief Simplicity Officer” may follow the path of the Chief Risk Officer to drive the necessary focus, change and member action.
Seven key findings

Need to connect and become customer-centric

In all aspects of society, consumers increasingly want to understand, control and engage. Policymakers aspire to increase voluntary retirement savings or create choices. This is only possible by being customer-centric and speaking the consumers’ language, how and when they want it. Through better customer engagement, governments and providers can influence persistency, reputation, understanding, engagement and action.

“We can’t always have what we want. Sometimes we have to have what’s good for us” is a famous statement by Margaret Thatcher. It summarizes the paternalistic approach of many pension and retirement systems in the past. Specific member service needs received little attention or treatment based on a compliance-driven philosophy of collecting contributions and paying benefits. As such, effective and efficient two-way connectivity and communication channels were rarely adopted. In a world of increasing choices and change, advances in technology and the explosive growth in data are empowering consumers and employers across the globe.

Pension and retirement systems face similar challenges in retaining members who can opt out of a system. Members exit because of less-than-expected performance or service, lack of control or understanding.

At the same time, most employers seek to minimize their effort to comply with operational obligations to remit data and payments, particularly in occupational pension and retirement systems. Existing solutions offered by providers are often not “fit for employer purpose.” This substantially increases the effort for many employers and limits take-up or support for new voluntary options.

Leading pension and retirement providers are increasingly taking a more holistic perspective. They see the value of pension and retirement systems as more than a balance of payments, assets, price and product features. Instead, they focus on the customer.

Interviewees highlight three key elements for this transformation:

1. **Customer strategy**: Applying an outside-in perspective and delivering customers what they want has been a key to success in other industries. This includes understanding behavior, needs and putting customers at the heart of organizational decision-making. Interviewees noted that making such changes in the historically slow-moving pension environment is difficult; however, market success warrants the effort and creates a competitive advantage.

2. **Customer experience**: Members can interact for more than 80 years with a pension and retirement system. Providers face a significant challenge in delivering a superior level of customer experience over

“Conflicting duties: trying to do too many things and trying to do the best job possible.”

UK industry executive

“A vicious circle: poor member and employer experience adds to disengagement, which adds to higher cost and less money to improve experience.”

UK industry executive

“Opt-out and auto-enrollment only address symptoms, but most members want empowerment to make informed decisions: themselves.”

UK industry executive
such a long period while dealing with many internal and external changes. Leading providers understand that each interaction is precious. Delighting customers generally leads to higher satisfaction, retention and loyalty. With modern media, members quickly become advocates, which is particularly relevant when voluntary contributions or execution of choices are important.

3. Communication: Most interviewees highlighted the vital importance of communication, member engagement and connectivity. However, two questions remain: what is the ideal level of member engagement and how much investment is warranted to increase communication, engagement and informed decision-making for only a small percentage of “engaged” members?

EY point of view

Stakeholders must develop new capabilities to transition from a product-focused to a customer-focused model. Embracing social media and digital solutions are vital aspects in this journey as such tools build connectivity and allow effective interaction with stakeholders on demand. Policymakers and providers may need to consider the same strategic risks and opportunities that the banking industry experienced a decade ago when it commenced systematically handing information, and therefore power, to the customer.

“... trying to enhance electronic engagement with members, but coming from a fair way back. We feel this is just the tip of the iceberg of what is really needed.”

Australian industry executive
Pension and retirement challenges vary considerably, but leading countries and systems apply the same process to respond. These leaders align the speed and depth of their analysis, decision-making and reform to the magnitude of the challenges they face. In this process, they benefit from a long-term vision of the desired state, outcomes of their pension system and clear accountability. This strategic clarity guides future reform measures, acts as a benchmark, and improves predictability and stakeholder confidence in the system.

Based on this agreed long-term vision, these leaders apply the five key tenets we outlined. They use adequacy, sustainability, efficiency and effectiveness, investment management and political support to determine the necessary transitional measures to rebalance their pension and retirement system.

Figure 6 shows the importance of each of the five tenets in the current pension debate in the 18 countries we analyzed. Policymakers can identify the most relevant countries and learn from their experiences. More details are available in the “Overview of 18 Pension and Retirement Markets Globally.”

There is no single response to appropriate policy reform as systems operate in different socio-economic and political contexts and levels of maturity. However, learning from other systems and peers increases the accuracy of root cause analysis, improves understanding of the need for tough decisions and provides a political perspective on possible long-term solutions.
The global connectivity of investment markets and economies means that rebalancing local pension systems is also a global responsibility to manage the demographic transition. Recent pension reforms in Hungary and Poland are examples where domestic decisions raise a broader debate on fundamental features for successful pension systems.

