Lessons from emerging markets

Thomas Cheong,
President, North Asia,
Principal Financial Group

Global pension trends

Rapidly aging populations

Deficit of young workers

Surplus of aging and elderly

Public pensions under stress

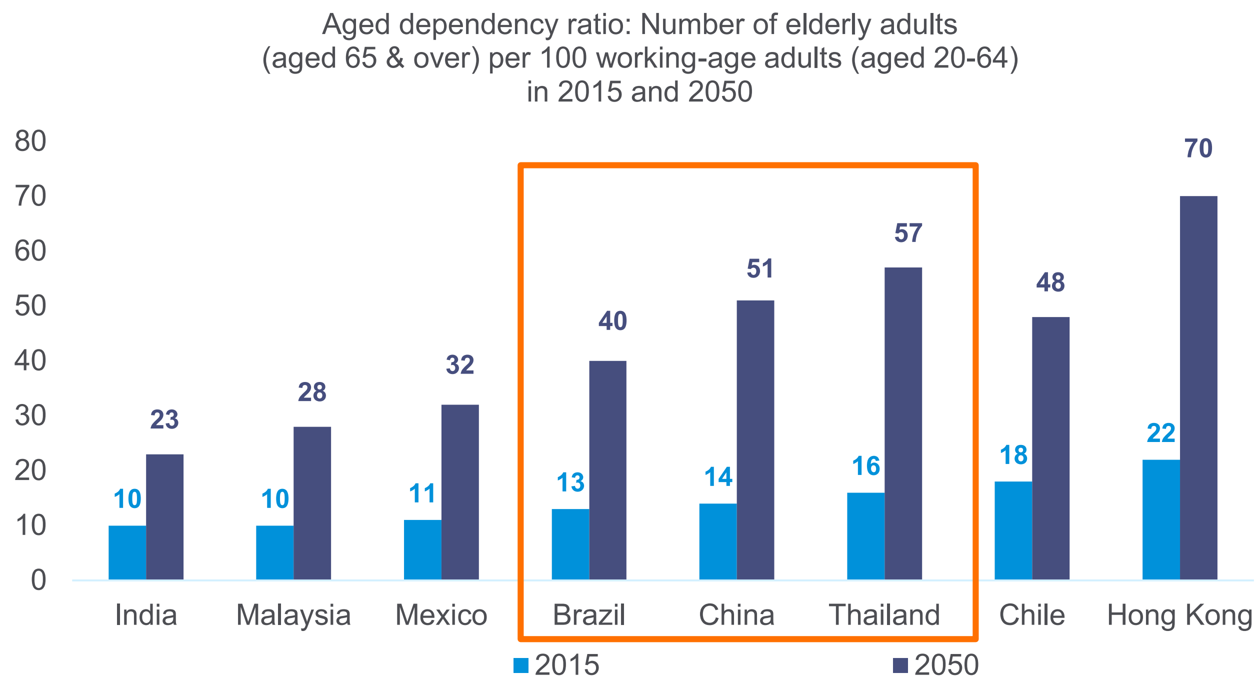
