13 April 2021

Attn: Mr. Dariusz Stańko
Head of IOPS Secretariat

By e-mail: Dariusz.Stanko@oecd.org

Dear Mr. Dariusz Stańko,

**IOPS Consultation on the draft paper "Good practices for designing presenting and supervising pension projections."**

In response to the IOPS Consultation on the draft paper "Good practices for designing presenting and supervising pension projections" published on 23 February 2021, I am pleased to submit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

The IAA would welcome the opportunity to discuss these ideas further with you.

If you wish to discuss any of our feedback, please do not hesitate to contact Esko Kivisaari, IAA’s contact for matters relating to IOPS, via the IAA Secretariat.

Yours sincerely,

Jan Kars
President

Attachment: IAA Comments
The International Actuarial Association

The International Actuarial Association (IAA) represents the global actuarial profession. Our seventy-three Full Member actuarial associations, listed in Appendix A, represent more than 95% of all actuaries practising in over 115 countries around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with international bodies on matters falling within or likely to have an impact upon the areas of expertise of actuaries.

We are pleased to be given the opportunity to provide input to the International Organisation of Pensions Supervisors (IOPS) on this important consultation. These comments have been prepared by an IAA Task Force appointed for this purpose, and approved by the IAA Executive Committee. The current members of the Executive Committee and the Task force are listed in Appendix B.

Our comments are as follows:

1. General Remarks

Pension saving is a challenging long-term project for individuals. Due to the often very long timespans involved, small changes in central parameters such as investment returns, or fees can have profound consequences on the outcomes. Therefore, it is essential that savers have tools to make financial sense of the choices they have to make, in order to be able to adequately plan for the future. Pension projections are one of these tools. Since the quality of these tools is important, we welcome that supervisors will have a role to play to ensure this.

We agree that the main decisions include the contribution rate, length of saving and decumulation time and level of risk. There are however many other background issues that need to be considered.

2. Comments on the content

The scope of the pension arrangements intended to be covered by this guidance on projections seems to be somewhat unclear. It seems to us that the document is based on the findings of Design and Supervision of Pension Projections in 26 Jurisdictions (2019) by the IOPS. The document makes reference to the IOPS Good Practices of 2018 and indicates that these good practices refer to funded pillars. However, since funding level is not mentioned until later on in the paragraph, it could be concluded that the plans being targeted by the paper need not be fully funded. It would thus make sense to clarify what the types of pensions are to which these good practices apply. It is our understanding that these principles apply mainly to pension arrangements under which the beneficiary can make choices resulting in changes in the benefits he/she can expect to get.
2.1 Complete pension projections including all pension components

In many cases, a person’s pension income consists of a number of components. These may include social security benefits, accumulated benefits from defined contribution arrangements, collective defined contributions plans, defined benefits, personal savings, etc. While an individual cannot typically make many choices with respect to social security benefits or collective plan elements, these play an important role as a basis for the decisions of the individual. For example, when a substantial part of one’s pension comes from a ‘safe’ pension arrangement this can mean that the individual can take higher risk in decisions regarding other components. We support the idea in paragraph 1.3 which allows the user to modify the assumptions (within sensible bounds). This concept is continued in paragraph 2.12. It is also important, as proposed in paragraph 2.1, to do testing to see how the tools work in practice.

2.2 Illustration of both level and riskiness of pension outcomes

The concept of a website proposed by these Good Practices can be a way forward, but the information included should be of sufficient quality to allow informed decisions to be made. Importantly, the information should not only cover the expected level/amount of benefit but also the riskiness/range of potential benefit outcomes. We note that some jurisdictions require a range of projections to illustrate riskiness, and a few are using stochastic projections.

We think it is critical to attempt some illustrations of riskiness. In doing so, we would warn against the use of averages, or two or more deterministic projections (which seems to be contemplated in the last sentence of paragraph 2.2) or even percentiles that do not make it clear to users that their personal spending in retirement may vary with investment returns, emerging mortality experience and the individual’s own health status. This applies not only to defined contribution plans and drawdown products but also to DB benefits that are not guaranteed.

2.3 Allow personalization and household view

From an individual’s point of view, family arrangements play a role in how to plan for the future. Projections often start from an implicit assumption that the individual is a ‘standard’ person with ‘standard’ family connections. It should be ensured that the projections also work in ‘non-standard’ family arrangements. For example, it should be understood that for some individuals, joint annuities are an option while for others, they are not. In some cases, two or more individuals may be contributing toward retirement security, while in other cases, the retirement income for two or more people is one individual. Additionally, health care and old age care present different problems in different family arrangements.

We agree that projections should be personalized as much as possible and suggest that the paper should be more ambitious in what is mentioned. We think that the projections should ideally include both members of a couple (or household) and all assets and sources of income (it needs to be acknowledged that pension providers do not always have this information). They might also include substantial financial costs, such as the purchase of a home or bringing up
children, since these expenditures will have a significant effect on affordable lifetime consumption. Paragraph 2.3 talks of different 10-year or 20-year horizons which could be relevant only when they lead to one's retirement age.

It might also be helpful to acknowledge that there may be some difficulties encountered in obtaining relevant data, but we note that technological advances (such as the Consumer Data Right) are making access to personalized information much easier while legislated data protection rights sometimes make the collection of data more difficult. In any event, calculation tools can allow individuals to enter their own information when performing a projection.

