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FIFTEEN PRINCIPLES FOR THE REGULATION OF PRIVATE OCCUPATIONAL PENSION SCHEMES

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Insurance and Private Pensions Unit
Financial Affairs Division
Directorate for Financial, Fiscal and Enterprise Affairs

FIFTEEN PRINCIPLES FOR THE REGULATION OF PRIVATE OCCUPATIONAL PENSIONS SCHEMES

Adequate regulatory framework

Principle N°1: An adequate regulatory framework for private pensions should be enforced in a comprehensive, dynamic and flexible way (taking into account the complexity of the schemes) in order to ensure the protection of pensions plans beneficiaries, the soundness of pensions funds and the stability of the economy as a whole. This framework should however not provide excessive burden on pensions markets, institutions, or employers.

Appropriate regulation of financial markets

Principle N°2: A productive, diversified investment of retirement savings which spreads risk requires well-functioning capital markets and financial institutions. The development of advance-funded pension systems should go hand-in-hand with a strengthening of the financial market infrastructure and regulatory framework (including the development of new financial instruments and new markets such as inflation-indexed markets and the improved functioning of retirement annuity markets).

Rights of the beneficiaries

Principle N°3: Non-discriminatory access should be granted to private pensions schemes. Regulation should aim at avoiding exclusions based on age, salary, gender, period of service, terms of employment, part-time employment, and civil status It should also promote the protection of vested rights and proper entitlement process, as regard to contributions from both employees and employers. Policies for indexation should be encouraged. Portability of pensions rights is essential when professional mobility is promoted. Mechanisms for the protection of beneficiaries in case of early departure, especially when membership is not voluntary, should be encouraged**.**

Adequacy of the private schemes

Principle N°4: Proper assessment of adequacy of private schemes (risks, benefits, coverage) should be promoted, especially when these schemes play a public role, through substitution or substantial complementary function to public schemes and when they are mandatory. Adequacy should be evaluated taking into account the various sources of retirement income (tax-and-transfer systems, advance-funded systems, private savings and earnings).

Regulatory system and separation

Principle N°5: An institutional and functional system of adequate legal, accounting, technical, financial, and managerial criteria should apply to pensions funds and plans, jointly or separately, but without excessive administrative burden. The pension fund must be legally separated from the sponsor (or at least such separation must be irrevocably guaranteed through appropriate mechanisms).

Funding

Principle N°6: Private schemes should be funded. While full-funding exists in principle for defined contribution plans, other types of plans should be subject to minimum funding rules or other mechanisms to ensure adequate funding of pension liabilities. Rules based on winding-up approach (e.g. ABO, PBO) may be promoted as a minimum level to complement the on-going approach. Flexibility can be allowed for temporary limited under-funding under restricted circumstances. Consideration should be given to the development of adequate but flexible requirements for minimum capital/guarantee in pension funds,--taking account of the long term nature of their liabilities. Tax and prudential regulations should encourage a prudent level of funding. Private unfunded pay-as-you-go schemes at individual company level (i.e. overheads schemes) should be prohibited.

Calculation Techniques

Principles N°7: Appropriate calculation methods for asset valuation and liabilities funding, including actuarial techniques and amortisation rules must be set up and based on transparent and comparable standards. Increased reliance on modern and effective risk management, industry-wide risk management standards for pension funds and other institutions involved in the provision of retirement income should be promoted. The development of asset liability management techniques should be given proper consideration.

Supervisory structures

Principle N°8: Effective supervision of pension funds and plans must be set-up and focus on legal compliance, financial control, actuarial examination and supervision of managers. Appropriate supervisory bodies, properly staffed and funded, should be established in order to conduct when relevant off and on site supervision, at least for some categories of funds and in particular when problems are reported. Supervisory bodies should be endowed with appropriate regulatory and supervisory powers over individual plans, in order to prevent miss-selling cases arising from irregularities in the distribution and expenses methods.

