Strengthening Private Pensions

International standards, data and analysis

The OECD has for some years been analysing developments in pension systems in member countries. In 1999, a special working group was established to deal specifically with private pension issues. This group has developed the first set of international principles on occupational pension regulation and related guidelines on pension fund governance and the protection of the rights of members and beneficiaries. New guidelines are being prepared on other regulatory issues such as benefit security, funding rules, and investment.

Through the Working Party on Private Pensions the OECD is also expected to fill the existing gap in internationally comparable pension statistics, providing up to date information on the state of private pension systems. This new data source will support research projects into policy issues such as financial literacy and retirement planning, risk management in defined benefit plans, and annuities markets. Some of the past analytical work has been published in the OECD Private Pensions Series and on the OECD website (www.oecd.org/daf/pensions).

The Working Party was also instrumental in the creation of the International Network of Pension Regulators and Supervisors (INPRS), which comprises more than 130 regulatory and supervisory authorities from over 70 countries around the world and whose activities are supported by the Centre for Co-operation with Non-Members (CCNM) of the OECD. Through the INPRS and the CCNM, the OECD has established a global dialogue on pension issues.
Strengthening Private Pensions

INTERNATIONAL STANDARDS, DATA AND ANALYSIS

OECD

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to Article 1 of the Convention signed in Paris on 14th December 1960, and which came into force on 30th September 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The original member countries of the OECD are Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries became members subsequently through accession at the dates indicated hereafter: Japan (28th April 1964), Finland (28th January 1969), Australia (7th June 1971), New Zealand (29th May 1973), Mexico (18th May 1994), the Czech Republic (21st December 1995), Hungary (7th May 1996), Poland (22nd November 1996), Korea (12th December 1996) and the Slovak Republic (14th December 2000). The Commission of the European Communities takes part in the work of the OECD (Article 13 of the OECD Convention).
Foreword

The Working Party on Private Pensions was established in 1999 to provide a forum for policy-makers from OECD countries to discuss public policy towards private pensions, with a focus on regulation. Its mission is to assist countries in the development of an adequate regulatory and supervisory framework that protects the rights of members and beneficiaries and promotes the financial security of pension plans and funds. This work is performed through the development of standards, in depth policy analysis and a unique data collection process. The Working Party also promotes dialogue with non-OECD countries through conferences and workshops organised throughout the year in different parts of the world.
## Table of contents

SECTION 1  
What is the OECD? ................................................................. 7

SECTION 2  
What Role Does the OECD Play in Private Pensions? ................. 9

SECTION 3  
Why are Pensions Such a Significant Issue? ............................... 11

SECTION 4  
The Basic Challenge: Different Practices, Common Goals .......... 12

SECTION 5  
Finding a Common Language .................................................... 13

SECTION 6  
Developing Standards ............................................................... 14

SECTION 7  
Monitoring Private Pension Developments ................................. 16

SECTION 8  
Processing High Quality Statistical Data Worldwide ..................... 17

SECTION 9  
Cutting Edge Research and Policy Analysis ............................... 19

SECTION 10  
Reaching Out to Other Countries Across the Globe .................... 22

SECTION 11  
Recent Publications ................................................................. 24

SECTION 12  
Partnership Programme ........................................................... 26

Annex  
Fifteen Principles for the Regulation of Private Occupational Pension Schemes ........................................ 27
Section 1

What is the OECD?

The OECD is an international organisation that aims to promote co-operation between its 30 Member Countries and to develop a dialogue with other countries, in particular the 70 countries with whom the OECD has concluded special relationships (through its Centre for Co-operation with Non-Members, CCNM).

It provides a forum for national governments to exchange views, discuss common concerns and develop policies on a wide range of issues. The organisation provides a framework and process that enables governments to co-ordinate domestic and international policies that increasingly, in today’s globalised world, must form a web of coherent practice across nations.