While pension systems globally are becoming more comparable, Figure 7 highlights that some fundamental features still vary considerably.

These gaps can only be partly explained by historic developments and regulatory differences. A “stress test” of domestic assumptions and levers against globally used positions at the end of the spectrum may be a good starting point to understand the magnitude of future reform needs.

“Politics is about balance, not winning.”

US pension fund senior executive

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**Figure 7**
Sample of selected levers that globally still vary considerably

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<td>50 years for women in China</td>
<td>Gap</td>
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<th>Long-term investment expectations/discount rates</th>
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<td>US public sector &gt; 7%</td>
<td>Gap</td>
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<th>Scope of “benefits” and reasons to withdraw</th>
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<tr>
<td>Retirement savings only in Australia</td>
<td>Gap</td>
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Two ends of the spectrum
Canada
- A number of sophisticated pension systems
- Further refinements required to systems
- Need to find solutions for the large percentage of the population not covered by existing ones

Mexico
- A fast-evolving pension system
- Need reform to evolve to next level of pension system maturity

United States
- Pillar I experiencing funding stress
- Private sector 401k-style Pillar II systems created a retirement asset pool and a penetration in excess of 80% of eligible employees over 30 years, but average account balances are comparatively low
- The new SAFE and MyRA proposals aimed at addressing the low contribution rate, penetration in low-income segments and small and medium-sized employers
- Large pressure on defined benefits-based public sector systems shows three groups:
  a. To refine systems to be future-proof
  b. Continual growth of funding gaps, but many systems are reforming and some need to further align the magnitude of their challenges with their reforms
  c. “Too big to solve” funding gaps

United Kingdom
- Highly fragmented pension market
- Different systems and providers across government, public and private sector
- Longevity pressure
- Increase of retirement age to 68
- Introduction of low-cost, occupational solution (NEST)

Spain
- Sophisticated Pillar I system
- Modest Pillar II and III systems
- Retirement age increasing to 67
- Discussions center on introducing an occupational pension system

Chile
- A sophisticated Pillar II pension system
- Reform effort to address low penetration in the self-employed sectors and contribution increases
The Netherlands
- One of the leading global pension systems
- May introduce a defined ambition or collective defined contribution solution
- Improvement in communication and engagement strategy by providers

France
- A complex set of fragmented pension systems
- Low retirement age

Sweden
- Sophisticated pension system
- Focused on refining delivery
- Possibility of consolidation of buffer funds to increase economies of scale

Switzerland
- Sophisticated pension system
- Pension 2020 program addresses the need to rebalance the budget-financed Pillar I (AHV), proven supervision and governance of other pillars
- Substantial fragmentation across public and private sectors

Mainland China
- Overarching urban and rural pension system for Pillar I for private sector citizens, but different implementation and socioeconomic differences lead to more than 3,000 provincial, territorial and city pension “sub-systems”
- Pillar I and II (mandatory) systems are defined contribution in their principle design features; almost full coverage of eligible citizens with 800m members in 2013
- Pillar II enterprise annuity system still small in assets and take-up
- In December 2013, the Government announced a new voluntary deferred tax pension system

Singapore
- Central Provident Fund (CPF) is one of the most mature global pension systems, but still being refined
- Addition of broader elements for financial well-being in retirement

Hong Kong
- An evolving mandatory Pillar II defined contribution (MPF) system
- Reform debate to reduce administration cost and fees and strengthen default investment options

Japan
- A complex system across all three pension pillars
- Longevity pressure
- Recent reforms to increase contribution and retirement age

South Korea
- Fast-maturing pension systems across two pillars
- Introduction of individual retirement plan (IRP), a US-style defined contribution system to commence in 2017

Australia
- Fast-maturing pension systems across three pillars
- Mandatory contribution increases from 9% to 12%; voluntary additional contributions of approximately 3%
- Access age increases from 55 to 60 by 2025

Policy reform globally
Global business opportunities for pension and retirement providers

Pension systems already present significant business opportunities in many countries. Public and private pension funds, asset managers, life insurers, retail and institutional banks, wealth managers and other partners globally are ideally placed to support an efficient and effective creation and delivery of retirement outcomes.

Figure 9 shows product opportunities and pension market size globally over the next two decades, using current employment figures per country. Our results compare the size of the global retirement asset pool today with estimates for 2030. While the figures may be debatable, there can be no doubt that the overall opportunities are significant.

Figure 10 builds on the EY pension and retirement business opportunity heat map and outlines short- to medium-term business opportunities in selected countries. Most opportunities apply to all markets, but timing and magnitude vary considerably. Each business opportunity is relevant for all countries as they all go through comparable stages to mature; for each country, the questions are the timing and magnitude of the opportunities.