Self-supervision

Principle N° 9: Self-regulation and self-supervision should be encouraged. The role of independent actuaries, custodian services and internal independent supervisory boards should be promoted within an appropriate regulatory framework.

Fair competition

Principle N°10: Regulation should promote a level playing field between the different operators and take account of the usefulness of a functional approach. The fair competition should benefit to the consumers and allow for the development of adequate private pensions markets

Investment

Principle N°11: Investment by pension funds should be adequately regulated (see selected principles for regulation of investments by insurance companies and pension funds in Annex). This includes the need for an integrated assets/liabilities approach, for both institutional and functional approaches, and the consideration of principles related to diversification, dispersion, and maturity and currency matching. Quantitative regulations, and prudent-person principles should be carefully assessed, having regard to both the security and profitability objectives of pension funds. Self-investment should be limited, unless appropriate safeguards exist. Liberalisation of investment abroad by pension funds should be promoted, subject to prudent management principles.

Insurance mechanisms

Principle N°12: The need for insolvency insurance and/or other guarantee schemes has to be properly evaluated. These mechanisms may be recommended in some cases but in an adequate framework. Recourse to insurance mechanisms (group and reinsurance) may be promoted.

Winding-up

Principle N°13: Proper winding-up mechanisms should be put in place. Arrangements (including, where necessary, priority creditors' rights for pension funds) should be put in place to ensure that contributions owed to the fund by the employer are paid in the event of his insolvency, in accordance with national laws.

Disclosure and education

Principle N°14: Appropriate disclosure and education should be promoted as regards respective costs and benefits characteristics of pensions schemes, especially where individual choice is offered. Beneficiaries should be educated on misuse of retirement benefits (in particular in case of lump sum) and adequate preservation of their rights. Disclosure of fees structure, plans performance and benefits modalities should be especially promoted in the case of individual pensions plans.

Corporate governance

Principle N°15: The corporate governance role and capacity of pension funds should be considered. This includes: the role of guidelines (statutory or voluntary) for governance activities; the impact of shareholder activism by pension funds on corporate behaviour; and the governance of pension funds themselves and the role of trustees.

POLICY FRAMEWORK FOR THE REGULATION OF PRIVATE PENSIONS

Introduction

Retirement income should be provided by a mix of tax-and-transfer systems, advance-funded systems, private savings and earnings. The objective is risk diversification, a better balance of burden-sharing between generations, and to give individuals more flexibility over their retirement decision. The growing reliance on private pension schemes calls for an adequate regulatory framework, which is a precondition for maintaining the confidence of both beneficiaries and the public at large. Appropriate regulations will contribute to safeguarding beneficiaries' rights, which include *inter alia* non-discriminatory access to pension schemes, protection of vested rights, the implementation of provisions for transferability and the adequacy of benefits. Effective regulation and supervisory oversight of the financial situation of pension funds is indispensable for the development of sound private systems. The primary objective is to protect beneficiaries from the effect of sponsor's insolvency, insufficient funding of the plans reflecting improper technical and/or investment processes, misappropriations by managers of the risk of default by other operators involved in the provision of pensions. The rationale for regulation will however be different following the nature of the plans (defined-benefit versus defined contributions, mandatory versus voluntary), whose associated risks call for different approaches. Appropriate criteria should guide the licensing of pension operators and plans; proper funding, actuarial, accounting and disclosure requirements as well as limits on self-investment should be set in place. Adequate competition among retirement asset managers should also be ensured. Continued attention needs to be paid to the evolution of market practices so as to ensure that supervisory methods are adapted to the realities of marketplace.