Intergovernmental dialogue at the OECD can lead to formal agreements among its members – for example, by establishing codes for the free flow of capital and services and agreements to exchange information on reinsurance, crack down on bribery or end harmful tax practices. OECD proposals can also take the form of non-binding recommendations, principles, and guidelines. More generally, the OECD helps governments develop more effective policies and enhances awareness of the impact of national policies on the international community.

The OECD also collects a wealth of comparative data, and promotes international standards appropriate for a global economy.

How is the OECD organised?

The work of the OECD is undertaken within the framework of ‘committees’ consisting of representatives from member countries’ national administrations who come together to meet, exchange information, advance ideas and review progress in different areas of policy - such as trade, public management, financial regulation, pensions and health provision, development assistance and taxation. In all, there are over 150 committees, working parties and expert groups.

On average some 40,000 senior officials come to OECD committee meetings each year to review and to contribute to work that is undertaken by the OECD Secretariat.
The OECD’s Insurance Committee and its Committee on Financial Markets have operated for many years. The OECD’s Working Party on Private Pensions was formed in 1999. This pamphlet discusses the OECD Working Party on Private Pensions’ current standard-setting and analytical work programme on pension issues, which is based on the following terms of reference:

- survey and monitoring of private pensions systems in OECD Member countries and analysis of related policy and technical issues;
- formulation of appropriate policy conclusions and/or recommendations on the different approaches related to regulation and supervision of private pension systems;
- keeping abreast of OECD activities related to private pensions; co-operation and co-ordination on these issues with other relevant OECD bodies as well as with other international bodies;
- promotion of policy dialogue with Non-member countries on private pension issues.

What is the role of the OECD Secretariat?

All official OECD bodies are serviced by a permanent secretariat based in the OECD headquarters in Paris. The work on pensions is serviced by the Financial Affairs Division, in the Directorate for Financial, Fiscal and Enterprise Affairs. This Division also services other bodies, including the Committee on Financial Markets and the Insurance Committee, ensuring a high degree of synergy across fields.
Section 2

What role does the OECD play in Private Pensions?

In recent years the OECD has taken the lead in addressing pension policy issues of concern to its member countries, dating from the development of its volume “Maintaining Prosperity in an Ageing Society” in 1998. Since then, the organisation has especially focused its work efforts on the regulatory and policy issues arising from the growing importance of “private pensions” – that is voluntary and mandatory programs that rely on employers, financial institutions and markets to provide retirement income.

Research and policy analysis is conducted through a Working Party on Private Pensions. This body brings together major regulatory and supervisory authorities, academics and private sector representatives to create a unique international forum that is unrivalled in its scope and expertise.

Its mission is to assist countries in the development of an adequate regulatory and supervisory framework that protects the rights of members and beneficiaries and ensures the financial security of pension plans and pension funds.

The Working Party implements this mission through standard-setting, analytical and statistical activities. It has established a regular policy dialogue between regulators and policymakers. It offers state-of-the-art analysis and practical guidance for regulatory reform in the private pension field.

With its highly respected membership, and ambitious goals the Working Party is well placed to facilitate the development of data collection, policy analysis and guidance that governments need to help make their retirement systems more effective in providing sustainable and adequate protection for their ever growing elderly populations.

The Working Party also benefits from the activities of other OECD groups, such as its Insurance Committee and Committee on Financial Markets and the INPRS (International Network of Pensions Regulators and Supervisors) an informal network, established with the support of the OECD. The INPRS comprises more than 130 authorities from over 70 countries.
The OECD’s work on private pensions is expected to gain momentum as more countries undertake pension reforms that create or expand the role of private pensions in the provision of retirement income for the citizens.
Section 3

Why are pensions such a significant issue?

Ageing populations are and will continue to place an increasing burden on social security systems around the world. In response, countries have reacted in a variety of ways. In recent years, pension reforms in many countries have included an increased reliance on privately managed, funded pension systems. As OECD and other countries proceed with additional reform, pension funds and other forms of retirement savings are likely to expand at a great pace. These reforms will significantly change the way the responsibility for retirement income security is shared between households, employers, and the government.