Mature markets with significant continuing changes, such as Australia, Canada, the Netherlands, the UK, the US and Switzerland, have growing large pension pools that can be serviced privately. These markets attract leading providers that leverage existing product capabilities to expand their pension and retirement footprint. Increasing commoditization of products and delivery offers opportunities to innovate.

There is also a shift from providing pension and employee benefit-related products to managing customer “financial well-being.” This transition can include offering product packages of wealth and health, as well as housing and services comparable to “roadside assistance” for retirees.

“We see banks and private equity firms exploring capital market solutions to funding as well as pension buyouts or pension runoff businesses like in insurance.”

US pension industry executive

“Do all stakeholders have a sufficient long-term horizon and discipline to truly appreciate that the necessary upfront investment to win employers and members and build adequate infrastructure takes a decade to pay off – and create a stable annuity income?”

Malaysian industry executive

Figure 9
Expected growth of the retirement asset pool

2014 2030
Global business opportunities for pension and retirement providers

Figure 10
Seven types of business opportunities across four types of pension and retirement markets

Mature markets with fast change (e.g., UK, US)
Mature markets with modest change (e.g., France, Japan)
Fast-growing markets (e.g., Mainland China, Hong Kong)
Fast-developing markets (e.g., Spain, South Korea)

Mature markets experiencing modest fundamental change, such as France, Germany or Japan, have room to expand their product offerings. Leading providers ask if they can use existing infrastructure and capabilities to support pension delivery in the fragmented public and private sector pension and retirement space in Germany or France. White labeling, shared servicing or outsourcing are common in other industries, but offer significant growth opportunities in pensions and retirement. All stakeholders benefit as pension and retirement delivery is done better, faster or more cheaply.

Fast-growing markets, such as Chile, Mainland China, South Korea or Mexico, show growing asset pools fueled by reforms. These pools attract more market entrants with competitive positions. How can we shape policy in these markets? Can we contribute our experience in behavioral finance, sales, marketing and financial advice, product, investment and delivery? Can we play a mutually beneficial role in empowering more members to make informed retirement decisions?

Fast-developing markets, such as the new Malaysian Private Retirement System or the South Korean Individual Retirement Plan, expect attractive asset pools in less than a decade. These pools will attract domestic and international market entrants. How can we increase the addressable market? Can we demonstrate how private sector capabilities and capacity can help deliver and fast-track reforms and expand penetration, as well as improve delivery or reduce cost?

“We need pensions, but we do not need pension funds.”
US pension industry executive

“We need a reasonable amount of profit to cover cost, maintain infrastructure and service capital.”
Hong Kong pension industry executive
EY proposition

Governments, public and private sector organizations and their partners face a complex array of pension and retirement challenges that cut across social, economic, financial, delivery and political aspects of their services and operations. Our cross-sector teams deploy domestic knowledge and global experience to address these issues, helping to build a better working world for participants, employees and members by improving their long-term retirement prospects and instilling short-term financial confidence.

**We understand the issues**
Our teams have been involved in all stages of pension and retirement policy design, reform, implementation and supervision, as well as managing pension funds and risk transfers and dealing with varying stakeholders in different countries. While asking the right questions and identifying and resolving the important issues quickly, we take into account all the relevant 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 175,000 staff and 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 the appropriate subject matter professionals, who can discuss and resolve deep technical questions, manage the transformation process and put solutions in a political context.
Our services for governments, as well as public and private sector pension funds

We understand the issues

We align different perspectives

We deliver experience

1. Pension and retirement policy, strategic delivery and industry supervision: we support, design, review and evolve
   - Supporting policy design and evolution
   - Assessing policy options
   - Supporting policy implementation and delivery

2. Strategic context for your pension and retirement business: we compare and contrast, as well as design, evolve and adjust
   - Policy and regulatory framework
   - Strategic direction, including de-risking, funding
   - Governance

3. Delivery of outcomes for your pension and retirement business: we assess, review, design, improve and implement
   - Investment management and operation
   - Business delivery, operating model and business processes
   - Customers, members and employers
   - Regulation and compliance
   - Capital and funding management
   - Product management

4. Enabling areas for your pension and retirement business: we assess, review, design, improve and implement
   - People and organizational change
   - Technology and data
   - Enterprise risk management
   - Performance management and reporting
   - Managing third-party providers
   - Finance

5. “Traditional” EY services
   - Audit and assurance
   - Tax
   - Transactions and valuations

Figure 11
Pensions and retirement services
Conclusion

Leading pension providers rebalance the way they exploit opportunities by analyzing and designing solutions on a global basis. An integrated approach and operating model will help maximize long-term benefits and contribute to global industrialization of the pension industry. This will be a win-win for the private sector, governments, regulators and, critically, for members.