Private pension plans have been operating in most OECD countries for a long time. In recent years, such plans expanded considerably but what has changed mostly are the *expectations* put on them, since they are now considered to be a viable answer to the problems of government pensions systems. Most observers agree that the role of private systems is bound to continue expanding in the future. Most also underscore the fact that they will play an essentially *complementary* role to that of government systems, and that any substitution effect could only be partial. Governments are expected to continue being at least the exclusive providers of assistance -- i.e., old-age benefits designed to cover minimum essential needs. Thus, private systems pay out benefits essentially above and beyond basic assistance and their purpose is to provide retirement income enabling recipients to maintain a minimum standard of living and/or one comparable to that which they enjoyed before retirement, along with benefits more in keeping with individual contributions.

The role of private pensions varies considerably from one country to another, however, and their development is closely linked to that of government systems. It should be noted that while private pensions are often looked upon as a solution to the problems facing government systems, they are generally not the only solution. Many avenues exist for the reform of government pension systems, including partial resort to funding methods (in particular given the current non-inflationary context) as well as instruments traditionally used to adjust benefits and contributions (changes in how benefits are calculated, retirement age, etc.).

It is not the role of occupational private systems simply to provide responses to the macro-economic problem of actual or expected deficits by government pension systems. Above all, their role is to fulfil the needs of employers and employees, both of whom consider that they offer significant advantages, mainly related to group funding and the flexibility of plans.

The foregoing considerations may induce governments to promote the use of private pensions, taking into account the specific characteristics of countries or industries. Promotion can be, for instance, in the form of tax incentives. In many OECD countries the tax treatment of pensions allows the deduction of employer and employee contributions, while income from pension fund investments is exempted and taxes are paid only on benefits. This form of deferred taxation of contributions has been considered an important incentive for providing retirement income. Governments can also make private pensions mandatory for employers and/or employees, through employment-related pensions or individual plans. Many arguments have been put forward regarding the mandatory or optional nature of private pensions, which depends to a large extent on the domestic context in which they operate. Compulsory systems exist in many countries, while others reportedly are considering implementing such practices, especially where large-scale privatisation is planned. Until now, however, most OECD countries have opted for voluntary systems combined with tax incentives.

The growth of private pensions exposes individuals and institutions, as well as society as a whole, to a number of *risks*, which governments must address in order to contain and optimise the beneficial effects of retirement systems. Some of these risks are common to government schemes as well. They include a number of risks -- potentially more serious in the case of private systems -- related to beneficiaries protection, particularly in so far as non-discriminatory eligibility, vesting and the adequacy of benefits are concerned. Private plans are also exposed to significant “financial” risks, such as insolvency by the employer, underfunding of the fund, investment risks, changes in inflation patterns and interest rates or even fraud. Insured plans are also exposed to these risks but are more strictly regulated at the level of the solvency of the insurance entity. It is important to note that public schemes have also to face these kind of risks but under different modalities, and account should be taken of the fact that governments can always have recourse to taxation.

It is essential for the sound development of private pension systems that they are adequately regulated. *Regulations,* which are indispensable to sustain beneficiaries’ confidence, primarily help safeguard the rights of members and the financial security of plans. They are especially necessary because retirement systems affect people’s lives. Their important social role, which the pension sector shares for instance with that of health care, requires that governments pay special attention to it and ensure that private firms – to which certain duties can be said to have been delegated -- are properly fulfilling their obligations. The granting of fiscal advantages is a strong argument for governments to check their use via appropriate regulations.

There is a wide range of private systems, some of which are highly complex – the price that has to be paid for flexibility. They differ considerably from the standpoint of management and funding, and in terms of the plans’ features, objects, functions and the degree of social role and social needs of the schemes. Regulations must take this *complexity* into consideration while trying not to make it worse. The regulation of the sector must be considered in a comprehensive manner, taking into account the role of private pensions as one of various sources of income after retirement, as well as other social objectives they may have. It must consider the interaction with related social, tax and competition regulations, and with the regulation of public schemes. Regulations must also integrate the various factors at play and avoid building up different regulatory layers while getting the most out of potential synergies. Regulations must be dynamic and evolve along with the sector. Finally, regulation must be balanced and must avoid creating unnecessary distortions that would hinder the adequate functioning of private retirement markets.

