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Retirement system spillovers increasing success and sustainability

March 2023

Creating Markets, Creating Opportunities

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IFC engaged Ernst & Young LLP ("EY") to assist with mapping risks and opportunities for private sector pension systems and operators in middle-income countries to enhance the IFC's understanding of the characteristics of successful private pension schemes and causes and characteristics of unsuccessful pension system transformations.

The nature and scope of services provided by EY were determined by the IFC and are reflected in the statement of work provided by the IFC in April 2022. EY's procedures were limited to those requested by the IFC.

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FOREWORD

Demographic transformation and aging populations put pressure on the fiscal, economic and political development of many countries. Fully funded public and private pension, retirement and social security systems may deliver relief with an often-forgotten mechanism: compounded investment returns. Market statistics show the compounded investment returns can pay for up to 66 cents of every benefit dollar paid in fully funded systems. In contrast, employees, employers, or government budgets pay for all or a large portion of benefits in un- or underfunded systems. This difference demonstrates the need to evolve focus and policy development to maximize success of public and private pension and retirement systems. And it shows the connectivity to capital markets as accumulated retirement-risk capital, spillover effects and compound interest minimize financial demands for stakeholders.

Insights from a recent focused and qualitative study commissioned by IFC and conducted by EY indicate far deeper and mutually beneficial socio-economic aspects between private retirement systems, capital markets and socio-economic development through the spillover effects. The interdependencies between funded private retirement systems, capital markets and the wider socio-economic ecosystem can have transformational impact on development and sustainability across many aspects and stakeholders, particularly in developing countries. Consideration of **five key questions** can provide insight into the connection between funded private retirement systems, capital markets, socio-economic development and sustainability:

1. What influences success of funded private retirement systems over time, particularly in developing countries? How can you effectively manage realistic expectations across the different evolutionary stages?
2. What key spillover effects and interdependencies exist, what benefits do they create and what parameters influence their outcomes?
3. What lessons that could emerge from the study for policy setting, reforms, expectation management and ecosystem approach?
4. How can policy makers and stakeholders better understand the exact spillover mechanics and necessary policy and ecosystem levers, and how can they manage the spillover effects to maximize benefits for all stakeholders?
5. What key next steps should policy makers and stakeholders consider to systematically explore and maximize the value from the spillovers across the ecosystem?

We would like to thank the interviewees who participated in this study and contributed their unique experiences. We would like to extend our gratitude for the time, input and tremendous insights to all interviewees and study participants across the selected countries. We hope this report provides useful insights to support the private retirement, capital market and socio-economic development and success.

We hope this report stimulates further research and change to accelerate socio-economic development and sustainability.

ABOUT THE RESEARCH

Public and private pension and retirement research often focuses only on policies and expected outcomes for beneficiaries and the system as a whole. This research, in contrast, focused retrospective on key observable drivers for success of private pillar 2 (occupational or employment-based) and pillar 3 (voluntary, supplemental and individually funded) retirement systems and their ecosystems in selected, mostly developing countries. As baseline we created a systematic balanced and hypothesis-driven "leading practice framework" that covers the ecosystem, capital market and other relevant qualitative, quantitative and stakeholder behavioral context. We used this framework as base for the study. We leveraged a mix of structured interviews and desktop research, augmented by the joint teams' global experience. We focused on the systems, domestic socio-economic and political context, key stakeholders, practical outcomes, and challenges to date as well as key ecosystem components, particularly capital market.