Today pension funds are the second largest institutional investors in the world (after insurance companies), with total estimated assets of US$8 trillion in OECD countries alone. The establishment of private, funded pension systems across the globe has had important implications for the development of capital markets. In emerging economies such as those in Asia, Latin America and the Newly Independent States, the growth in the size and number of pension funds has significantly increased the availability of medium and long-term capital, and is playing a key role in the economic development of these countries.

Given the demographic and fiscal pressures for reform, it is increasingly necessary for policymakers to understand different pension systems and their complexities, the best ways to regulate them, and their impact on financial markets. The OECD, through its Working Party on Private Pensions, is the chief international forum to achieve these objectives.
Section 4

The basic challenge: Different practices, common goals

Delivering pension promises is an objective shared by all private retirement systems. The ways of doing this, however, are complex and varied.

Pension plans show marked differences around the world. Traditionally private pension plans in OECD countries were established by employers and promised a defined benefit based on final salaries. In a growing number of countries, especially those that have introduced mandatory defined contribution schemes, investment risk is laid on the individual, who is sometimes called to choose among different savings instruments.

Pension plans are long-term contracts that involve many parties in their administration, often including employers, asset managers, custodians, banks, insurers and other financial institutions, and actuarial and accounting firms, as well as pension funds themselves. Furthermore, pension funds take a variety of legal forms in different countries around the world. In some they resemble non-profit organisations, in others they are a special type of financial institution.

Countries also differ in the role of the private system in retirement provision. In some countries, private pensions are voluntary, offering a small supplement to already generous state pensions. In others, private pensions are the backbone of the retirement system, and are being complemented only by a minimum pension guarantee or universal basic benefit from the state.
Section 5

Finding a common language

One of the key obstacles to the work of any international forum is language. Making sure that the basic terminology used is shared by all the members of the forum is a prerequisite to dialogue. Only once all members are speaking the same ‘language’ can progress and coherent discussion occur. This is particularly true for the area of private pensions. Even though many OECD countries are experiencing similar fiscal pressures and demographic trends, the structure and language of reference can vary significantly.

Thus, one of the first tasks of the Working Party on Private Pensions was the creation of a taxonomy and glossary of private pension systems. This task was complicated by the proliferation of definitions for even the most basic distinctions in pensions, such as those between public and private pensions and between defined benefit and defined contribution plans.

The development of a common language has been the foundation upon which the Working Party has initiated development of a set of international standards for the regulation of private pensions. The Working Party is now the lead standard setter in this area (see section 6).

The development of the taxonomy has also been a critical step in the statistical data collection process that is being developed by the Working Party (see section 8 for more information).
Section 6

Developing standards

In 2001, the OECD’s Council of Ministers officially endorsed and supported the standard-setting activities carried out by the Working Party in private pension regulation. So far, the Group has approved a set of fifteen basic principles and two specific guidelines. In addition, the Insurance Committee approved in June 1999 the “Selected Principles for the Regulation of Investments by Insurance Companies and Pension Funds”. These provide basic recommendations for the investment of insurance company and pension fund assets, based on the need for ensuring the security and profitability of the funds invested. The OECD also approved in 2000 modifications to the capital movements code, including pension fund investment abroad.

The 15 Principles

The Working Party on Private Pensions developed “15 Basic Principles for the Regulation of Private Occupational Pension Schemes”\(^1\), which are the only internationally recognised standards for private pension systems.

The Principles establish a set of general features for the regulation of occupational pensions. They address such areas as the establishment of pension plans and funds, fund governance, the actuarial valuation and funding of pension liabilities, and the regulation of pension fund investment, as well as standards of disclosure towards plan members. These principles have been endorsed by the INPRS and are expected to be used by the International Monetary Fund and the World Bank in parallel to the Financial Sector Assessment Programme.

Governance

The “Pension Fund Governance Guidelines”\(^2\) draw inspiration from the OECD Principles of Corporate Governance but take into consideration the particularities of pension funds. They establish basic norms for the

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\(^2\) Approved during the July 2002 meeting of the Working Party on Private Pensions.
governance structure of pension funds, such as the identification of the governing body and its responsibilities, and stress the role of auditors, actuaries, and custodians in monitoring fund activities.

