Lessons from emerging markets

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Global pension trends

- **Rapidly aging populations**
  - Deficit of young workers
  - Surplus of aging and elderly

- **Public pensions under stress**
  - Adequacy
  - Sustainability

- **Era of personal responsibility**
  - in a world of instant gratification
Rising dependency ratios = PAYGO systems at risk

Aged dependency ratio: Number of elderly adults (aged 65 & over) per 100 working-age adults (aged 20-64) in 2015 and 2050

<table>
<thead>
<tr>
<th>Country</th>
<th>2015</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>10</td>
<td>23</td>
</tr>
<tr>
<td>Malaysia</td>
<td>10</td>
<td>28</td>
</tr>
<tr>
<td>Mexico</td>
<td>11</td>
<td>32</td>
</tr>
<tr>
<td>Brazil</td>
<td>13</td>
<td>40</td>
</tr>
<tr>
<td>China</td>
<td>14</td>
<td>51</td>
</tr>
<tr>
<td>Thailand</td>
<td>16</td>
<td>57</td>
</tr>
<tr>
<td>Chile</td>
<td>18</td>
<td>48</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>22</td>
<td>70</td>
</tr>
</tbody>
</table>

Classification: Company Confidential
Inadequate replacement ratios = a signal for needed change

Target replacement rate of 70%
Need for sound plan design and investment management

Source: OECD. *Employer and employee. **Assumes 4.5% real rate of return, 2% real wage growth over a 40 year career with 65-year old retirement age.
Individuals can’t rely on government-sponsored systems = the era of personal responsibility

MIND THE GAP

Voluntary savings are needed
Participation in voluntary pension plans is low…

Contributors to formal-sector voluntary pension systems, as a percent of the labor force in 2015 or 2016

- Malaysia: 1.4%
- India: 1.8%
- China: 2.9%
- Mexico: 8.2%
- Thailand: 8.2%
- Hong Kong: 9.8%
- Chile: 10.7%
- Brazil: 14.4%

Source: Voluntary Pensions in Emerging Markets, Global Aging Institute, 2017
So how do we make pensions work?
Observations from our markets

- It needs to be multi-pillar with a mandatory employment based pillar

### Brazilian Pension System

<table>
<thead>
<tr>
<th>Pillar 0</th>
<th>Pillar 1</th>
<th>Pillar 2</th>
<th>Pillar 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welfare benefits access No income tax e.g.: “Bolsa Familia”</td>
<td>Social Security System - compulsory and contributory By time and age</td>
<td>Not existent</td>
<td>Complementary system Open and Closed Pension Funds (voluntary)</td>
</tr>
<tr>
<td><img src="image" alt="Bolsa Familia" /></td>
<td><img src="image" alt="Previdencia Social" /></td>
<td></td>
<td><img src="image" alt="CNseg" /> <img src="image" alt="FenaPrevi" /> <img src="image" alt="ABRAPP" /></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No. of contributors</th>
<th>Funded from fiscal budget</th>
<th>52.5 mil (50.4% of labour force)</th>
<th>Non-existent</th>
<th>12.9 mil (12.4% of labour force)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Design</td>
<td>na</td>
<td>PAYG</td>
<td>Non-existent</td>
<td>Fully Funded</td>
</tr>
</tbody>
</table>
So how do we make pensions work?
Observations from our markets

- Spreading the load from Pillar 1 to 2 & 3 is critical; a clear path to a long transition is needed

Chile

- “Recognition” bonds issued in recognition of contribution made to Pillar 1.
- Bonds accrue (inflation adjusted) interest of 4% per annum.
- Paid as a bullet payment on the date of retirement (earlier in the event of death or disability).
- Bonds were eventually allowed to be traded, and proceeds deposited into Pillar 2 account.
So how do we make pensions work? Observations from our markets

• Leverage behavioral economics
  o Systematic investment plans (India)
  o Metrics to support ‘automatics’ within employer plans (Thailand)

• Incorporate digital advice and sales
  o Retirement readiness (Mexico, Chile, and Thailand)
  o Increase in voluntary savings (China)
  o Integrated ‘one stop’ shop (Chile)

• Continue the conversation
  o Work alongside governments and regulators to advocate for sound pension policy (OECD, COA, WEF, etc.)
  o Collaborate to produce research that promotes financial literacy (OECD, WEF, Chile MF Association, GAI, etc.)
  o Share trends/observations learned from doing business as a global retirement and long-term savings provider
Thank you