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Our research reconfirmed the importance of many commonly used parameters that are not highlighted in this report. But we also identified commonly used, but often insufficiently emphasized and analyzed parameters, such as the factor of time-to-save and adequate contribution levels. Those factors are pivotal for achieving anticipated retirement outcomes. Hearing from a large group of senior executive interviewees from several countries, with deep and long practical experience, including providers, policy makers and other stakeholders, provided substantial and often unique color. It showed how different parameters and contextual aspects can fundamentally influence the evolution journey, economic development, socio-economic outcomes, and their sustainability across the retirement ecosystem. A set of key themes emerged across the interviews. Some deserve modest amplification to better manage stakeholder expectations while others appear to have far more transformational implications or are insufficiently recognized in current systems and reforms. Our study focused on developing countries. But, results likely have relevance for retirement and socio-economic development in developed markets. However, the research was qualitative with a small sample that may limit statistical significance. It must be supplemented in the future with broad quantitative research to substantiate observations and recommendations to accelerate sustainability and outcomes.

DEFINING "SUCCESS" OF THE FUNDED PRIVATE RETIREMENT ECOSYSTEM

Modern funded private retirement systems mostly prioritize adequacy, with less focus on sustainability and integrity as key tenets of system success. A significant focus is on "retirement and directly relevant – mostly taxation related - policy parameters," and expected rational behavior. Little research focuses on the journey of delivering the policies in practice over decades, the role of mostly private sector providers, the wider ecosystem impacted by accumulation of large long-term risk capital pools and their often-vital secondary impact. The scope of our research included the standard research items such a replacement rate or contribution rates. But we focused also on key context aspects, private provider perspectives, the wider ecosystem and interdependencies with other socio-economic and development aspects that impact retirement outcomes and sustainability. In simple terms, we focused on the spillover effects and secondary interdependencies between funded private retirement system, capital market and the relevant wider ecosystem and stakeholders that impact outcomes and sustainability with their decisions and parameters.

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FIVE KEY DEVELOPMENT AND SUSTAINABILITY THEMES

Spillover and supercharging effects

Successful funded private retirement systems accumulate large amounts of long-term risk capital over time. This risk capital is expected to be adequately deployed to maximize investment performance and with compound interest create high account balances at retirement. This is the theoretical spillover that characterizes the relationship between funded retirement systems and capital markets. But, in practice this relationship is far more complex. The following factors determine fundamentally different levels and speeds of individual or mutually reinforcing success, socio-economic development, and sustainability:

a. Balanced role of bank funding

For retirement risk capital to act as compounding mechanism for retirement balances and sustainability it must play a significant role in funding of domestic corporate, business, and individual economic development opportunities. Deploying risk capital – instead of bank funding - as broader economic funding opens unlimited opportunities to transfer the risk and value created from business and individual growth opportunities to retirement savers. Successful examples such as US or Australia demonstrate a happy but balanced co-existence between bank funding and domestic capital market funding, provided the latter is sufficiently mature. High dependencies on bank funding alone appears to be a significant barrier to the maturity of capital markets, which is in turn also a barrier to maximizing spillover effects from large private retirement-based asset pools.

b. Adequate domestic capital market maturity

The domestic capital market must be sufficiently mature to offer a compelling investment destination for retirement savers. Adequate domestic corporate governance, sufficient depth of long-term securities and bond investment instruments for annuities and longevity and outcome guarantees are among the key sample characteristics that build fertile ground to enable retirement assets to be brought to use in domestic markets. Insufficient maturity in either of those characteristics often either leads to subdued investment attraction or outcomes for retirement savers, their providers, and other key stakeholders. In some cases, insufficient domestic capital market maturity leads for example to redefine "domestic" from national to EU level to enable retirement asset growth and diversified portfolios. What may appear as pragmatic solution for retirement savers over time limits vital benefits from the spillover effects in turn creating subdue outcomes across the ecosystem and all stakeholders.

c. Domestic capital market share of retirement assets

One aspect is vital to expand a viable domestic capital market retirement policy and common preference to invest domestically (home bias): countries must continuously direct a sufficiently large portion of retirement savings into the domestic capital market to create sustainable and long-term "demand" and "supply". This in turn can lead to continuous and mutually beneficial expansion of the domestic capital market; such economic growth benefits retirement savers. When insufficient domestic retirement assets are invested domestically, the positive spillover is substantially reduced; the retirement system can still be successful by investing outside their home country, but, the reinforcing socio-economic growth spillover (from higher economic productivity and wages) is restricted. Retirement success remains subdued as the mutually reinforcing spillovers from higher economic growth, higher wages and in turn larger contributions from those higher wages are smaller.