Adequacy Sustainability

Era of personal responsibility

in a world of instant gratification

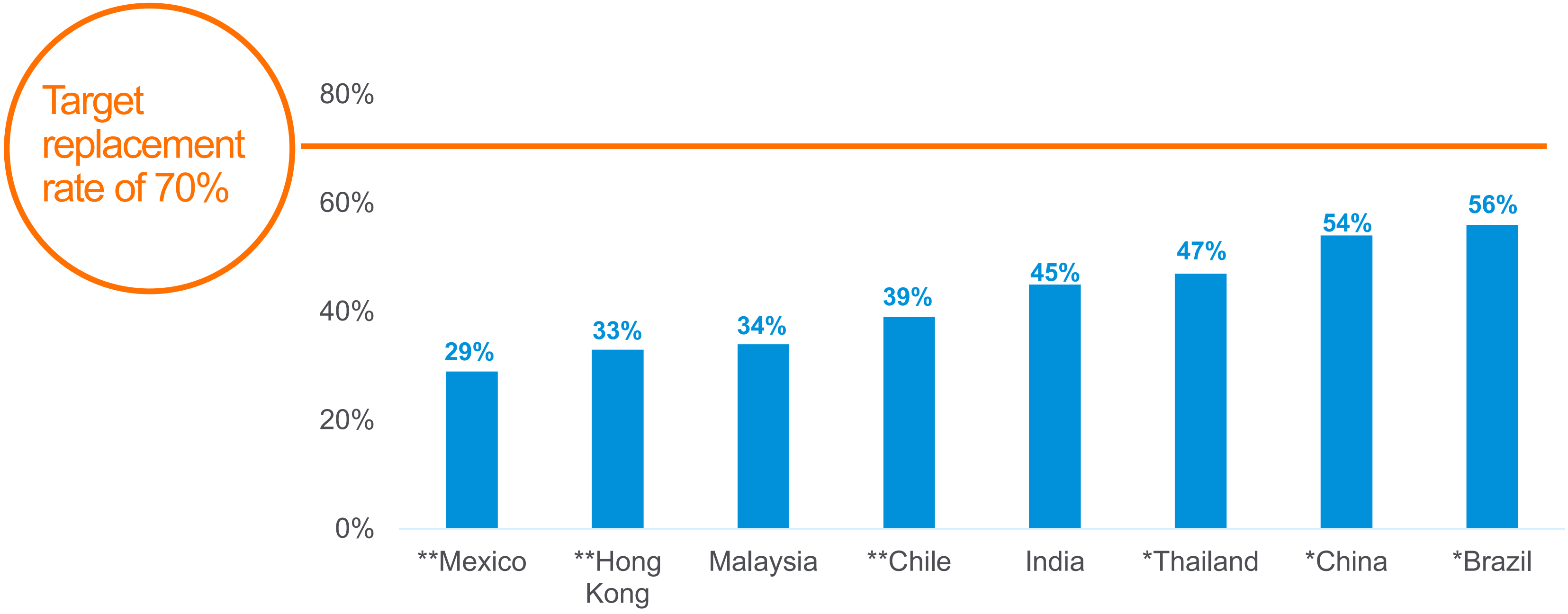
Principal®

Rising dependency ratios = PAYGO systems at risk



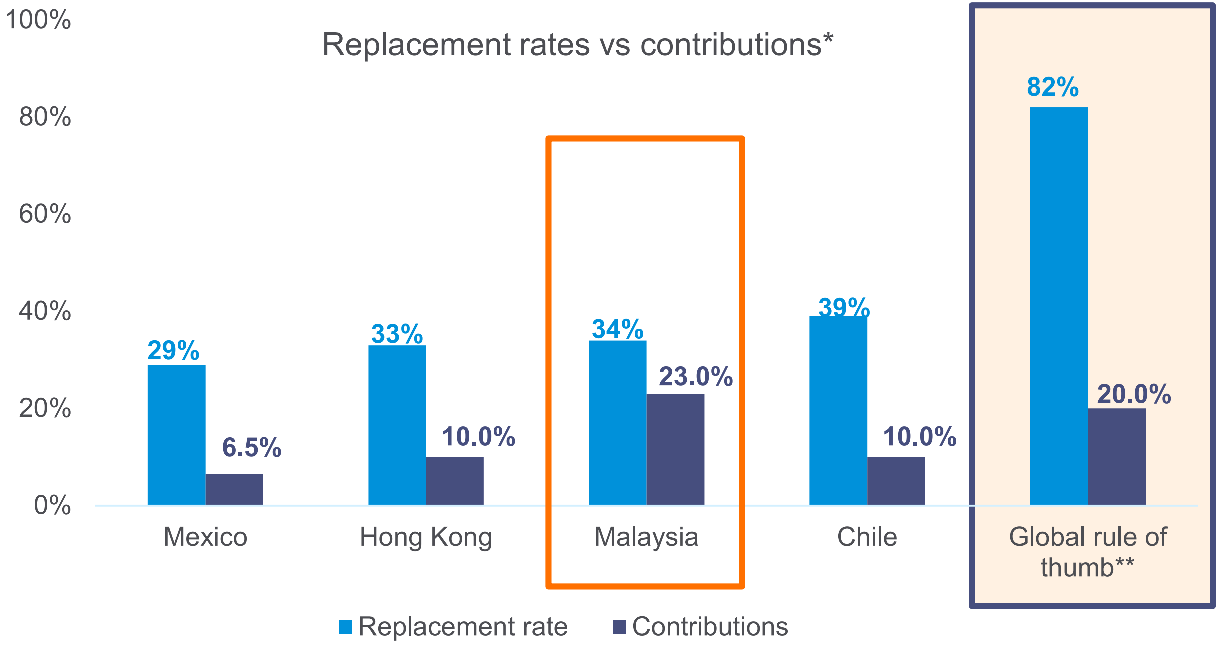
 Source: World Population Prospects: The 2015 Revision

