Introduction to OECD/INPRS Principles and Guidelines for Pension Funds

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Conference on Pension Reform in Russia: From Legislation to Implementation

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Presentation by Russell Galer

OECD/INPRS Secretariat

Outline of Presentation

- Background and antecedent work
  - OECD Working Party on Private Pensions
  - International Network of Pension Regulators and Supervisors
- Fifteen Basic Principles and other Guidelines

OECD Working Party on Private Pensions

- 1997: Report on “Private pensions: regulatory policies”
- 1998: Ministerial report on “maintaining prosperity in an ageing society”
- 1999: Working Party on Private Pensions created
  - includes observers from various international organisations: ISSA,AIOS,IAIS,IMF,WB,EU, with view to further expansion
- 1999-present: Numerous activities including data collection, taxonomy, policy analysis on various issues:
  - E.g., governance, funding, investment, member rights…

Setting Standards for Regulation of Private Pension Programs

- 1998 : Ministerial report: Maintaining Prosperity in an Aging Society: including set of recommendations
- 2000: **15 Principles** for the regulation of private occupational pension schemes endorsed by WPPP
- 2001:
  - Ministerial mandate to develop further principles
  - INPRS endorsement of the 15 Principles
- 2002: Guidelines on **pension fund governance** issued
- 2003:
  - Guidelines on **protecting member rights** issued
  - Initiate work on funding, investment, supervision

OECD Standard Setting: Related and Related On-Going Work

– OECD Principles of Corporate Governance (May 1999)

– On-going, related OECD work includes
  - Revision of the 1999 Corp. Gov. document
  - Development of principles of governance for insurance companies
  - Development of principles of governance for collective investment schemes (CIS)

Nature of OECD Pension Principles/Guidelines

- Non-binding
- Recommend “universal” prudential principles (“good practice”), but don’t prescribe any specific institutional “model”
- Countries are invited to implement principles, but with the modalities that are the most adapted to the country specificities.
- Outreach activities: promotion of policy dialogue with other countries through the Centre for Co-operation with Non Members

International Network of Pension Regulators and Supervisors (INPRS)

- Establishment/History of INPRS
  - Created in Prague in 2000 at the occasion of the OECD forum on private pensions
  - First conference in Sofia in 2001: endorsement of the 15 principles
  - Second full membership event – early 2004
- Membership over 130 regulators/supervisors from over 60 countries
- Regional networks
- Website: www.inprs.org

Objectives of the INPRS

- Promotion of well regulated private pension systems as complements to public schemes;
- Promotion of policy dialogue and information exchange
- Promotion of the recognition of principles and best practices
- Assistance to member authorities in developing regulatory and supervisory frameworks
- Co-operation with other international bodies
  - Database collaboration with International Social Security Association (ISSA) in Geneva

INPRS Activity at Regional Level

- Central and Eastern Europe Network (Budapest venue with EWMI/USAID)
  - Next event: Prague, December 2003
- AIOS: co-ordinate INPRS activities in Latin America
  - Most recent event: Costa Rica, July 2003
- Asian Network formed in Beijing, Fall 2001
  - Next event: Manila, January 2003

The 15 Principles and other OECD/INPRS Guidance

- Selected aspects of "the 15" (reflected in the conference program)
- Overview: Guidelines on Pension Fund Governance
- Overview: Guidelines on Member Rights

Selected Aspects of “the 15”

N°1: **Adequate regulatory framework** . . . to ensure:

- protection of pensions plans beneficiaries,

- soundness of pensions funds, and

- stability of the economy as a whole.

- This framework should however not provide excessive burden on pensions markets, institutions, or employers.

N°2: **Appropriate regulation of financial markets**

- A productive, diversified investment of retirement savings which spreads risk requires well-functioning capital markets and financial institutions.

- Strengthening of the financial market infrastructure and regulatory framework

N°10: **Fair Competition**: Regulation should promote a <u>level playing field</u> between the different operators. . .

- The fair competition should benefit to the consumers and allow for the development of adequate private pensions markets

N°8 & 9: **Supervisory structures; Self-supervision**

- Appropriate supervisory bodies should be established and properly staffed and funded.

- Supervisory bodies should be endowed with appropriate regulatory and supervisory powers over individual plans.

- Self-regulation and self-supervision should be encouraged.

- The role of independent actuaries, custodians and internal independent supervisory boards should be promoted within an appropriate regulatory framework.

N° 5, 7 & 11: **Investment, Valuation, Separation.**

Adequately regulate pension fund investment.

- Legal Separation of Assets

- Use appropriate valuation methods

- Employ principles of diversification, dispersion, and maturity and currency matching

- Quantitative and prudent-person regulation should take account of the security and profitability objectives of p. funds

- Limit self-investment

- Promote liberalisation of investment abroad

- Encourage effective risk management

N°3: **Rights of the beneficiaries**

- Non-discriminatory access avoiding exclusions based on age, salary, gender, period of service, terms of employment, part-time employment, and civil status,

- Protection of vested rights,

- Proper entitlement process,

- Portability of pension rights and protections in case of early departure from firms

N°14: **Disclosure & Education**.

Appropriate disclosure and education should be promoted as regards respective costs and benefits characteristics of pensions schemes

Disclosure of fees structure, plans' performance and benefits modalities should be especially promoted in the case of pensions plans that offer individual choice.

Overview of Guidelines on Pension Fund Governance

-Builds on various aspects of the 15 principles

- Free-standing

-Feeds into a self-assessment template / Financial Sector Assessment Program (WB/IMF)

Why focus on governance?

- Pension funds can be complicated and operational functions extensive

- Recent crises in corporate governance & within financial institutions demonstrate need for vigilance & fundamental principles

- Cost of failure in pension programs can be quite high for members, the state, plan sponsors, and as funded programs grow, for capital markets

Pension funds may have unique ‘agency’ problems

- Absence of direct member control
- Limited market mechanisms/redemption rights
- Employer-related agency risk in some plan types

Governance Guidelines: Structure and Mechanisms

- **STRUCTURE**
- Identification of responsibilities
- Governing body
- Expert advice
- Auditor
- Actuary
- Custodian
- Accountability to members/authorities
- Suitability

- **MECHANISMS**
- Internal controls
- Reporting
- Disclosure
- Redress

Overview of “Guidelines for the Protection of Rights of Members and Beneficiaries in Occupational Plans”

- Draft -- now very close to approval
- Rigorous one-year process of drafting, comment, review and discussion of OECD and INPRS members
- Based on principles 3 and 4 of “the 15”

6 topics; 30 guidelines

- 1. Access to participation, equal treatment and entitlements
- 2. Benefit accrual and vesting rights
- 3. Pension portability/Rights of early leavers
- 4.Disclosure and availability of information
- 5. Additional rights for member-directed plans
- 6. Rights of redress

Some key points from the OECD “Rights of Members” guidelines

- Appropriate, timely, accurate, comparable disclosure from pension funds is important so that members can understand the fund, its investments, make appropriate choices, and protect themselves.

- The need for information increases in systems with more individual responsibility and choice

- Members should have effective avenues to redress perceived errors, mistakes and other grievances, including an avenue for independent review.

Thank You!