By growing the addressable market, private and public sector providers can help build a better retirement world.
Overview of 18 pension and retirement markets globally
Review period: August to December 2013

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

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<th>Statistics</th>
<th>2013</th>
<th>Dependency ratio</th>
<th>27%</th>
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<td>GDP (USDb)</td>
<td>1,508</td>
<td>Number of pension funds</td>
<td>325</td>
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<td>Population (m)</td>
<td>23.2</td>
<td>Pension fund assets as % of GDP</td>
<td>97.9%</td>
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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 (retirement age for women increased from 60 to 65 from 1995 to 2013)

**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 9.25% salary deduction by employer
  - Many public sector funds were DB but majority now DC

**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** ★★★★★

**Note:** Major reform law in 2008 addressing policy issues such as worker coverage, pension adequacy and administrative fees

**Pillar 1**
- Recently implemented
  - Increasing pension age to 67 between 2017 and 2023

**Pillars 2 and 3**
- Recently implemented/in progress
  - Minimum retirement age increasing from 55 to 60 between 2016 and 2025
  - “Stronger Super” reform program, launched in 2010
    - Increase in mandatory contributions from 9% to 12% between 2013 and 2019
    - Introduction of new, simple low-cost default fund from 2013
    - Back-office efficiency reforms between 2011 and 2015
    - 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
    - Other superannuation reforms: contributions tax rebate for low-income earners from 2012; contribution incentives for older workers (contribution age limit abolished; temporary higher cap on concessional contributions from 2014)
    - “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; Stronger Super website; Minister for Financial Services & Superannuation, Press Release: Super bills pass Parliament and mark completion of reform agenda, 25 June 2013; ASFA, Status of Stronger Super reforms, July 2013; ICAA, Key legislative contribution changes, update as at 1 August 2013; Australian Government Treasury/Charter Group, A super charter: fewer changes, better outcomes, July 2013
Canada

![Canada flag]

### 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

#### 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

#### Pillar 3
- **Personal retirement savings plans**
- **Annual contribution limits**
- **Tax incentives**

### Reforms

#### 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-enrolment with opt-out option for employees

### Statistics

<table>
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<tr>
<th>Statistics</th>
<th>2011</th>
<th>Dependency ratio</th>
<th>28%</th>
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<tr>
<td>GDP (USDb)</td>
<td>1,780</td>
<td>Number of pension funds</td>
<td>7,870</td>
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<td>Population (m)</td>
<td>34.4</td>
<td>Pension fund assets as % of GDP</td>
<td>125.9%</td>
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### Pension and Retirement Business Opportunity score

![Three stars]

Selected sources: IDPS, 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 January 2012

Insights for better outcomes in the global pension and retirement market 33
Chile

Statistics

<table>
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<tr>
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<th>2013</th>
<th>Dependency ratio</th>
<th>20.9%</th>
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<td>GDP (USDb)</td>
<td>287</td>
<td>Number of pension funds</td>
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<td>Population (m)</td>
<td>17.6</td>
<td>Pension fund assets as % of GDP</td>
<td>57.9%</td>
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</table>

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

Pillar 2

- Mandatory DC system, individual capitalization system – individual accounts managed by private pension fund administrators (APFs)
- 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

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/fix 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

Reforms

Note: Major reform law in 2008 addressing policy issues such as worker coverage, pension adequacy and administrative fees

Pillar 1

Recently implemented

- Solidarity Pensions System (as outlined above) introduced in 2008

In discussion

- Proposals aimed at strengthening the solidarity pillar by extending coverage to wider income bracket (over 60% of the poorest population currently covered) for both Basic Solidarity Pension and Pension Solidarity Complement
- Proposal to increase the amount of Maximum Pension with Solidarity Contribution for people who have contributed to an AFP

Pillar 2

Recently implemented

- Gradual extension of mandatory system to certain self-employed professionals between 2008 and 2015: auto-enrolment from 2012, mandatory contribution from 2015 for self-employed
- Employer subsidy for young workers – state contribution for each low-income young worker
- 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 1% commission on monthly contributions
- Outsourcing authorized for many functions of plan managers

In discussion

- The November 2013 election prompted discussion about ways to increase retirement sums

Pillar 3

Recently implemented

- New rules for AVPC introduced, aimed at encouraging greater take-up by employers and employees

In discussion

- The November 2013 election prompted discussion of various measures to improve pensions, including proposals for additional compulsory and voluntary savings schemes and incentives

China (Mainland)

