PENSION PROJECTIONS: DESIGN AND ITS SUPERVISION

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Short introduction

IOPS on-going project on supervision of pension projections

- What type of projections are done and by whom?
- What methodologies and assumptions are used?
- What is the role of supervisors in monitoring the design (input variables/assumptions) and updates (reviews) of projections?

Questions to the speakers
Pension projections

- an important tool for communication with members on current situation, likely future and...
- ... actions to be taken (managing expectations)
- need to be carefully designed (behavioural science on choices plus perception of uncertainty) and monitored (supervisors)
International Organisation of Pension Supervisors (IOPS) launched a project to understand:

- **How** projections are **done** in various IOPS jurisdictions (types, inputs & assumptions, revision of inputs & assumptions)?
- **How** projection results are **communicated** to users of pension calculators or scheme/fund members (particularly how to communicate uncertainty)?
- **How** projections are **supervised** (inputs & assumptions, communication)?

The next step: IOPS Good Practices on supervision of pension benefits projections in private pensions.
In 18 out of 25 surveyed jurisdictions the legislation framework directly addresses, at least partially, the issue of pension projections.

Who makes projections?

- pension fund managing companies, administrators, trustees; projections soon compulsory in EU, IOPR II Directive
- especially on-line simulators/calculators: pension supervisors and non-commercial or public institutions
- other entities (financial advisers, insurance companies, actuaries)
What projections are made?

- **pension calculators** (16 jurisdictions), mostly by pension schemes/funds (11) and pension supervisors (4), non-commercial sites (4)
- **regular pension projections** via pension benefits statements (11 jurisdictions)

What type of projections?

- mostly **deterministic, individualised** and based on a **single scenario**
- show both future accumulated pension assets and pension benefit, expressed in today’s terms.
- **stochastic approach** used only in Chile (supervisor’s simulator), by some funds in Lithuania and by Romanian pension supervisor (internal purposes). The Netherlands to introduce stochastic approach this year
- **scenario approach** used in Albania, Colombia, Iceland, FY Macedonia); by returns, asset allocation or density of contributions
Rates of return

- legally stipulated (3), determined by a user/member (4), pension fund managing company or administrator (9), pension supervisor (2) or other
- vary with lifecycle portfolio (Chile, Colombia), Hong Kong (China) – reference historical performance provided for a user of MPFA calculator
- linked to CPI level (Iceland plus 3.5%) or legal ceiling (Ireland 6%)
- net of scheme costs (Jamaica mandatory condition) or investment costs (Mauritius DC mandatory condition)
- gross of fees (Mexico)
- established on the basis of historical performance (Chile, MPFA calculator in Hong Kong, China; Lithuania, Macedonia)
Most countries

- use wage of growth constant
- use life tables
- don’t account for labour risk (density of contributions, disability)

Eight countries incorporate pension plan costs directly, four – indirectly

Projections are driven by ultimate pension products

- Annuity rates used in Austria, Chile, Egypt, Ireland, Jamaica, Lithuania, Mauritius (DC), Mexico, the Netherlands, Romania and Turkey
• **No legal requirement** for supervised entities to review regularly the assumptions and methodology used for pension projections
  - Albania, Bulgaria, Czech Republic, Hong Kong (China) – calculators by MPF trustees, Ireland, Jamaica, Mauritius, Poland, Romania, Slovakia and Suriname

• **Supervisors set up their own** methodology and assumptions:
  - Australia, Chile, Hong Kong (China) – the MPFA online calculator, Mexico, and the Netherlands. In Australia if ASIC makes changes to the relief, the pension industry needs to adjust accordingly.

• **Legal requirement for periodic review**
  - Egypt, Lithuania, and Macedonia.
  - Iceland, the supervisor requires that pension funds update accrual tables and accrued rights annually according to actuarial positions.
  - Serbia, no timeframe for revisions but the supervisor regularly monitors on-line calculators and pension entities, particularly when some circumstances arise that might affect projections by calculators.
Communication:

- mostly by paper and electronically (websites, e-mails)
- uncertainty via diagrams, graphs;
- Mexico – attempts to encourage voluntary savings with the use of behavioural science,

Supervision: work in process
Questions to the speakers

- What methodology and assumptions are the best for pension projections?

- What are your country experience with supervising the design of projections?