



PENSION PROJECTIONS: DESIGN AND ITS SUPERVISION

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Agenda of this presentation

- 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?**