An integrated approach to regulations is needed to ensure their convergence towards the same broad objectives. In this context, it must be noted that some regulatory measures can be conflicting with others, as in the case of tax laws and prudential rules regarding overfunding. Accounting and actuarial methods may not always fit neatly with the requirements of regulatory or supervisory bodies. Differences can, however, at times be justified, in particular when the objectives sought are different but compatible. This occurs, for instance, when the prudential rules applicable to funding are different from those governing long-term financial management.

Even when regulations seek to achieve the same ultimate objectives, they vary across countries reflecting differences in the nature of their respective pension systems. This situation can seriously hinder the international mobility of labour. It also highlights the need to take into account the sectoral and national features of these schemes and to adapt policy approaches accordingly.

Issues related to private schemes *access* have to be considered according to their role, i.e. as a complement or a partial substitute to public schemes. In this respect, it must be recalled that in the case of voluntary occupational pension schemes, employees have no alternative but to look to the third pillar or rely on public pension schemes. Some governments have tried to address this issue (in particular when private regimes play a substitute role) for instance by granting tax concessions, simplifying administrative formalities or making such schemes compulsory. Where firms do set up pension schemes, their access may be subject to specific conditions, as a result of which some categories of employees may be excluded. The main forms of exclusion or discrimination include: age, salary and gender restrictions. From a public policy viewpoint, it seems essential that access to existing plans be open without discrimination, provided that certain objective criteria are met.

In most countries, employees covered by a company retirement plan have *vested rights* which, in theory, reflect irrevocable commitment from the employer and ensure that employees will receive benefits related to their past years of service. The concept of vested rights has become central to the issue of “financing” since the funding adequacy of the funds has to be assessed in relation to their commitments, i.e. the vested rights (possibly projected) of beneficiaries. The scope of vesting rules varies significantly from one country to another. Furthermore, certain practices, such as excessive back-loading (progressive vesting of the beneficiaries’ rights), can impact on their effectiveness. Failure to index benefits, which is common, also diminishes considerably the value of entitlements, in particular when employees change jobs.

In general, employees must still pay too heavy a price when they change jobs or retire early as the transferability and *portability* of rights is often limited. There is a clear case for the development of adequate regulations to protect and promote vesting rights and ensure their portability. The recent experience in the OECD can be of great assistance in this regard: in some countries portability has been increased via the harmonisation of the technical, actuarial and financial principles underlying the assessment of vested rights The policy approach related to this question must conform to the principles used to determine a country’s employment policy. When professional mobility is promoted, related measures should be taken in the pension field in order to support the attainment of this goal.

The *adequacy* of private pensions should be examined in a broad context, taking into account existing government systems and the expected role of private schemes. This applies not only to the level of benefits and risks related to private schemes but also to the scope of population coverage. In this respect it is important to note that in several countries where the public systems do not provide a sufficient level of benefit a substantial part of the population does not benefit from private schemes coverage either. Some countries have sought to tackle this problem by making private pension schemes compulsory or by providing substantial tax incentives. Despite this, some strata of the population seem to have fallen through the net. This situation is bound to pose serious problems for governments in the long term as they may be called to provide for the needs of this segment of population. As far as benefits are concerned, a yardstick used in the case of adequacy of private plans, at least when they provide the main part of the retirement income, is their ability to provide a minimum standard of living or one comparable to that which a member enjoyed prior to retirement; another is the balance between benefits and contributions. The measure of a plan’s adequacy can vary in the case of different individuals and employment categories, but benefits should in any event correspond to what was promised in the contract.

Another issue concerns the method of liquidation of pension rights before and after retirement. Lump sum liquidation could be subject to rules designed to prevent the misuse of retirement benefits and the premature spending of replacement income.