### Market structure

**Pillar 1**
- Basic pension system covering enterprise employees
- Pillar 1A: PAYG, DB, financed by employer contributions and pooled at a city/provincial level. Contribution rate varies between provinces
- Pillar 1B: funded individual accounts, DC, financed by employee contributions of 8%
- Social pension system covering unemployed and self-employed residents
- PAYG, DB, financed by government + participants’ contribution to individual accounts
- Eligibility at age 60 (men), 50 or 55 (women)

**Pillar 2**
- Voluntary occupational pensions called Enterprise Annuities
  - DC
  - Set up as trusts
  - Primarily adopted by large, profitable, mostly state-owned enterprises
  - Only licensed financial institutions are allowed to manage and administer Enterprise Annuity assets
  - Tax exemption for employers differs from province to province, no tax benefit for employee contributions

**Pillar 3**
- Voluntary private pension products/private savings
- Pilot program on tax-deferred pension insurance announced – implementation pending

### Reforms

**Pillar 1**
**Recently implemented**
- Fiscal transfers from local and central government to “refill” Pillar 1B, which has lost funds to local governments looking to cover deficits in the PAYG portion
- Extending coverage to rural migrant workers in urban areas, and low-income urban residents
- Expanding coverage to fully cover rural residents by 2020

**Pillar 2**
**Recently implemented**
- Effective March 2013, Circular on Expanding the Investment Scope of Enterprise Annuity Funds allows investments in wealth management products of commercial banks, trust products, infrastructure debt investment plans, specific assets management plans and stock index futures

**Pillar 3**
**In progress**
- The proposed tax-deferred pension insurance scheme has received the taxation bureau’s approval and is currently awaiting the go-ahead from the Finance Ministry
- Foreign insurers will be allowed to take part in this pilot scheme

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**Selected sources:**
China Ministry of Human Resources & Social Security website; Asia Insurance Review, China; Foreign insurers to be allowed to take part in pilot runs of national tax-deferred pension plan, 18 July 2013; ADB, Pension systems in East and Southeast Asia - promoting fairness and sustainability, 2012; International Social Security Association, Country profile: China, July 2012
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 Tillægs pensions) – 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
  - SAP (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 life-long annuity scheme (See Pillar 3)
  - Contributions of time-limited annuity schemes are tax exempt up to a specified limit, benefits taxed
  - Contributions to life-long 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)
- Can be DC or DB pension savings plans, annual contribution or combination of both
- Tax deductible up to a specified limit
- Life-long 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

### Statistics

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<th>Dependency ratio</th>
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<td>Population (m)</td>
<td>5.6</td>
<td>Pension fund assets as % of GDP</td>
<td>86.7%</td>
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### Reforms

#### Pillar 1
**In progress**
- Gradually increasing retirement age from 65 to 67 (2009 reform)

**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
- Age at which early retirement can be taken increases from 60 to 64 between 2014 and 2017; the early retirement period decreases from five to three years between 2018 and 2023

#### Pillar 2
- Refer to Pillar 1
- A recent change in Danish tax legislation implied that from 2013, contributions paid to a pension scheme that allows a lump sum payment is no longer tax deductible
- Tax on individual returns on pension savings increased to 15.3% in 2013

#### Pillar 3
- Refer to Pillars 1 and 2

**Pension and Retirement Business Opportunity score**

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

Market structure

Note: Two-tier system — public pension (Pillar 1) + supplementary mandatory occupational schemes (Pillar 2), based on points system

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<th>Statistics</th>
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<th>Dependency ratio</th>
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<td>GDP (USD)</td>
<td>2,784</td>
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<td>Population (m)</td>
<td>64.8</td>
<td>Pension fund assets as % of GDP</td>
<td>10.6%</td>
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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 (8.4% and 6.75%, 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
- Supplementary mandatory occupational schemes (PAYG/DB), based on collective agreements
  - Main schemes: AGIRC (for executives) and ARRCO (for employees)
  - Funded by employer and employee contributions — contribution levels vary, depending on the scheme
  - Contributions tax exempt, benefits taxed
  - Voluntary long-term company pension plans, also linked to collective agreements
  - Contribution levels vary, depending on the scheme
    - Can be DB or DC plans, managed by insurance companies
    - Contributions taxed, payments partially exempt

Pillar 3
- Voluntary private earnings-related pension schemes (PERP):
  - DC pension savings plans
  - Contributions are tax deductible
  - Individual life insurance plans offered via banks and insurance companies

Reforms


Pillar 1
- Minimum retirement age increased from 60 to 62
- Qualifying age for full benefits increased from 65 to 67
- 2012 measure allows limited number of workers to retire at age 60 (modifying earlier reforms); to offset resulting higher costs, 0.1% increase in contributions, divided equally between employers/employees