**Rights of Members and Beneficiaries**

The “Guidelines for the Protection of Rights of Members and Beneficiaries in Occupational Pension Plans”[^3] focus on basic rights and protections that should be accorded to those individuals participating in occupational pension plans – that is those sponsored by their employers. Subject areas addressed in these guidelines include: non-discriminatory access to pension plan participation, the protection of vested rights, portability of pensions, information disclosure and rights of redress.

Section 7

Monitoring private pension developments

The monitoring of developments in private pensions in member countries is one of the key activities of the Working Party on Private Pensions. This work is accomplished primarily through regular review by the group of country presentations on their systems, focusing on policy and regulatory reforms.

This activity is supported by a comprehensive data collection exercise, covering both statistical and regulatory data. The Working Party also benefits from the input of related groups, such as the Insurance Committee or the Committee on Financial Markets, which monitor insurance and financial markets, respectively.

In recent years, specific attention has been paid to developments in occupational pension systems and the structural reforms to public pension systems in some OECD countries, which have led to the introduction of mandatory pension funds. New projects are also being developed in various areas:

- reforms to investment regulations (for example, the relaxation of investment constraints or the implementation of the prudent person rule);
- pension fund performance and asset growth, based on a unique data set currently under construction (see Section 8);
- state of funding of defined benefit plans and cross-country differences in methodology for measuring funding gaps;
- development of annuities markets and other retirement products.
Section 8

Processing high quality statistical data worldwide

Background

The scale and pace of pension reform worldwide has created a significant need for the development of comprehensive, comparable pension statistics that can capture the many dimensions of pension systems and assist governments in assessing their programs and reforms. Indeed, there are presently only scattered bodies of data available on subjects such as retirement income adequacy and trends in coverage, funding and investment.

To fill a significant data gap in pension statistics, the OECD has recently initiated a statistical project to set up a database of global pension statistics. Although significant strides have already been made in pension data collection and reporting, great variability remains across, and even, within OECD countries.

Amongst key issues impacting pension data quality that the statistical project will address are the:

- lack of comprehensive administrative data for key indicators;
- lack of timely data to monitor the financial activity of the international pension industry;
- lack of uniformity and transparency in data sources and measures.

What are the goals and objectives of the Working Party’s Statistical Collection Project?

The Working Party’s statistical project will significantly improve the reliability and comparability of core pension data and ultimately provide an important tool to effectively support program performance assessment and policymaking.

The statistical project will develop a comprehensive system of international pension statistics, collected from primary sources (e.g.: Supervisory Authorities, Central Banks, Statistical Offices), using coherent statistical concepts, definitions and methodologies. Data will be collected on an ongoing basis so that trends can be readily identified and analysed.

The statistical collection will provide a valuable device for measuring and monitoring the pension industry, and permit inter-country comparison
with current statistics and indicators on key aspects of retirement systems across OECD countries. This system will be extended to non-OECD countries at a later stage.
Section 9

Cutting Edge Research and Policy Analysis

An illustration of the analytical work of the Working Party on Private Pensions is provided by the current activities. These five research and policy projects will be complemented by new standard setting activities.

Investment regulation of pension funds and the investment management process

Over the course of 2002 the Working Party has included a review of the history and elements of the prudent person approach to the investment regulation of pension funds as well as other rules regulating pension fund investment activities. Projected future work would complement this review and include:

- regular monitoring of quantitative portfolio regulations;
- the extension of the fundamental understanding of the legal framework (statutory, regulatory and judicial) for the Prudent Person rule;
- the study of various interrelated aspects of the investment management process such as the selection and monitoring of investment strategy and asset managers, the use of different risk management techniques, and the role of pension funds in corporate governance.

Financial literacy and retirement planning

As a result of the shifting of responsibility and risk for retirement provision to individuals there is an increasing need to assure that people understand their responsibilities and can capably carry them out. The Working Party work programme, therefore, includes a specific study of financial education and literacy, which will benefit from parallel studies undertaken by other parts of the OECD.