d. Internationalization of investment and capital markets

Long-term savings generally benefit from globally diversified portfolios. Domestic capital market and retirement success (in form of higher income in retirement) appear to benefit from adequate internationalization at early stages. Foreign asset owners and investors join the domestic capital market while some of the accumulated retirement assets are invested overseas.

e. Supercharging sustainability effect

We observed several innovative examples in developing countries of an abundance of long-term retirement risk capital being used to fund small business or retail lending direct or via mortgage-backed securities. Reduced cost of capital and lower finance access hurdles creates significant spillovers into affordable housing and small business growth. Improved housing outcomes increase health sustainability while higher employment from small business growth and incomes are foundations to participate in funded private retirement system or contribute more. The outcome: **sustainable and mutually reinforcing spillover effects** that turbo-charge retirement and socio-economic development and sustainability.

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Key take-aways

Modern, individual, funded defined contribution systems can under specific circumstances create significant and mutually reinforcing spillover effects on domestic capital markets ecosystems, socio-economic development, and sustainability. However, different importance of bank funding and insufficient levels of policy priorities to fuel and mature domestic capital markets are factors that contribute to widely different outcomes and spillover effects being achieved.

The key questions for policy makers are:

- How can we better understand the spillovers and their levers and outcomes?
- How can we maximize the spillover benefits across the retirement ecosystem to support socio-economic and retirement outcomes, success, and sustainability?

Effective delivery infrastructure

Successful funded private retirement systems benefit substantially from adequate delivery infrastructure that is both effective and efficient across the ecosystem. Product and administration providers need to connect with millions of customers, employers, and beneficiaries. Robust standards and banking system collaboration facilitates regular transmission of contribution data and payments. Adequate emphasis on employer and customer experience, transparency, and ease of use appear critical to make the ecosystem and providers 'easy to do business with'. Large informal workforces that are often found in developing countries appear to pose an additional challenge, as common delivery mechanisms such as electronic payroll and data transfer solutions and retirement participation incentives such as tax incentives often prove insufficient. High compliance burden for informal works and other negative financial consequences from participating in funded retirement system (e.g., reduction in other social support payments) in turn supports or challenges trust and participation.

Photo source: Freepik

Similar delivery infrastructure requirements apply to the interaction with the investment market dimensions of the ecosystem. Establishing delivery infrastructure with sufficiently experienced providers may require significant upfront capital, commitment and confidence in the long-term viability, attractiveness, and success of the relevant markets. Many developing countries do not have sufficient focus on such often-costly delivery infrastructure early in the development. Even mandatory and opt-out private retirement systems have their limitations when employer payment compliance is low, or the hard-to-reach informal workforce is large. Voluntary systems without adequate delivery infrastructure appear even more dependent on such infrastructure as employers and savers have several more voluntary decisions. Delivery infrastructure gaps impact success here even more as common financial, retirement and investment literacy gaps often stop the participation process right at the beginning: appreciating the need to save for retirement.

Political and overall financial market attractiveness and maturity also play a pivotal role. Existence or concurrent maturing of sophisticated life insurance, asset management, wealth management, financial advice and distribution, banking, and payments as well as capital market systems, products and providers play their parts in "ecosystem success". Often undervalued is the importance of effective maturity of

the payroll ecosystem, including technology and payroll agents such as small retirement savings accounts with comparatively high fees. Ease, effectiveness and efficiency of employer compliance are key; effective high-volume transmission of regular contribution payments and data to retirement product providers can pose a significant operational delivery challenge. Additionally, the need for early effective delivery infrastructure is increased in the context of the existence of customer or participant choices of providers and large informal workforces or modern gig workers. The more effective the infrastructure the higher the likelihood of widespread participation, even in mandatory systems. Such effective and efficient delivery infrastructure can generally lead to lower cost-to-administer. Such lower cost to administer paid from the savers' contribution or account balance reduces savings leakage offering large regular contribution amounts to be used for investments as base for compound interest effects.