In discussion
- Years of contribution required for full pension progressively increasing from 40 to 43 years by 2035
- Further increase in employee/employer contributions

Pillar 2
- Refer to Pillar 1

Pillar 3
- No recent or pending reforms identified


Statistics

- Dependency ratio
- Number of pension funds
- Pension fund assets as % of GDP
Germany

Statistics

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<td>GDP (USDb)</td>
<td>3,604</td>
<td>Number of pension funds</td>
<td>182</td>
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<td>Population (m)</td>
<td>81.7</td>
<td>Pension fund assets as % of GDP</td>
<td>5.4%</td>
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Market structure

Pillar 1
- Earnings-related PAYG system
- Funded by employees, employers and government subsidies; contribution rate of 18.9% split equally between employee and employer up to the earnings cap of €71,400 p.a. (2014)
- 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)
- Earliest possible retirement age is 63 with a pro rata benefit; 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 (53% 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 that 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 life-long pension (“Rürup plans”)
- Tax incentives for contributions and investment returns, benefits taxed

Reforms

Pillar 1
Recently implemented
- Reduction in pension contributions in 2012 from 19.6% to 18.9% (as part of an economic stimulus package)

In progress
- After the general elections in September 2013, the parties discussed changing benefit credits (e.g. childcare at home)

Pillar 2
Recently implemented
- Introduction of asset-pooling fund, Investment-KG (part of AIFMD implementation)
- German GAAP changed pension valuation from a book value to a market value approach in 2010

In discussion
- Government is currently discussing strengthening corporate pension arrangements for small and medium-size companies

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 1.75% p.a. The Association of German Insurers wants lawmakers to remove these guarantees

Selected sources: IOPS, Country profile: Germany, 2011; Occupational Pensions Association (ABA), 2013; Association of German Insurers (GDV), 2013
## Market structure

### Pillar 1
- Social Security Allowance Scheme
- Normal Old Age Allowance – means-tested, for those aged 65 to 69
- Higher Old Age Allowance – not means-tested, for those aged 70+
- Scheme is flat rate, government funded
- Other public schemes cover public sector employee groups
- Contributions covered by government

### Pillar 2
- Mandatory Provident Fund (MPF)
  - Mandatory, contributory occupational scheme (employer and employee each contribute 5% of wages)
  - Fully funded, DC
  - Three types of schemes – Master Trust Schemes (38 schemes), employer-sponsored schemes (1 scheme) and industry schemes (2 schemes)
  - Employers and employees can make additional voluntary contributions
  - Tax incentives
- Occupational Retirement Schemes (ORSO schemes)
- Pre-MPF schemes, voluntary
- Most are DC
- Contribution rates dependent on scheme regulation

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

---

## Reforms

### Pillar 1
- No significant recent or pending reforms identified

### Pillar 2
#### Recently implemented
- In November 2012, MPFA launched the Employer Choice Arrangement (ECA) – provides employees with option of transferring employee portion of their mandatory contributions and accrued benefits to an MPF trustee and scheme of their own choice on a lump-sum basis once a year

#### In discussion
- The MPFA is reported to be considering various measures to reform the MPF system, including:
  - “Full portability,” permitting MPF contributors to switch their employer’s mandatory contributions to other MPF providers to maximize investment flexibility
  - Introduction of target-date funds in the MPF platform
  - Fund rationalizations
  - Imposition of a fund management fee cap

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### Pillar 3
- No significant recent or pending reforms identified

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*Selected sources: IOPS, Market profile: Hong Kong, 2011; MPF Schemes Authority website; HK Social Welfare Department website; MPFA, Press release: MPF Employee Choice Arrangement to commence tomorrow, 31 October 2012*
Market structure

Pillar 1
- National Pension System (NPS)
  - Flat rate contributions and benefits
  - Government subsidizes 50% of payments
  - Eligibility at age 65
- In addition
  - Mandatory employment-related pension
  - Mutual Aid Pension (MAP) – public sector employees
  - Employee Pension Insurance (EPI) – private sector employees
  - 16.77% contribution (50% each, employer and employee) of standard monthly salary and bonus
  - Modified PAYG
  - Eligibility at age 60

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-Qualified Pension Plan Scheme (TQPPs) – phased out in March 2012
  - 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

Pillar 1
Recently implemented
- Intro of “adjustment indexation,” expected to decrease replacement rate to 50% by 2023
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 2013 for men and 2018 for women for NPS; and by 2025 for men and 2030 for women for the earnings-related component)
In discussion
- MAP to be merged with the EPI in 2015
- Removal of the restrictions on the activation of the modified indexation

