

FIRST MEETING OF THE OUTREACH PENSION TASK FORCE BUDAPEST, 14-15 OCTOBER 1999

The first meeting of the task force for co-operation with non-member economies in the field of private pensions was held in Budapest on 14-15 October 1999. The meeting was hosted and co-organised by the Hungarian State Private funds supervision whose vice President, Mr Tibor Parniczky, is chairing the Task Force. It was devoted to central and eastern European countries. Although this first task force meeting was informal and preparatory, it gathered a large attendance of 32 pension experts (see list attached) - mainly government officials from central and eastern European countries. The close involvement of attendees in their country's pension reform and their very active participation during the meeting allowed for open and high quality discussion.

I. Objectives of the meeting

This meeting has four basic aims:

- 1) Review the current stage of development of private pensions in Central and Eastern European countries as well as the reform process in this respect;
- 2) Identify priority requests for assistance and policy dialogue in the private pension area in the region
- 3) Have preliminary discussions on the agenda of the first meeting of the OECD international forum on private pensions private pensions, to be held in Prague on 20-24 March 2000, and more generally,
- 4) Define the broad lines of the task force programme of work for central and eastern European countries.

II. Presentation of the OECD activities on private pensions

The institutional framework of OECD activities on private pensions was outlined by the OECD Secretariat, who presented the mandate and programme of work of the Task Force parent group, the working party on private pensions; More time was devoted to the presentation of past and present activities: analytical work on regulatory issues in OECD countries, data collection projects, reviews of private pension systems in OECD countries;

III. Overview of private pension systems in Central and Eastern European countries (CEEC)

A *first tour de table* allowed CEEC representatives to present their country private pension system and the current stage of implementation of the pension reform. This underscored the great discrepancies between the development of private pension systems and among the designs of the new systems.

Main features of private pensions vary considerably from one country to the other in terms of enrolment (compulsory or voluntary access), involvement of State and employer, legal status of the pension funds, investment regulation, extend of competition in the market, respective importance of second and third pillar, influence of the Latin-American experience, degree of modernity of pension fund management tools, etc.

A special session was devoted to the pension reform in Turkey. The Turkish delegations had asked to present their reform project on which work has been developed for four years. The task force meeting proved to be a good opportunity for Turkey to have an open discussion with other countries involved in pension reform, before the finalisation of the new pension law.

IV. Future co-operation

Country presentations allowed for the identification of numerous unsolved problems. Direct requests from the participants completed the list of issues that the task force should address in priority.

a) Terminology and taxonomy of private pension systems

Two delegations made some preliminary remarks on the need to clarify some key concept, and to develop further work on terminology and taxonomy of private pension systems. Some basic analytical concepts turned out to be misleading, since OECD and CEEC do have univocal interpretation for them. In particular, they underlined the importance:

-- to clearly distinguish between public and private pension schemes: should the definition criteria be the status of the employer, that of the managing institution, other?

-- to define the concepts of second and third pillars. Broadly speaking, the second pillar refers to occupational schemes in OECD countries, while third pillar stands for individual schemes. In some CEEC, the second pillar however often refers to open compulsory funds (Chilean model), while the third pillar may refer to OECD second pillar type of schemes. In this respect, I was suggested to reconsider the reference to "pillars", and to replace/complement it with some more explicit terminology.

b) Analytical studies

Central and Eastern European participants all emphasised that they lacked information about OECD countries private pension systems, experience of reform process, and pension legislation (translated into English). This information and experience sharing with OECD countries summarised in comparative analytical studies and guidelines, ranks amongst the highest assistance priorities. In this respect, the OECD study entitled *private pension systems: regulatory policies* was welcome as an informative and useful tool. Participants emphasised the need to develop it further.

Besides, representatives from non-member countries highlighted that DC schemes were the corner stone of private pension systems in CEECs, while the majority of schemes are still DB schemes in OECD countries. Further analysis of the advantages and drawbacks of DB schemes, in the light of OECD country experience would therefore be very welcome.

c) Data collection projects

Work in this respect is on-going for OECD countries. It has already resulted in several documents published or to be published (see FMT N° 70, 71, 73, the private pension chapter of the updated version of the “Paratte report”, replies to the first questionnaire on pension third pillar, statistical data collection carried out in co-operation with the financial statisticians unit, etc.).

Non Member economies are now invited to be part of the wide-ranging OECD data collection exercise on private pension regulation and supervision. At the first meeting of the outreach pension task force, the Chairman of the task force was given a mandate to circulate a basic questionnaire on private pensions regulation and supervision in non-member economies. Information gathered will be circulated during the Prague 2000 meeting and constitutes a first step in the integration of transition economies in the OECD data collection and analytical base.

d) Assistance and policy dialogue on selected regulatory and supervisory issues

Participants in the task force meeting underlined the usefulness of a mix of country specific/regional meetings, training seminars and large international gathering such as the planned meeting of the international forum on private pensions.

For the coming meetings, priority should be given to the following regulatory and supervisory issues:

- Organisation of the supervision of pension funds and powers of supervisory authorities.
- Solvency issues and financial security of funds: central and eastern European countries proved eager to receive assistance in the enforcement of appropriate financial, actuarial and accounting principles, guarantee systems (minimum funding, need for guarantee funds, etc.) and insolvency management tools, among other related issues.
- Investment regulation: how should investments be allocated to comply with the need for diversification, security, and development of national economies? How should investment abroad be regulated? How could investment strategies be best adapted to narrow local capital markets and risky operation conditions? What type of quantitative restrictions are specifically relevant for Central and Eastern European economies? Are prudent man rules adapted for transition economies?
- Annuities: How could annuity market be developed?
- Corporate governance: how should Central and Eastern European economies deal with this issue?
- Implementation and administration of pension reform. This proved to be an important concern for all Central and Eastern European countries. In this regards, the following questions were highlighted:
 - Employer compliance: Are the right wages reported? Are employer contributions adapted to these wages? Are employers contributing in a timely manner?
 - Custodians: which financial institution has sufficient competence and financial surface to be able to carry out this task? Should the role of custodians be developed?
 - Assessment of performance: how could transparency be enhanced? Should so much emphasis be put on comparing the fees and administrative costs in competitive markets where

consumers can choose in which fund to invest? How could the versatility of clients in their choice of pension fund be minimised? How could competition be adequately regulated?

- IT: what kind of information technologies is needed in order to meet consumers and regulators expectations?

e) Development of internet facilities

To match the numerous above-mentioned requests for co-operation between OECD and non-member economies, appropriate tools for co-operation should be also developed. The suggestion of some participants to develop internet facilities as a major medium for assistance and dialogue received unanimous support. Granting access to OECD insurance and private pensions site would provide non-member countries with up-to-date information. It would also be a useful and cheap complement to wide ranging or country/region specific meetings/missions that will continue to be organised on a regular basis.

Upon Member countries agreement, the results of data collection projects and analytical studies could be put on the Insurance and private pensions Unit internet site. Privileged access could be granted to selected non member economies.

A discussion group on insurance and pension issues, open to non-member countries, could also be created, allowing for the development of an expert network.

This first meeting of the outreach pension task force has proved to be a well-appreciated and timely event. The quality of attendance and participation are encouraging signs for the future. One of the main outputs of the meeting was the design of an ambitious draft programme of co-operation, in an area where many OECD countries are also currently planning or implementing substantive reforms. In this context, exchange of information and experience will be all the more stimulating and valuable for all parties. Next task force meetings will be held on a regular basis in volunteer countries.

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