THE OECD ROADMAP FOR THE GOOD DESIGN OF DEFINED CONTRIBUTION RETIREMENT SAVINGS PLANS

Defined contribution retirement savings plans are an integral part of most countries' overall pension system, while for some countries they are the main component of their pension system. Therefore, overall retirement income adequacy depends on the retirement income stemming from these plans.

The purpose of this Roadmap is to assist countries in designing both occupational and personal pension plans in which retirement income depends on contributions paid, investment returns and the way assets are paid out over retirement. This Roadmap complements the OECD Core Principles of Private Pension Regulation to improve the robustness of retirement systems and build trust that people's best interest is taken into account.

1. **The design of DC pension plans should be coherent with their purpose and role in the pension system**. DC pension plans should be designed consistently with the other components of the pension system and its objectives. Their design should also be coherent across the accumulation and pay-out phases. Policy makers should regularly assess current and potential retirement incomes taking into account broader economic and demographic factors and risks to assess whether DC plans are able to fulfil their role in meeting adequacy objectives.

2. **Make DC systems as inclusive as possible**. Where mandatory enrolment is not considered opportune, automatic enrolment, covering all employees and possibly the self-employed, can enhance participation while giving individuals the possibility to opt out. Financial incentives are also useful tools to promote savings for retirement. Using default options and offering a limited number of options for the contribution rate, the investment strategy and the pay-out can simplify decisions when members need to make them and encourage participation. Policy makers should avoid eligibility criteria that may disadvantage specific groups of people, including women. They should also take care when considering design features that may make saving for retirement attractive (e.g. guarantees and early access to funds), but may end up reducing retirement income. Any early access to retirement savings should be a measure of last resort and based on individuals' specific hardship circumstances.

3. **Ensure total contributions are sufficiently high to achieve retirement income objectives**. Automatic and gradual increases to contribution rates can help members to reach appropriate contribution levels over their career. Employer matching contributions can also promote employee contributions, while technology can help members to contribute more by simplifying the contribution process and providing access to affordable financial planning. Encouraging members to contribute for longer by postponing retirement improves their chances of reaching their desired retirement income, particularly when life expectancy increases.

4. **Design financial incentives to maximise the impact on enrolment and contributions**. Tax rules should not discourage individuals to save for retirement. They should be straightforward, stable and common across retirement saving plans to avoid confusion. The design of financial incentives should reflect the retirement saving needs and capabilities of different population subgroups. Middle-to-high income earners tend to respond to favourable tax treatment, while low-income earners may be more likely to respond to matching contributions and fixed nominal subsidies. The incentives should be updated regularly to maintain the attractiveness of saving for retirement.

5. **Promote low-cost and cost-efficient retirement arrangements in both the accumulation and pay-out phases**. It is essential to promote initiatives to foster competition and to improve disclosure, comparability, and transparency. They may need to be complemented with appropriately designed pricing regulations and structural solutions that protect members' interests. Structural solutions should have strong institutional and governance frameworks, and can include tender mechanisms, allocation of

individuals to low-cost providers, cost-efficient consolidations, large industry-wide non-profit providers, and independent centralised provider. Measures to promote cost-efficiency should balance the benefits of fair competition and economies of scale with the risks of an oligopolistic outcome. Finally, fees charged to participants should be aligned with the costs providers incur and the value provided to participants.

6. **Ensure that all individuals have access to appropriate investment strategies and a well-designed default**. For people unwilling or unable to choose, a default investment strategy should be established in line with the objectives of the DC pension system and the structure of the pay-out phase. For example, life cycle investment strategies can be well suited to encourage members to take on some investment risk when young, and to mitigate the impact of extreme negative outcomes when close to retirement. For people willing to choose their investment strategy, different investment horizons and risk profiles should be offered. To assess the appropriateness of different investment strategies against a policy objective, risks affecting DC pensions, such as labour, financial, economic, demographic and long-term sustainability risks should be considered.

7. **Ensure protection against longevity risk in retirement**. DC pension plans should provide some level of lifetime income as a default for the pay-out phase, unless other pension arrangements already provide for sufficient lifetime pension payments. Lifetime income can be provided by annuities with guaranteed payments for life or by collective arrangements where longevity risk is pooled among participants. The choice of the type of arrangement will depend on the desired balance between the cost of guarantees and the stability of retirement income. Flexibility could be provided by allowing for partial, deferred or delayed lifetime income combined with programmed withdrawals. Full lump-sums should be discouraged in general, except for low account balances or extreme circumstances.

8. **Facilitate the regular monitoring and management of longevity risk**. Providers of lifetime pension income should use appropriate and regularly updated mortality assumptions that account for future improvements in life expectancy. Public authorities should make regularly updated population mortality data available to provide a reference for setting mortality assumptions. This data should be as granular as possible to facilitate setting appropriate assumptions and the development of sustainable retirement solutions for specific populations, for example to provide better value to low socioeconomic groups or those in poor health. Standardised, publicly and readily available data can promote effective risk management and facilitate the creation of standardised longevity indices that can be used to price the transfer of longevity risk to a third party.

9. **Ensure effective, personalised, regular, consistent and unbiased communication to members**. Communication with members should be clear and simple, with minimum jargon, especially when explaining potential options. Personalised information, ideally combining all pension sources, can nudge people to take action to boost their pension adequacy, and can be provided through online platforms or pension statements. Projection tools should focus on potential retirement income levels, account for the likelihoods of different outcomes, and convey risks to plan members. Comparison tools should provide standardised information to allow users to compare performance, costs, investment allocation, and other plan features. Policy makers should ensure that information provided by financial advisors and digital advisory services is accessible, accurate and unbiased.

10. **Promote awareness and support financial education about retirement and pensions**. Countries should have national financial education strategies, potentially in collaboration with key stakeholders that provide general information about retirement options but also increase awareness of the importance of saving for retirement. Financial education should be a continuous process with focused messages that evolve along with savings objectives at different life stages. Public authorities should improve people's understanding of how the pension system works and explain pension reforms, as well as their economic rationale, through communication campaigns. National communication campaigns should be driven by and evaluated against clear, realistic and well-targeted objectives.