Pillar 2
Recently implemented
- Phase-out of TQPPs
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
- DC plans: permitting employee contributions, increasing contribution limits, permitting withdrawals from DC accounts before retirement

Pillar 3
- No significant recent or pending reforms identified

### 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
- 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 ad hoc basis
- Voluntary retirement accounts
- Some tax incentives

### Reforms

#### Pillar 1
**In discussion**
- Automatic pension scheme aimed at creating universal retirement coverage, with automatic enrolment 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

### Statistics

<table>
<thead>
<tr>
<th>Statistics</th>
<th>2013</th>
<th>Dependency ratio</th>
<th>15%</th>
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<tr>
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<td>Number of pension funds</td>
<td>1,037</td>
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<td>Population (m)</td>
<td>117.4</td>
<td>Pension fund assets as % of GDP</td>
<td>16.8</td>
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</tbody>
</table>


Insights for better outcomes in the global pension and retirement market
Netherlands

Market structure

Pillar 1
- Mandatory, funded on a PAYG basis
- Contributions of 17.9% (2013) via tax on income – employees only, no employer contribution
- In principle, all residents between the ages of 15 and 65 are insured; entitlement to an AOW (old age) pension accumulates at a rate of 2% for each year of insurance
- Flat rate, linked to minimum wage
- Social assistance is available to those with a total income less than 70% of the minimum wage
- Eligibility at age 65 +1 month (2013); retirement age to rise to 66 by 2019 and 67 by 2023

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

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
- In discussion
  - Accelerating the rise in retirement age to 66 by 2017 and 67 by 2021

Pillar 2
- In progress
  - The (tax-driven) retirement age increased from 65 to 67 from 1 January 2014 and maximum accrual percentages will be decreased by 2014 and 2015, resulting in adjustments to all pension agreements
  - The maximum pensionable salary will be capped at €100,000 by 2015
  - On 1 January 2015 the “real ambition” agreement will be introduced:
    - Defined ambition-type plans to address the gap between nominal certainty vs. employees’ expectations, provide a balance between controlled expectations for members vs. risk limitation for employers
    - New rules will apply to all pension funds
  - 2014 seen as a transition year

Pillar 3
- In progress
  - Maximum tax deductions for pension savings under Pillar 3 will be adjusted in line with the changes in retirement age and accrual percentages under Pillar 2

Selected sources: OECD Pensions outlook, 2012 and Pensions at a glance, 2011; Dutch Association of Industry-wide Pension Funds, The Dutch pension system; Social Security Administration (US), International update, April 2012
Market structure

**Combination of 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., healthcare, home ownership, insurance and investment; comprises Ordinary Account, Special Account (below 55), 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 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 life-long 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; entities to 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 direction of 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**

**Combination of Pillars 1 and 2**

**Recently implemented**
- CPF salary ceiling revised upward in 2011 (maximum monthly salary for which CPF contribution is payable)
- CPF LIFE introduced 2009 – national life-long annuity plan to address increasing longevity (existing RA monthly income scheme provides payments for ~20 years only); various reforms since introduction, including simplification of scheme in 2013
- Enhancements to SA/RA top-up scheme: expanded to include extended family members from 2013; simplified channels for CPF members to make voluntary contributions
- Introduction of Retirement and Re-employment Act in 2012: statutory minimum retirement age remains 62, but employers now required to offer re-employment to eligible employees up to the age of 65
- Various enhancements to Workfare Income Supplement Scheme (supplements retirement savings of older low-income workers, encourages them to remain in the workforce) + increased CPF contribution rates for low-income workers from 2013

**Pillar 3**

**Recently implemented**
- Annual SRS contribution cap increased in 2011 to align with higher CPF salary ceiling

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Selected sources: OECD, Pensions at a glance: Asia Pacific, 2012; CPF Board, Singapore Budget 2013 on initiatives relating to CPF; Singapore Government News, The CPF (Amendment) Bill 2012 Second Reading, 10 September 2012; Ministry of Finance website; Singapore Ministry of Health website; Ministry of Manpower, Retirement and Re-employment Act webpage

Statistics

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>Dependency ratio</th>
<th>16.7%</th>
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<tr>
<td>GDP (USDb)</td>
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<td>Number of pension funds</td>
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<td>Population (m)</td>
<td>5.2</td>
<td>Pension fund assets as % of GDP</td>
<td>67.9%</td>
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</tbody>
</table>

Pension and Retirement Business Opportunity score 🌟 🌟
South Korea

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

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 60% to 50%, 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, August 2011
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
  - Creation of a pension plan
  - These schemes must be external to the employer
  - Mainly DC, some mixed DC/DB and 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
  - Tax incentives for pension plans but no deductions available for insurance contracts

