Issues on Regulation and Supervision of Defined Contribution Plans

Sunu Kartiko

Topics

- Why Defined Contribution (DC) Plans
- Current Regulation Issues
- Current Supervision Issues
- Challenges for DC

Why DC Plans (1)

- **Funding**
  - More predictable and accurate employers costs
  - More predictable contribution for employees
  - Less funding/liabilities risks

Why DC Plans (2)

- **Contributions/Benefits**
  - Unlimited *benefits*, based on the investment return
  - Employees have more involvement and control over their funds

Why DC Plans (3)

- **Administration**
  - *Easier to administer (?)*
  - Records contribution and benefit in individual account
  - *Low administrative costs (?)*

Regulation Issues

Indonesia Case

- Administration
  - established by employer (EPF) which could run DC/DB or life insurance/bank (FIPF) which could only run DC
  - administered by administrators who are required to have adequate knowledge on pension and investments

Regulation Issues

- **Contribution/Benefit (1)**
  - max. contribution 20% of take home pay

    Singapore :
    - Varies with age and subject to wage ceiling
    - Employer contribution 3.5-13% of wage
    - Employee contribution 5-20% of wage

    Malaysia :
    - Contribution divided into 3 accounts : retirement (60%), housing (30%) and healthcare (10%)
    - Employer contribution 12% of basic wage
    - Employee contribution 11% of basic wage

Regulation Issues

- **Contribution/Benefit (2)**

  Japan :

  - Contributions-company plans
    - ✓ If the employer has DB plan, contributions are limited to ¥216,000
    - ✓ If the employer does not have DB plan, the contribution limit doubles to ¥432,000
  - Contributions-individual plans
    - ✓ Self employed individuals may contribute up to ¥816,000 per year to individual plans
    - ✓ Individuals who are not covered by DB or DC may contribute up to ¥180,000

Regulation Issues

- **Contribution/Benefit (3)**

  – min. employers contribution is 60% of employees contribution

  – Benefit will be paid monthly, except for small amount

  Malaysia :

  - could be withdrawn lump sum at age 50 (1/3 of total balance) and the remaining at age 55

  Singapore :

  - could be withdrawn lump sum at age 55 at above the required min.

Regulation Issues

◆ Investment (1)

- could be invested in 13 investment instruments. For FIPF should offer an investment package which comprises of deposits, stocks and/or bonds

  Japan :

  - Plans must include at least 3 investment options

- foreign investments are prohibited

  Malaysia :

  - Wholly invested domestic

  Japan :

  - Real property, real estate, financial futures and commodity futures are not permissible investment options

Regulation Issues

- **Investment (2)**

  – returns from certain types of investment are not taxable

  Japan :

  - Amounts accumulated in a plan subject to a ‘special corporate tax’ equal to 1.173%

Regulation Issues

- **Disclosure**
  - Publication of financial report in national newspaper (for FIPF only)
  - Report to each members on the accumulation of the funds

    Japan :

    - plan administrators must provide information about the plan and investment options to participants
    - must permit participants to change investments at least once every 3 months
  - Submission of financial and investment reports twice a year to MOF

Regulation Issues

- **Annuities**

  - benefit must paid for life

    Malaysia :

    - for life and guaranteed for 10 years from vesting age (55 years)

  - no specific regulations on pension annuity

    Malaysia :

    - Konsortium Anuiti Malaysia (consortium of insurance companies) introduced 2 schemes SATK and SAKK
    - Gov. introduced new annuity scheme which will be managed by Bank Negara Malaysia

  - accumulated values to purchase annuities are taxable

    Singapore :

    - CPF-approved annuities are not taxed

Supervision Issues (1)

Indonesia Case

- Expectation for more active role of the supervisory board of pension funds

  Singapore :

  - Independencies and competencies members of CPF Board

- Strengthening of internal control of the funds
- Introduction of standards for good pension governance

Supervision Issues (2)

- Introduction of risk-based supervision approach
- Effort to define more clearly risks of the funds
- Implementation of international best supervisory practices
- Introduction of electronic reporting to MOF
- Introduction of joint supervision with insurance, banking and capital market supervisors

Challenges for DC

- Innovation on pension annuity products
- Proper taxation for pension annuities
- Overlapping regulations
- Pension education for both employees and employers
- Economic stability, aging population, globalization, etc.

End of presentation

Thank you