In the assessment of adequacy, parameters concerning the treatment of inflation both before and after retirement are also essential elements. The development of a market for indexed bonds could provide a solution to the inflation/adequacy problem. Concerns about benefit levels under defined contribution plans have sometimes led to the addition of minimum-benefit clauses in some of these plans. Adequacy should also be assessed in relation to tax objectives and principles (e.g. equity neutrality in particular relative to other forms of saving). All in all, the adequacy of private pension systems is a complex notion which must be treated with caution. Government authorities must pay attention to it as, if benefits turn out to be insufficient, the state will in the end have to provide relief through public systems. Preventing problems from occurring requires that plan members be properly informed and that well-defined rules be implemented to protect them against abuses.

All pension institutions should be subject to specific legal, accounting, technical, financial, and managerial criteria in order to be permitted to operate in the provision of retirement income. These could include prohibition against certain types of systems, the qualifications and reputation of trustees, along with the presentation of planned operations and of the actuarial methods to be used. Both the plan and the fund should apply for operational approval with a view to combining institutional and functional procedures. The approval or licensing system should assess the suitability of both plan and fund, but should be able to regulate them though a single framework when relevant. Formal licensing procedures may be necessary as, in many countries, the “regular” supervisory oversight of funds and plans can be hindered by considerable obstacles of a practical nature.

Except in the special instance of pay-as-you-go plans, all current private pension systems are based on the principle of accumulated *reserves*, which can be real assets or book reserves. Another rule generally applied concerns the need for funds to be *separate entities* from their sponsors. Neither reserves nor separation can ensure that a plan will be adequately funded. However, the application of these principles reduces certain risks of default by the sponsor and should therefore be recommended. Exposure to the risk of bankruptcy by the employer is different depending on whether a plan is managed in-house or externally. In the event of bankruptcy by the sponsor, vested rights are protected if the fund is a separate legal entity and has sufficient assets. Rights can be fully protected, even in the case of insufficient funding, if the seniority of the fund’s claims in the event of liquidation of the company is sufficiently high, or if the plan is insured. A fund should therefore be separated from the employer. This legal separation, which minimises risks of fraud and conflicts of interest, should provide for irrevocable rights for the beneficiaries. If it is not the case, the fund should be backed with guarantees such as reinsurance or insolvency insurance. Private Schemes based on overheads, which are unfunded and do not allow for separation, should be prohibited. This does not apply to book reserves which are *technically* considered as funded.

Reliance on *capital/own* funds, in a solvency approach, is rare in the case of pension funds -- in contrast with most other financial institutions whose capital provides a minimum degree of security for creditors. However, it is technically possible for funds to build up capital or at least its equivalent in the form of guarantees. The latter can take several forms applied in OECD countries (such as collateral provided by the employer’s assets, subordinated debt, mandatory overfunding), which would add to the general guarantee of the employer in this type of system. The requirement that surplus funds be accumulated is likely to contribute to financial security at the same time as a fund reaches maturity. Consideration should be given to reconciling this requirement with tax objectives whenever conflicts may arise. Any capital requirement should also take account of the long-term nature of most pension scheme liabilities which reduces the impact of short-term fluctuations in asset values and of the need to allow investment in equities and other related form of investments which may provide higher long-term rates of investment. Further examination should be conducted to establish what types of guarantees should be considered in this connection, based in particular on the situation prevailing in the insurance sector and especially in mutual associations, taking into account the specific nature of pension funds.

A distinction is frequently made in *funding* rules depending on whether a winding-up or on-going approach is used. Principles of prudence would tend to favour a combined approach, with the winding-up approach complementing the on-going approach. In any event, specific minimum funding rules must be set out. In light of countries' experience the latest international accounting developments, rules based on the PBO (Projected Benefit Obligation) or, alternatively, on the ABO (Accumulated Benefit Obligation) method (including vested benefits), could be recommended. Pension funds should also be required to estimate their long-term obligations through recourse to forecasting methods. In this connection, it is essential to bear in mind that funding rules based on a winding-up approach take little or no account of actuarial computations pertaining to the future development of the fund. Prudential rules should also take temporary underfunding situations into consideration, having regard to possible dangers resulting from developments not controlled by management (e.g. bankruptcy of the sponsor, closing down of the fund, increasing transfers of vested rights by job-changers).