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

Reforms

Pillar 1
- Recently implemented/in progress
  - Retirement age to progressively increase to 67 between 2013 and 2027
  - Increase in the number of contribution years required for pension entitlement
  - Incentives for workers to remain in the labor force past retirement age to 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-enrolment

Pillar 3
- No significant recent or pending reforms identified

Statistics

<table>
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<tr>
<th></th>
<th>2011</th>
<th>Dependency ratio</th>
<th>Number of pension funds</th>
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<td>GDP (USDb)</td>
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<td>34.3%</td>
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<td>Population (m)</td>
<td>46.4</td>
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<td>Pension fund assets as % of GDP</td>
<td>12.5%</td>
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Sweden

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

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


Statistics

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<th>Statistics</th>
<th>2011</th>
<th>Dependency ratio</th>
<th>36%</th>
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<td>GDP (USDb)</td>
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<td>Number of pension funds</td>
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<td>Population (m)</td>
<td>9.4</td>
<td>Pension fund assets as % of GDP</td>
<td>63.3%</td>
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</table>
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

**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 1 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

Building a better retirement world

United Kingdom

Market structure

Pillar 1  
**In transition**
- Basic State Pension (BSP) – flat rate, PAYG, funded by National Insurance contributions
- “Triple-lock guarantee” determines increases: highest of inflation, earnings and 2.5%
- 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 between 2010 and 2018; must meet requirements for number of years’ contributions for BSP (currently 30)

Pillar 2  
**In transition, major between 2013 and 2018**
- Second State Pension (S2P) – mandatory public scheme, earnings-related
- Private occupational pensions
  - Employers must provide scheme, which must meet certain minimum standards
  - Auto-enrolment, but employer 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 private plans a mix of DB, DC and hybrid, usually funded – shift to DC (open plans mainly DC)
- Public sector now shifted toward career average scheme

Pillar 3
- Personal pension plans – “contract-based DC plans”
- Stakeholder pensions – DC, low cost; aimed at self-employed and low-income employees
- Group versions can be used by employers as occupational pension plans
- Self-invested personal pensions (SIPPs) – typically for DC pensioners who have not bought an annuity; wide asset choice
- Tax incentives

Reforms

**Pension and Retirement Business Opportunity score** ★★★★☆


Pillar 1  
**Recently implemented**
- Facilitation of people working beyond age 65
- Reduced years of contributions for full BSP, from 40 to 30 years
- Change to method of calculation for annual indexation (linked to rises in earnings, proposed removal of triple-lock)
- Removal of S2P contracting-out option for private sector DC schemes (previously, could opt out if equivalent private occupational pension available)

**In progress**
- Pension age for both men and women increases in stages to 68 between 2018 and 2046; time scale subject to review, may be brought forward
- Bill introduced in May 2013 to simplify state pension system into a single-tier, flat rate scheme from April 2016 (BSP and S2P)
- Increased years of contributions for full BSP, from 30 to 35 years

Pillar 2  
**Recently implemented/In progress**
- New duties on employers to provide access to a workplace pension scheme – implementation between 2012 and 2018 (based on number of employees)
  - Employers must automatically enrol 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% from Oct 2018 (phased in between 2012 and 2018) – employer contributes 3% minimum, balance from employee and government tax relief
  - S2P to be fully flat rate by 2030 – earnings-related element phased out from 2010
- Reforms also underway for public service pension schemes, following a 2011 review

**In discussion**
- “Defined Ambition” – proposals for new occupational pension model, with risk shared by employee/employer

United States

Statistics

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<th>2012</th>
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<td>Population (m)</td>
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<td>Pension fund assets as % of GDP</td>
<td>126.8%</td>
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</table>

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, some with automatic/ compulsory participation – 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 adjust last as people approach retirement; TDFs are a Qualified Default Investment Alternative (QDIA)
- Roth 401(k) plans also available – greater flexibility, tax advantages
- Public sector
  - State/local government employee retirement accounts
  - Federal government employee retirement funds (DB, DC)
- Tax mostly deferred until distribution

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

Pillar 1
In progress
- Increasing retirement age to 67 by 2022 – gradually increasing from 65 to 67 over a 22-year period

In discussion
- Social Security system is facing major fiscal challenges, prompting need for reforms, such as:
  - Increasing rate of payroll tax contributions
  - Reducing benefits

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 enrolment, tax incentives to stimulate participation in occupational pension plans, creation of QDIA (provides a safe harbor for investment of contributions in 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) – mitigates effect of low-interest-rate environment by allowing longer historical periods for determining discount rates

In discussion
- Need for regulations to simplify auto-enrolment and auto-escalation

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

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

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