This study intends to explore:

- the role of governments, financial institutions (involved in pension asset management), employers and other institutions in achieving
adequate financial literacy to assure appropriate individual decision-making in retirement programmes;

- a review of programme methodologies and intermediaries that have proven the most successful in OECD countries, under what circumstances and an assessment of the cost of such programmes;

- identification of best practices and successful methodologies of intervention that have succeeded in one country that may be transferable to others.

### Pension plan funding and benefit security

Funding is a concept that relates to defined benefit plans. In recent years the funding rules and accounting standards have received a significant amount of attention in light of volatile financial markets and the impact of pension fund liabilities on employers’ balance sheets. Issues to be analysed would include:

- ways of collateralising pension commitments and the reconciliation between tax arbitrage and benefit security concerns;

- the impact of minimum funding rules and international accountancy standards on pension plan design and fund investment;

- measures of funding levels and policy responses to funding gaps.

### Paying out pensions – Annuities and asset management during retirement

In defined contributions plans, workers are usually called to make complicated choices between products offering different degrees of protection against investment and longevity risks. The Working Party has embarked on a project to understand better the regulators’ response to the challenge posed by these plans. Issues that would be addressed in the annuities programme include:

- forms of pension payout or distribution including whether and to what extent voluntary, individual annuity purchase should be encouraged through tax policies and product choice;

- factors that determine the attractiveness of annuities and other financial products: fees and commissions, annuitisation imbedded in social security regimes, liquidity and bequest motives;

- consumer awareness and ways to improve it.
Pension supervision

Pension supervision currently ranges from the licensing or registration of pension plans, funds, and entities to ‘on-site’ and ‘off-site monitoring’ processes and other techniques. This project, already initiated, would bring together pension supervisors from OECD and INPRS countries to help identify good practices in pension supervision. In addition, policy analysis would be conducted on:

- the structure of the supervision;
- issues such as the relationship between regulatory and supervisory authorities;
- and the implications of financial convergence and consolidation for supervisory structures.

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A new international organisation may play a leading role in this project in the future (see Section 10).
Section 10

Reaching out to other countries across the globe

The OECD private pensions activities with non member economies are conducted under the aegis of the Centre for Cooperation with Non Members (CCNM), which has developed relationships with more than 70 countries outside the OECD.

It includes relevant policy analysis and recommendations to non member economies and dissemination of relevant material. For instance, a 2,500 page insurance and private pensions compendium for emerging economies was released in 2002. The OECD is also organising numerous events, which can be country-based (for instance in China, India, Russia and Brazil), regional (in Asia, Latin-America, Baltic region and Central and Eastern Europe) or global (Forum on private pensions).

Most of the two latter type of events are jointly organised with the International Network of Pensions Regulators and Supervisors (INPRS) that the OECD helped to set up in 2000. The INPRS brings together over 130 authorities from over 60 countries around the world, as well as various international organisations.

The INPRS is extending the OECD’s work in the development of principles and best practices and provides a unique international forum for the discussion of policy issues and the dissemination of information. The Network is serviced by the OECD Secretariat.

The INPRS is a forum for dialogue and exchange of information on private pensions. In co-operation with the OECD, it has:

- endorsed best practice guidelines, developed by the OECD, which serve countries with both developed and less developed pension systems;
- compiled a descriptive database of private pension systems, in co-operation with the International Social Security Association to be released in 2003;
- developed the INPRS website (www.inprs.org);
- initiated the publication of the Journal of Pension Economics and Finance (JPEF), a journal specialising in pensions issues (published by Cambridge University Press);
- organised numerous regional committees and meetings.

Discussions are ongoing to transform the INPRS into an international association. This organisation would lead the work on pension supervision (and regulatory issues related to supervision) and would work closely with the Working Party on Private Pensions. The OECD would serve as the secretariat of this new association.
Section 11

Recent Publications

Over the years, the OECD has published a number of reports on private pension issues. The following is a complete list of these publications to-date.

