

Issues on Regulation and Supervision of Defined Contribution Plans

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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)

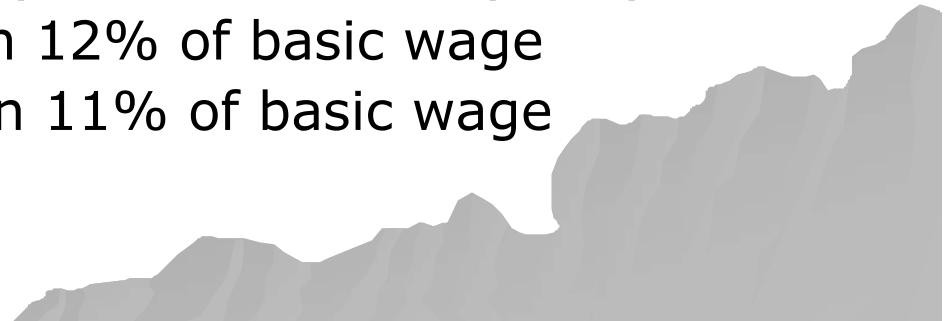
- max. contribution 20% of take home pay

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- could be withdrawn lump sum at age 50 (1/3 of total balance) and the remaining at age 55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- could be withdrawn lump sum at age 55 at above the required min.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