Inadequate replacement ratios = a signal for needed change



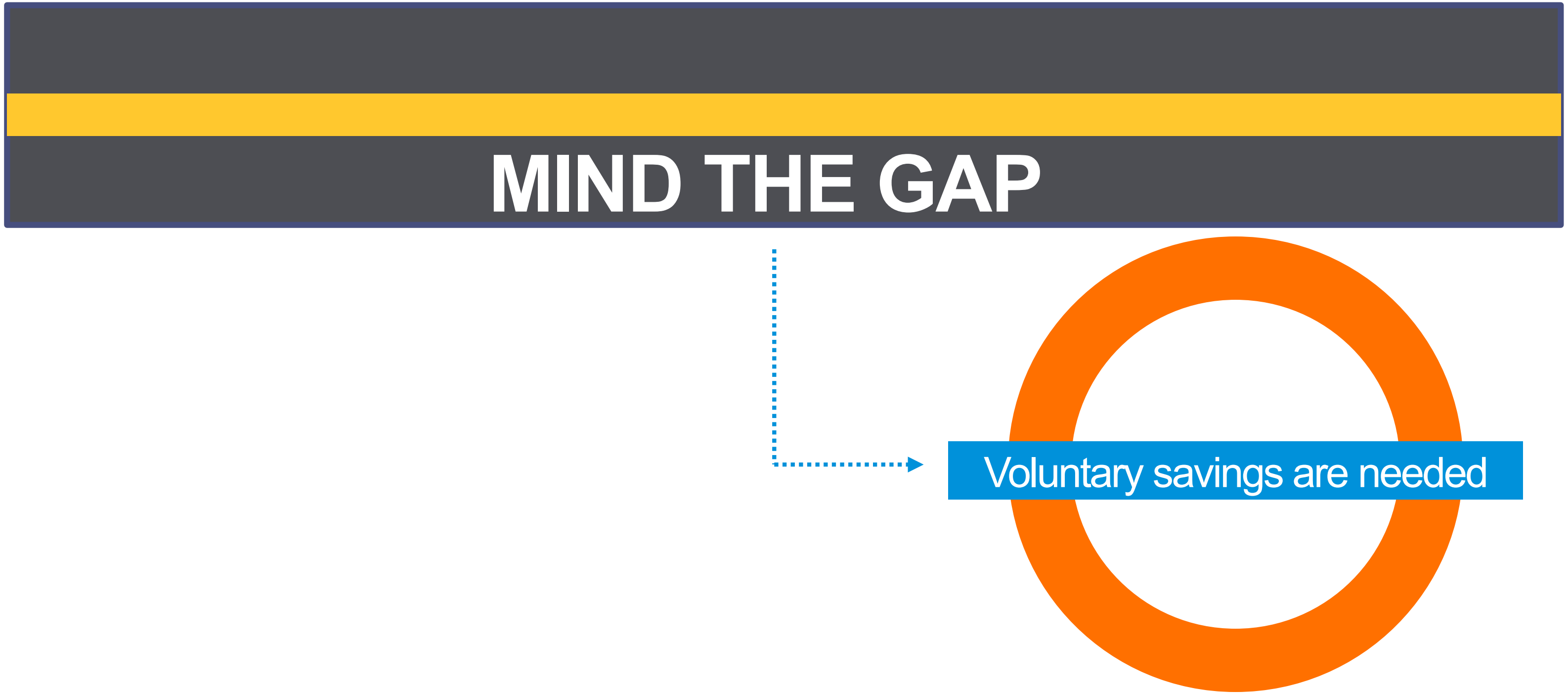
Source: Global Aging Institute

Need for sound plan design and investment management

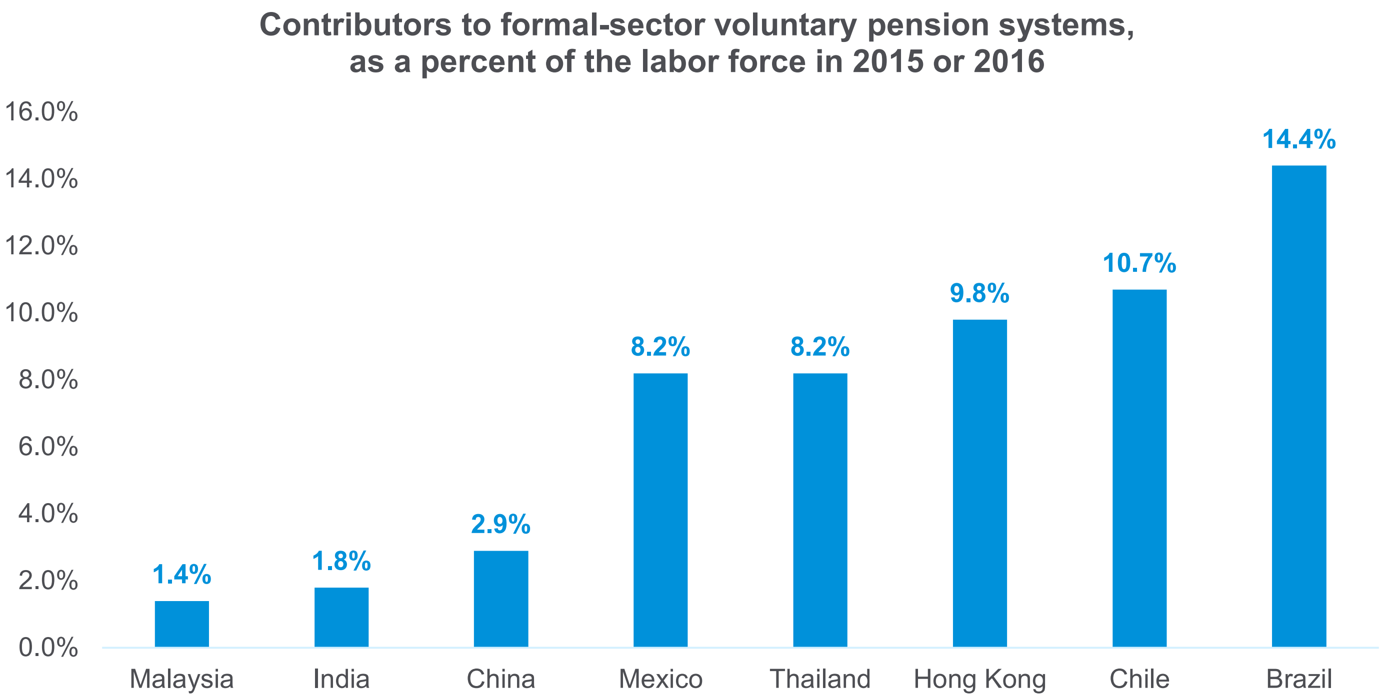


*Source: OECD. *Employer and employee. **Assumes 4.5% real rate of return, 2% real wage growth over a 40 year career with 65-year old retirement age.*

Individuals can’t rely on government-sponsored systems = the era of personal responsibility



Participation in voluntary pension plans is low…



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

	Pillar 0	Pillar 1	Pillar 2	Pillar 3
	Welfare benefits access No income tax e.g.: “Bolsa Família”	Social Security System - compulsory and contributory By time and age	Not existent Mandatory system with private management	Complementary system Open and Closed Pension Funds (voluntary)
No. of contributors	**Funded from fiscal budget**	**52.5 mil (50.4% of labour force)**	**Non-existent**	**12.9 mil (12.4% of labour force)**
Pension Design	**na**	**PAYG**	**Non-existent**	**Fully Funded**

Principal®

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.

Principal®

So how do we make pensions work?
Observations from our markets

- Leverage behavioral economics
  - *Systematic investment plans (India)*
  - *Metrics to support 'automatics' within employer plans (Thailand)*

- Incorporate digital advice and sales
  - *Retirement readiness (Mexico, Chile, and Thailand)*
  - *Increase in voluntary savings (China)*
  - *Integrated 'one stop' shop (Chile)*

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

Principal®

Thank you