

INPRS

INTERNATIONAL NETWORK OF PENSIONS REGULATORS AND SUPERVISORS

In cooperation with

Organisation for Economic Co-operation and Development



Organisation de Coopération et de Développement Économiques
Under the aegis of the Center for Co-operation with Non-Members
Baltic Regional Program

and the Partners for Financial Stability Program

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NOTES ON THE AGENDA

OECD Secretariat

REGIONAL MEETING FOR THE EASTERN AND
CENTRAL EUROPEAN COUNTRIES

Hosted by
The Government of Estonia

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Rävala pst. 12, 10143 Tallinn

NOTES ON THE AGENDA

INPRS REGIONAL MEETING FOR THE EASTERN AND CENTRAL EUROPEAN COUNTRIES

SESSION 1: RECENT DEVELOPMENTS

This session will provide an update of recent developments of the International Network of Pension Regulators and Supervisors (INPRS), including recent CEE regional activities, development of regional networks in Asia and Latin America, and its on-going and future substantive work. It will also provide information on recent country developments.

SESSION 2: OPTIONS FOR LEGAL FORM, GOVERNANCE AND SUPERVISION

As pension reforms have evolved in the region, policy makers have had to make decisions about several related matters. These include: the legal form of the pension entity (vis-à-vis sponsoring employers or affiliated asset managers); the ways to ensure that the pension entity is appropriately governed to assure asset security and transparency in transactions; and who regulates and supervises what aspects of the pension promise or affiliation.

The OECD has undertaken substantial analysis of the legal form issue, which concludes that there is more convergence in practice than differing labels and legal traditions might suggest. The analysis also suggests that legal regimes offer a variety of options, some of which may be more appropriate than others, e.g., an occupational scheme versus a stand-alone entity.

Another aspect of this analysis is to compare separately legislated “pension funds” to the standard financial institutions (depository institutions, insurance companies and collective investment schemes – CISs), and to ask if pension funds are merely one of the standard forms under a different label. The answer of course will vary depending on the design of the pension fund. These matters have implications for the nuances of both entity governance and supervision.

In the last context, the OECD has analysed the extent to which financial market convergence dictates supervisory consolidation. The Hungarian experience will be highlighted, and the session will explore how country size and human capital availability might affect supervision.

SESSION 3: FEE STRUCTURE AND DISCLOSURE & EDUCATION

Numerous countries world-wide, including many OECD countries and the countries of Central and Eastern Europe have been grappling over the past decade with the need to reform their pension systems. Most reform efforts seek to reduce reliance on traditional pay-go schemes and increase the need for individuals to rely on personal (and to a lesser extent on occupational) pension schemes. These schemes typically require individuals (and/or employers) on a voluntary or mandatory basis to fund individual accounts. In these schemes, individuals often must make decisions about providers and may eventually have to make significant investment decisions regarding assets accumulating in their accounts. This trend

is buttressed in many countries by a shift away from defined benefit to defined contribution occupational schemes – a shift that also requires individuals, rather than employers, to bear investment management responsibilities and its associated financial risk.

When personal pension and defined contribution-type schemes are implemented, a key consideration for program design is program costs and the corresponding fees assessed or charged. These fees are typically borne by individual accountholders. Fees charged to individuals can have a substantial impact on account balances over time, eroding the assets that individuals may need to assure themselves an adequate retirement income by as much as 20 to 30 percent. Thus, it is imperative that programs are designed with an eye toward program efficiency, so as to reduce costs and correspondingly to keep fees low.

Similarly, appropriate disclosure and education mechanisms may need to be established to ensure that scheme members are aware of and understand the fees associated with the investment choices they make within a given personal pension or defined contribution system. Disclosure and education become a crucial component in the successful migration to such pension systems, because many individuals who have never before been required to manage substantial savings are now being asked to do so. Whether this population is up to the task thus becomes an increasingly important matter of public policy: As financial risk shift to individuals, they must be educated sufficiently to bear the risk appropriately, and most relevant to this session, to assess the relevance and impact of fees and charges on their retirement savings.

This session will explore these issues. The session will commence with a general explanation of fees and a review of the various program design considerations that may impact upon program costs. These considerations include elements of program design that enhance competition among financial institutions providing services to the scheme or program, seek to attain appropriate economies of scale in operation, and enable purchasers and investors (whether employers or individuals) freedom of choice and/or ‘bargaining power.’ They also include consideration of the direct regulation of fees, including the regulation of fee amounts (for example, via the implementation of fee ceilings or caps) and fee structure to enhance the transparency of fees.

A crucial aspect of enhancing transparency is creating appropriate disclosure rules in order to assure that effectively disclosed information regarding fees (and other material matters) is readily available to individuals (and employers). The session will explore elements of disclosure rules that regulators may consider when implementing disclosure-related regulations.

The session also will examine the following: the experience in Poland and reflect the state of these issues in Estonia and Latvia; the role of an effective education program to ensure that disclosures, particularly those regarding fees, may be appropriately understood and used; and the need to consider creating “default” options for individuals who fail to make and implement investment decisions.