- Private Pensions Series No. 6 (forthcoming) Supervisory Structures and Methods for Private Pensions
- Private Pensions Series No. 5 (forthcoming) The Development of Private Pensions in the Baltic Countries
- Private Pensions Series No. 4 Regulating Private Pension Schemes: Trends and Challenges
- Private Pensions Series No. 3 OECD Private Pensions Conference 2000
- Private Pensions Series No. 2: Administrative Costs and Reforms
- Private Pensions Series No 1: Private Pensions Systems and Policy Issues
- Insurance and Private Pensions Compendium for Emerging Economies
- Institutional Investors in Latin America
- Financial Markets Trends No. 83: Prudent Person Rule Standard for the Investment of Pension Fund Assets; Private Annuity Markets; Guidelines for Pension Fund Governance
- Financial Markets Trends No. 70-1: Private Pension Systems: Regulatory Policies (in two parts)
- Maintaining Prosperity in an Ageing Society
- Pensions, Savings and Capital Flows: From Ageing to Emerging Markets
- Development Centre Studies: The Second-Generation Pension Reforms in Latin America
The OECD is also associated with the publication of:
Complementary and Private Pensions Throughout the World, ISSA-INPRS

For more information, and to inquire about availability, see the on-line bookshop on www.oecd.org
Tel: +33 (0)1 45 24 81 67 E-mail: sales@oecd.org
Fax: +33 (0)1 45 24 19 50
Section 12

Partnership Programme

The OECD works in partnership with many key international institutions to promote its agenda of economic reform. In the private pensions arena, the OECD works closely with the International Monetary Fund, the International Social Security Association, and the World Bank.

In addition, corporations or government organizations are welcome and encouraged to support the various private pension activities through our partnership programme.

The OECD offers opportunities to:

- Report on and learn about new developments and research in private pensions;
- Report on and learn about analytical techniques and methodologies in the field of pensions;
- Meet and interact with experts in government and relevant regulatory and supervisory bodies as well as the pensions industry and academia;
- Explore common interests and problems with people from diverse institutional environments;
- Suggesting improvements to OECD activities.

Partners are also rewarded with copies of material issued within the framework of the various private pensions project, as well as access to Electronic Discussion.

If you would like to join the partnership programme please contact:

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Annex

FIFTEEN PRINCIPLES FOR THE REGULATION OF PRIVATE OCCUPATIONAL PENSION SCHEMES

Adequate regulatory framework

Principle N°1: An adequate regulatory framework for private pensions should be enforced in a comprehensive, dynamic and flexible way (taking into account the complexity of the schemes) in order to ensure the protection of pensions plans beneficiaries, the soundness of pensions funds and the stability of the economy as a whole. This framework should however not provide excessive burden on pensions markets, institutions, or employers.

Appropriate regulation of financial markets

Principle N°2: A productive, diversified investment of retirement savings which spreads risk requires well-functioning capital markets and financial institutions. The development of advance-funded pension systems should go hand-in-hand with a strengthening of the financial market infrastructure and regulatory framework (including the development of new financial instruments and new markets such as inflation-indexed markets and the improved functioning of retirement annuity markets).

Rights of the beneficiaries

Principle N°3: Non-discriminatory access should be granted to private pensions schemes. Regulation should aim at avoiding exclusions based on age, salary, gender, period of service, terms of employment, part-time employment, and civil status. It should also promote the protection of vested rights and proper entitlement process, as regard to contributions from both employees and employers. Policies for indexation should be encouraged. Portability of pensions rights is essential when professional mobility is promoted. Mechanisms for the protection of beneficiaries in case of early departure, especially when membership is not voluntary, should be encouraged.
Adequacy of the private schemes

Principle N°4: Proper assessment of adequacy of private schemes (risks, benefits, coverage) should be promoted, especially when these schemes play a public role, through substitution or substantial complementary function to public schemes and when they are mandatory. Adequacy should be evaluated taking into account the various sources of retirement income (tax-and-transfer systems, advance-funded systems, private savings and earnings).