Key take-aways

Effective delivery infrastructure across all components, products, services and stakeholders of the retirement and capital market ecosystem appears critical to maximizing successful outcomes. The economic added value of such infrastructure may be small, but the trust and stakeholder experience appear far more impactful than often acknowledged. Strategic focus on rapid early development and continuous evolution of adequate infrastructure therefore seems critical across the ecosystem. However, the uncertainty of retirement policy, system and provider investment success and the significant upfront investments required create barriers to implementation, particularly for developing countries. Wide ranging negative impact including reduced employer and saver participation is often insufficiently considered. A strategic shift of emphasis and a focus on the importance of delivery infrastructure across all stakeholders is essential to support success. Attracting experienced foreign providers across the ecosystem with adequate experience, infrastructure and capital is essential. Adequate delivery infrastructure is a pivotal success tenet commonly insufficiently considered in policy. Fit-for-purpose policy, monitoring and delivery governance should become additional key considerations in retirement systems, policy and their long-term success and sustainability to commensurately take their importance into account at all stages.

The key questions for policy makers are:

- How can we support the development of adequate delivery infrastructure across the ecosystem from the start? What polices and oversight mechanisms are important?
- Where do we get the capital from to establish delivery infrastructure upfront, given that it may take decades to reap the rewards of the infrastructure?
- What mechanisms do we need to put in place to attract sufficient global capital and providers to our country to support the delivery infrastructure and create success across the ecosystem?

Financial literacy, trust and outcome expectations

The study discovered almost 100 parameters with varying levels of importance to the overall success of private retirement systems. Many parameters are already well-researched and prioritized while others appear new or surprising in their degree of relevance to practical success. We clustered them into five "success categories" in accordance with their level of influence on retirement and ecosystem success:

a. Transformational category with the largest impact on overall success includes contribution rate; time-to-save; participation rate; and long-term investment performance

b. Critical category with significant impact on success including financial, investment and retirement literacy; investment risk and savings culture; trust, governance and consumer protection, which may be difficult to measure, but appear to have a far greater impact that often recognized

c. Specific category of parameters relevant only to certain personas or stages: minimum income levels to participate or people – particularly women – with broken work patterns

d. A set of parameters with modest impact commonly used to refine retirement outcomes including tax incentives or top-up contributions near retirement

e. A set of parameters that often create conflict and impact overall retirement success including sales, distribution, and financial advice compensation invaluable to engage, convince and support retention of savers; more compelling or "easier to sell" substitution products are often a hidden parameter that negatively impacts success.

Photo source: Pexels - Leeloo Thefirst

Each of these parameters are in practice themselves influenced by a wide range of other factors in different countries and at different stages of maturity and socio-economic development. These factors, in turn, result in a wide range of sometimes surprising short- and long-term outcomes. Understanding parameter interdependencies over a long-time horizon is already difficult in theory. Communicating them to policy makers and often short-term focused political leaders with a wide range of often conflicting priorities seems insurmountable.

Photo source: Freepik - Drazen Zigic

Impact of financial literacy and expectation management

Empowering all savers to understand and make fully informed decisions seems an impossible Sisyphus task. Our research indicates the urgent need to augment the important Sisyphus tasks of financial, retirement and investment literacy as well as stakeholder education and communication. Three key reasons stand out for doing so across all stakeholders, ranging from policy makers to providers, supervisors and those responsible for policy reforms, evolution and monitoring across the ecosystem:

a. Trust and confidence

In order to save for retirement, by definition savers must forego consumption of their contributions for decades while economic prosperity and spending offer huge temptations. Accordingly, joining and continuing to participate in the system requires trust and confidence in the entire ecosystem, including political leaders as "fiduciaries" of last resort, product providers and other key stakeholders across the entire ecosystem. In developing countries where most ecosystem parameters are still evolving, such trust and confidence are paramount to generate participation and overall socio-economic development. However, short-term political or ecosystem threats and frequent (yet often necessary) system adjustments can inhibit that trust and impede long-term outcomes and success.