Many variables must be taken into consideration when selecting *calculation methods*. They include management expenses, the growth of pay rates, the inflation rate, the indexing and/or adjustment of benefits, employee turnover and interest rates. Methods should be based on comparable, or at least compatible, actuarial and accounting principles.

Asset valuation rules should be re-examined in light of developments in financial markets and of the need not to hinder fair competition, and should use comparable methods for assets and liabilities. Valuation rules should make possible a fair degree of disclosure. Requiring that market values be specified whenever assets are valued at their purchase price (and vice versa) can be useful. It is also important to follow strict amortisation principles and to rely on prudent assessment of interest rates. Furthermore, the recent development of asset-liability management techniques, as well as techniques for immunising portfolios, should be given proper consideration.

In the case of pension systems, supervisors must first consider pension plans, since pension funds are set up only after plans are established. A pension plan corresponds to the contractual provisions covering the rights and obligations of all parties, whereas a fund is the reserve accumulated to meet the objectives of the plan. The control of plans is mainly legal and fiscal in scope, while the control of funds is financial. The supervision of plans and funds may have to be lightened de-facto to take account of their large number,. In addition, it may be necessary to conduct reviews of distribution methods and expenses. Pension funds are sometimes not subject to close *supervisory oversight*, although it would seem logical that they should be subject to a minimum level of supervision. Even if this is not always done systematically, due to the large number of funds and to their complex nature, certain supervisory procedures are both possible and necessary -- and some of them are already applied for tax considerations. Strict supervision should be exercised over funds which a trustee, the sponsor, members or actuaries have reported to the authorities because of the problems they face. It could also apply to all funds over a certain size and could, in addition, be carried out on a random basis. The supervisory approach can also target the resources to the identification of areas that may pose risks for a financial institution under supervision, and do this in partnership with the professionals (auditors, actuaries or other professionals working with the institution). Supervision can be modelled on practices in other sectors, such as the securities, banking and especially insurance industry. This would imply a strengthening of the co-operation between the authorities in charge of these sectors. Extensive work should be conducted between the supervisory authorities of OECD countries to identify the scope of operating procedures designed to optimise the supervision of pension funds in light of their respective experience

In the vast majority of cases, supervisory oversight is essentially based on a review of accounting and financial statements, which must be prepared and forwarded to the authorities in accordance with required procedures. There can also be on-site audits. The role of supervisory authorities may focus on the following axis: ensuring compliance with legal obligations, including applicable laws, company bylaws and general terms and conditions; financial controls: equity, technical reserves, investments, monitoring of activities, auditing of interim and annual financial reports; actuarial examination of contributions rates, and technical or mathematical provisions; management supervision (at least in some cases): qualifications and reputation of managers, standing of principal shareholders and of the employer; economic review: market conditions, statistical data.

For a pension fund, the quality of management is essential. The protection of members can be significantly improved and risks minimised if the qualifications and reputation of managers are examined at the outset, as part of the licensing process.

Later, supervision can be exercised on an on-going basis through joint employee/employers representation on supervisory boards, disclosure requirements, the use of actuaries, of custodian services, rating agencies and the possibility of filing grievances with the supervisory authority. Independent, internal supervisory bodies are particularly important in a sector where the multiplicity of plans may limit the operability of governmental control. More generally, the authorities should also promote the development of self-regulatory systems, by managers, beneficiaries and employers, which would make them more responsible and which would lighten the burden of governmental supervision.