Regulatory system and separation

Principle N°5: An institutional and functional system of adequate legal, accounting, technical, financial, and managerial criteria should apply to pensions funds and plans, jointly or separately, but without excessive administrative burden. The pension fund must be legally separated from the sponsor (or at least such separation must be irrevocably guaranteed through appropriate mechanisms).

Funding

Principle N°6: Private schemes should be funded. While full-funding exists in principle for defined contribution plans, other types of plans should be subject to minimum funding rules or other mechanisms to ensure adequate funding of pension liabilities. Rules based on winding-up approach (e.g. ABO, PBO) may be promoted as a minimum level to complement the on-going approach. Flexibility can be allowed for temporary limited under-funding under restricted circumstances. Consideration should be given to the development of adequate but flexible requirements for minimum capital/guarantee in pension funds, taking account of the long term nature of their liabilities. Tax and prudential regulations should encourage a prudent level of funding. Private unfunded pay-as-you-go schemes at individual company level (i.e. overheads schemes) should be prohibited.

Calculation Techniques

Principles N°7: Appropriate calculation methods for asset valuation and liabilities funding, including actuarial techniques and amortisation rules must be set up and based on transparent and comparable standards. Increased reliance on modern and effective risk management, industry-wide risk management standards for pension funds and other institutions involved in the provision of retirement income should be promoted. The development of asset liability management techniques should be given proper consideration.
Supervisory structures

Principle N°8: Effective supervision of pension funds and plans must be set-up and focus on legal compliance, financial control, actuarial examination and supervision of managers. Appropriate supervisory bodies, properly staffed and funded, should be established in order to conduct when relevant off and on site supervision, at least for some categories of funds and in particular when problems are reported. Supervisory bodies should be endowed with appropriate regulatory and supervisory powers over individual plans, in order to prevent mis-selling cases arising from irregularities in the distribution and expenses methods.

Self-supervision

Principle N° 9: Self-regulation and self-supervision should be encouraged. The role of independent actuaries, custodian services and internal independent supervisory boards should be promoted within an appropriate regulatory framework.

Fair competition

Principle N°10: Regulation should promote a level playing field between the different operators and take account of the usefulness of a functional approach. The fair competition should benefit to the consumers and allow for the development of adequate private pensions markets.

Investment

Principle N°11: Investment by pension funds should be adequately regulated (see selected principles for regulation of investments by insurance companies and pension funds in Annex). This includes the need for an integrated assets/liabilities approach, for both institutional and functional approaches, and the consideration of principles related to diversification, dispersion, and maturity and currency matching. Quantitative regulations, and prudent-person principles should be carefully assessed, having regard to both the security and profitability objectives of pension funds. Self-investment should be limited, unless appropriate safeguards exist. Liberalisation of investment abroad by pension funds should be promoted, subject to prudent management principles.

Insurance mechanisms

Principle N°12: The need for insolvency insurance and/or other guarantee schemes has to be properly evaluated. These mechanisms may be recommended in some cases but in an adequate framework. Recourse to insurance mechanisms (group and reinsurance) may be promoted.
Winding-up

Principle N°13: Proper winding-up mechanisms should be put in place. Arrangements (including, where necessary, priority creditors’ rights for pension funds) should be put in place to ensure that contributions owed to the fund by the employer are paid in the event of his insolvency, in accordance with national laws.

Disclosure and education

Principle N°14: Appropriate disclosure and education should be promoted as regards respective costs and benefits characteristics of pensions schemes, especially where individual choice is offered. Beneficiaries should be educated on misuse of retirement benefits (in particular in case of lump sum) and adequate preservation of their rights. Disclosure of fees structure, plans performance and benefits modalities should be especially promoted in the case of pensions plans that offer individual choice.

Corporate governance

Principle N°15: The corporate governance role and capacity of pension funds should be considered. This includes: the role of guidelines (statutory or voluntary) for governance activities; the impact of shareholder activism by pension funds on corporate behaviour; and the governance of pension funds themselves and the role of trustees.
Strengthening Private Pensions

International standards, data and analysis

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