b. Governance and oversight commensurate with the strategic importance of retirement success

Adequate governance and oversight on multiple levels across the ecosystem are critical to set clear strategy, define expected outcomes and determine implementation, adaptation, and reform steps. We uncovered five relevant governance and oversight levels:

i. Government policy makers focused across the ecosystem on driving socio-economic development, including retirement systems and capital markets. For these policy makers, evolving beyond existing silos appears beneficial.

ii. Government policy makers and regulators focused on retirement and capital market evolution. For these stakeholders, a focus on the different stages and their specific needs seems necessary.

iii. Retirement ecosystem industry players (including companies and industry associations) that foster collaboration and development of necessary standards to drive efficiency and user experience while maintaining competition.

iv. Providers across the ecosystem focused on effective, efficient fiduciary delivery and evolution of their own organizations; reasonable commercial compensation and conflicts of interest are often contentious. Conflicts of interests often arise between the duty of care for savers and for shareholders including from the importance of costly delivery infrastructure and effort to communicate and engage savers, act as government agent to engage, advise, make informed decisions and enable effective and easy-to-deal-with delivery over decades requires reasonable commercial compensation or alternative solutions.

v. Saver and employer level that build and maintain adequate discipline and compliance to save and regularly transmit data and payments appear too often as a given.

c. Adequate management of realistic journey, steps, and outcome expectations

Politicians, policy makers, providers and financial advisors often create implicit expectations that all savers will have maximum account balances at their retirement. However, particularly in developing markets, account balances at retirement don't live up to such expectations. Factors including saving for a short period or with broken patterns or lower average individual contribution amounts can create fundamentally different outcomes at retirement. Mostly, lower than expected retirement account balances with significantly lower lifestyle implications during retirement are the consequence. The result is universal across all stakeholders: disappointment and distrust in the system. Protests and short-term system changes with substantial long-term implications are often the result in developing countries. Decades of socio-economic and retirement progress may be destroyed in weeks. Effective management of expectations on all levels appears an underestimated and constant task, particularly in developing countries subject to higher socio-economic and political volatility.

Photo source: Pexels - Vlada Karpovich

Key take-aways

Improving understanding of key stakeholders including political leaders, policy makers, providers and savers of the inner workings of all parameters of the retirement ecosystem over time seems a Sisyphus task that must continue. Policy, reforms, measurement, supervision, and monitoring must have a fundamentally augmented focus on four qualitative aspects: **a)** trust and confidence, **b)** governance, **c)** management of outcome expectations and **d)** financial, retirement and investment literacy. Gaps in any of the four aspects can negatively impact the outcomes of retirement plans and socio-economic development as much as other key transformational or critical parameters; thus, they deserve the same level of attention and managing of stakeholder expectations.

The key questions for policy makers are:

- How can we effectively include these "soft issues" in our policy development, reforms, supervision, implementation, and industry evolution?
- How do we ensure we keep an appropriate balance between focus on traditional issues and focus on soft parameters across the ecosystem?
- What changes do we need to make to break down existing silos and barriers across government and ecosystem stakeholders to support sustainability and maximize socio-economic, retirement and capital market development and outcomes?

Wage growth trap

Typical funded private defined contribution retirement systems use a fixed - yet often increasing over time – percentage of salary or income to determine regular contributions. In well-established developed countries with modest average wage growth, retirement balances at retirement lag only modestly behind the targeted percentage of future income compared with a savers' last salary – replacement rate. In the rapid wage-growth environments that are common in developing countries, commonly designed private funded retirement systems fails to deliver due to mathematics: absolute low contribution amounts on initially lower wages plus benefits from investment compounded interest simply get outpaced by rapid wage growth and comparatively higher wages and higher contribution amounts before retirement. In certain circumstances in rapid-wage-growth countries, this can lead to achieving substantially less than the expected account balances and income replacement rate at retirement.