Problems raised by differences in the degree of regulation applicable to various categories of pension service providers are similar to those in other sectors, including at the international level. Based on existing principles in this regard, it would seem that efforts should be directed at eliminating or reducing differences which are not justified from a prudential standpoint and hence unfairly discriminate against certain categories of providers. The Governments should consider the need to develop further the functional approach. Taking account of institutional characteristics, this approach should allow for a substantial reduction of current differences in regulations applied to the provision of similar products but by different providers.

All OECD countries regulate *investments* by pension funds, although to different degrees and in different forms. It may be worth noting that investments by insurance companies are generally governed by more stringent regulations than those of pension funds. The latter must comply with similar principles but are less frequently constrained by quantitative rules and are often subject to more flexible management rules, such as the prudent-man rule. One principle that is generally implemented in the case of pension funds is the restriction on investment in the sponsor’s company. A list of admitted assets exists for insurance companies, but not necessarily for pension funds. A clear distinction must also be made between the different types of plans and their related obligations, as for example, the obligation of result of defined benefit plans. In defined contribution plans, the investment risk is shifted to the members, which could in this respect justify the need for tighter supervision. However, the respective investment practices of funds do not necessarily reflect this distinction. It also appears that, on average, investments are not significantly limited by regulatory ceilings, since they generally remain below those levels. This could also imply that regulations are properly fulfilling their role in this connection, setting reference criteria rather than restrictions. Further deregulation should however be promoted, as far as it does not conflict with prudential objectives.

The *liberalisation* of investments by pension funds and insurance companies in foreign countries has recently been examined by the OECD. Many types of restrictions have been identified, most of which consist of setting ceilings or floors (less frequently), as well as of provisions regarding currency matching. Although it seems that greater consideration ought to be given to the possibility of liberalisation in this area, a regulatory framework should be in place to ensure that financial institutions invest prudentially. In June 1999, the joint group between the CMIT and the Insurance Committee agreed on new obligations of the Code of liberalisation of capital movements related to portfolio investment abroad by insurance companies and pension funds.

The regulatory framework applying to private systems can also rely on safety nets in the event of bankruptcy by the sponsor, as in the case of *insolvency insurance* (when available), which is generally provided by a government agency. This "insurance of last resort" can turn out to be superfluous and counterproductive if effective safeguards already exist, in particular since it may create the wrong incentives by adding a moral hazard factor. It might be advisable, however, in the case of systems with only a limited degree of preventive protection -- such as plans that are not separate from the sponsor's business, as in the case of book reserves. The setting of a ceiling on insurance guarantees and adequate pricing of insurance premiums may reduce the moral hazard.

Other safety nets are provided by special *creditor's rights* in the event of bankruptcy and, more generally, through the use of insurance. Pension funds do not necessarily enjoy special rights in the event of bankruptcy by the sponsor. This constitutes a serious hazard if the fund is not a separate legal entity. The granting of special prerogatives should be taken under consideration, at least in certain circumstances, in particular with a view to supporting public confidence.

Having recourse to *insurance*, either in the form of group insurance or the provision of reinsurance for a pension fund, affords additional protection for members and generally shifts the responsibility from the employer over to the insurer. Insurance regulations and supervision implemented in most OECD countries provides a strong – though not absolute – guarantee of solvency. Insuring funds can be advisable in the case of those which are not governed by sufficient regulations. Regulations could draw on those applicable to insurance companies, making allowance for the actual and sometimes underrated differences that distinguish pension funds from insurance companies.

Finally, a key factor in improving the financial security of pension systems consist of setting up a *disclosure* procedure for members (especially in the case of DC schemes where individual choice is offered and in case of underfunding) to enable them to monitor, either directly or indirectly, the fund's management at all times. In this connection, it appears that members do not always have access to adequate information and that additional efforts could be made in this respect. It appears also important to develop the beneficiaries' education concerning pension issues. In general, the promotion of the transparency of pension schemes is essential for both beneficiaries and supervisory bodies.