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We observed three different phenomena:

a) Retirees and stakeholders are stuck in their current-situation bias, looking only at current salary to determine what their account balance and replacement rate should be. Initial lower absolute contribution amounts are forgotten. However, initial lower contribution amounts limit compounding interest effects and lead to lower-than-expected balances at retirement and thus lower replacement rates.

b) Policy makers assume the common economic transmission mechanisms between (higher) productivity, wage, and domestic investment and capital market growth operate effectively. We found this assumption may be to varying degrees and due to different aspects rarely correct in developing countries. In most cases wage growth outpaces investment returns, which results in lower-than-expected account balances over time.

c) Few countries focus on or can afford to increase contribution rates or allow a "total lifetime contribution" or contribution glidepath approach in occupational pillar 2 systems (which allows contributions to be made up over a lifetime to achieve the target replacement rate based on the last salary). Instead, voluntary contributions with only supplemental pillar 3 systems are established; But those pillar 3 systems often aim at higher income savers. Very few voluntary systems globally achieved – and only with substantial financial incentives - expected retirement outcomes and participation, particularly across lower income savers. In some developing countries such voluntary systems unintentionally contribute to expanding wealth inequality, as mostly high-income earners can afford and use the government's financial incentives and tax savings.

Political, trust and socio-economic implications of the three phenomena for retirees, retirement outcomes and sustainability can be dramatic. The structural design weakness of modern defined contribution systems we outlined exists globally, but its relevance is mostly limited to "rich" savers at retirement in developed countries who experienced a very successful career. Alternative mechanisms such as catch-up contributions or temporary higher government-budget funded pillar 1 benefits payments exist, but they have limited practical application in "developing-but-no-rich-yet" countries.

Key take-aways

Modern funded defined contribution systems appear to have a structural weakness that has substantial implications for developing countries with rapid and prolonged wage growth: wages simply outpace savings, investment performance and compounding. In the absence of practical alternatives, creating realistic expectations is paramount to achieving confidence, socio-economic and retirement development, readiness, and sustainability.

Three key questions arise for policy makers:

a. Does the structural weakness created by the wage growth trap make modern defined contribution systems less relevant for developing countries? In the absence of reasonable alternatives to modern systems, the answer should be easy: no. Current modern systems are the best alternative today with all their limitations. However, policy makers may urgently need to augment efforts aimed at managing stakeholder expectations while simultaneously developing practical alternatives.

b. How can we better focus, understand and influence the connectivity and economic transmission effects between growth of productivity, wages, and investment markets on the one hand and retirement contributions, outcomes, and sustainability on the other?

c. What better practical alternatives exist to current pillar 2 and 3 contribution mechanisms that would better address the rapid wage growth trap, particularly for developing countries? Could contribution glidepath or "total lifetime contribution account" concepts deliver better practical retirement and socio-economic outcomes and sustainability?

Pillar 1 funding

Developing countries often carry substantial un- or underfunded government pension and social security promises, benefits, and systems. Comparatively rapid aging and emigration of working residents challenge fiscal sustainability and economic development. This creates a significant temptation trap: tapping into the "piggy bank": existing funded private retirement asset pools. We observed varying mechanisms and levels of doing so, including switching incentives or redirecting contributions. This "kicking the can down the road" strategy common among many developed countries trades short-term cash relief at the expense of long-term, future financial commitments. In developing countries with still limited economic strength, such strategies may result in short-term gains that have an overall larger negative impact on long-term socio-economic development and sustainability. We identified three key reasons for the overall negative impact and behavior:

a. **Limited appreciation:** Limited appreciation that the absence of financial benefits from investment return and compounding underfunded systems means that every benefits dollar they increase for retirees must – in the absence of 66 cents resulting from investment returns – must be paid from the tax and borrowing-based government budget in the future. This further increase fiscal pressure in the future including reduced opportunities to use those budget components for economic growth.

b. **Unwanted attention:** widening funding gaps may create attention from capital providers and rating agencies, which could potentially challenge future economic growth and sustainability

c. **Underestimated political and system trust:** most normal saver perceives a country's different pension, retirement and social security or social insurance systems as one source of income in retirement; growing system complexity and frequent tinkering changes negative impact on political and system trust in addition to widening funding gaps.

Photo source: Freepik

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Funding Pillar 1 obligations can create an additional risk capital base for supercharging of spillovers. More risk capital from a (partially) funded pillar 1 system may substantially amplify the positive spillover from retirement on capital markets and overall socio-economic development. But the key question remains: how much economic power and postponed consumption through retirement savings can a developing country endure?

Key take-aways

Can developed countries who invented the "kicking the retirement funding problem down the road" truly be dissatisfied with many developing countries? No, but understanding that the consequences for developing countries are far greater may be beneficial. And fostering an understanding that a fully funded system pays via investment returns and compounding for up to 66 cents of every benefits dollar (instead of government resources, residents or employers having to pay), may be an important learning. A supercharged socio-economic and retirement development and outcomes through potentially significant spillover are the additional funding benefits.

CONCLUSION TO MAXIMIZING SPILLOVERS

Our research was based on more than 25 interviews with key stakeholders in several countries.

The value from spillovers across the retirement and capital market ecosystem appears to be substantial, and the contribution of the spillovers to overall socio-economic and retirement success and sustainability appears fundamental. And socio-economic and productive-based wage growth further reinforces the spillover benefits. However, this is the case only if all stars sufficiently align.

Our study indicates that pension and retirement system assessments and reforms should place importance on certain commonly undervalued aspects including adequate delivery infrastructure, strong governance, or industrializing financial, retirement and investment literacy, and managing stakeholder expectations along each step of the journey. Small qualitative and quantitative factors along the decades of retirement accumulation and decumulation journey can have tremendous and currently often undervalued impact on overall success. Adequately considering, measuring and monitoring all the diverse factors across the retirement and capital market ecosystem requires a new approach. A holistic balanced scorecard across the retirement, capital market and socio-economic ecosystem covering qualitative and quantitative parameters may be able to measure more adequately, monitor, report and inform policy and reform decisions in the future. Our small study indicates that success and sustainability across the ecosystem and over time are subject to far more complexity and interdependencies than what policy makers and stakeholders focus on today.

The value of compound interest is enormous, as it enables investment returns to essentially pay for up to 66 cents of every benefits dollar – instead of savers, governments, or employers. The additional value of spillovers and supercharging from funding of Pillar 1 obligations or commensurate governance and managing adequate stakeholder expectations may be 'fork-in-the-road" style transformational changes. Our research and interviews demonstrate that such factors can have transformational impacts on the overall success of retirement systems and their ecosystems.

Our insights call for creative new collaboration across the ecosystem. New opportunities arise for providers, long-term investors, and international development partners to assist in unleashing the spillover effects more systematically, providing capital to fund necessary infrastructure and supporting domestic retirement and capital markets stakeholders to build better outcomes and sustainability.

We hope this study inspires political leaders, policy makers, providers, institutional investors and all relevant stakeholders across the retirement and capital markets ecosystem, particularly in developing markets, to pause and reflect. Reviewing and adjusting existing approaches to unleash the power of compounding and spillovers more systematically between funded pension retirement systems and the capital markets ecosystem appear to be as valuable as increasing contribution rates or improving investment performance. We hope researchers will pick up the breadcrumbs we found and shine robust light on our considerations. The desired outcomes are clear: building and improving retirement and broader socio-economic development and success for all stakeholders.

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