2.4 Allow flexibility of changing key assumptions

It is common for calculators to allow the user to input “retirement goals”, but these sometimes require contribution rates that will lead to a lower standard of living before retirement than after. We believe that the calculators should give some idea of how to manage a level standard of living throughout life.

We caution against allowing individuals to make changes to investment returns outside fairly narrow limits. We would suggest, for instance, that real returns above x% pa are too optimistic and could lead to complacency that would later be regretted.

Key assumptions used for the projections should be disclosed to members. This includes investment returns, the time period of projections (mortality assumptions), fees, insurance and indexation and deflators. For example, whether forecasted values are expressed in real terms using wage inflation or price inflation need to be clearly disclosed since the difference in deflator assumptions could lead to a material difference in results.

2.5 Comparability and the need for standardization

In many cases, an individual can choose between different providers. The services and options will typically vary from provider to provider. Pension projections supplied by different providers should be standardized to the extent possible to facilitate comparing the consequences of different fee levels between providers. Paragraph 3.4 encourages the providers to develop standardized systems. It needs to be recognized that in some jurisdictions, competition legislation makes it impossible for providers to jointly agree on such standards, and thus common standards can then only be imposed by a regulator. In some jurisdictions (like Ireland), the actuarial association determines the assumptions. In any case, it is important that the assumptions are not changed too frequently.

2.6 Tax treatment and Social Security estimations

The Good Practices mention information about tax treatment in paragraph 2.8. The Good Practices could benefit from being more exact on what elements are actually included under taxes. There are income taxes and taxes on investment returns and there can also be additional compulsory fees not bearing the name of a tax. It is important to take all such costs into account in the projections. For example, for persons subject to the statutory German Health and
Nursing Insurance, certain benefits to pensioners up to a defined ceiling are subject to a levy of more than 15%. Therefore, it should seriously be considered to allow for the cost of post-retirement health care and other compulsory drawdowns, in addition to taxes. The information should be as complete as possible, recognizing that the underlying tax and social security system might be too complex, and necessary data may be missing (e.g., about tax-relevant factors like married/unmarried, number of children, free allowances, other income etc.). This is similar in the Australian context where administration fees and insurance premium could be deductible for the 15% contribution tax, and the estimation of the Government Age Pension also requires information about factors such as single/couple, homeownership, other income and assets.

3. Role of actuaries in pension projections

The Good Practices correctly recognize that there are many difficult areas where individuals will have problems in making correct choices. Many of the aspects – contribution rate, length of saving time, level of risk, methodology, assumptions (such as return on assets, real wage growth, inflation rate, costs, longevity) – are already challenges for the average saver. In paragraph 2.1, it is noted that ‘forecasted values should be expressed in real terms and should present future lifetime income (…)’. Paragraph 2.2 mentions stochastic calculation methods. All of these are demanding technical concepts. We think the Good Practices should recognize the role of qualified actuaries in seeing that the techniques adopted are sound and that the results are presented in an appropriate and user-friendly manner.

We note that some jurisdictions already require the use of actuaries in the design and setting of assumptions. We would encourage regulators to make use of actuarial expertise to ensure that the methodology and output of the calculators and projections remains appropriate.
Appendix A

Full Member Associations of the IAA (73 members)
April 2021

Asociación Centroamericana de Actuarios (ACEA)
Caribbean Actuarial Association (Caribbean)
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Actuaries Institute (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Institut des Actuaires en Belgique (Belgique)
Aktuarsko Drustvo U Bosni I Hercegovini (Bosnia and Herzegovina)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuaires (Canada)
China Association of Actuaries (China)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
Asociación Colombiana de Actuarios (Colombia)
Institut des Actuaires de Côte d’Ivoire (Côte D’Ivoire)
Hrvatsko Aktuarsko Drustvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Ceská Společnost Aktuárů (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuaires (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Actuarial Society of Ghana (Ghana)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Íslenskra Tryggingastærðfræðinga (Iceland)
Institute of Actuaries of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari and Ordine degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
Actuarial Society of Kazakhstan (Kazakhstan)
The Actuarial Society of Kenya (Kenya)
Latvijas Aktuāru Asociācija (Latvia)
Lebanese Association of Actuaries (Lebanon)
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Full Member Associations of the IAA (73 members)
April 2021
Continued....

Lietuvos Aktuaru Draugija (Lithuania)
Macedonian Actuarial Association (Macedonia)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Association Marocaine des Actuaires (Morocco)
Het Koninklijk Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Nigeria Actuarial Society (Nigeria)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuariorzy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Asociatia Romana de Actuarit (Romania)
Russian Guild of Actuaries (Russia)
Udruzenje Actuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Institute of Actuaries of Korea (South Korea)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Actuarial Association of Sri Lanka (Sri Lanka)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Society of Actuaries of Thailand (Thailand)
Actuarial Society of Turkey (Turkey)
Association of Consulting Actuaries Limited (United Kingdom)
Institute and Faculty of Actuaries (United Kingdom)
ASPPA College of Pension Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)
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Appendix B

Members of the Executive Committee
(April 2021)

Jan C H Kars  President
Roseanne Harris  President-elect
Tonya Manning  Immediate Past President
Alf Gohdes  Member
Al Beer  Member
Charles Anthony Cowling  Member
David Dubois  Member
Estella S. F. Chiu  Member
Jacques Tremblay  Member
Jeremy Brown  Member
Lisa Wade  Member

Members of the Task Force
(April 2021)

Esko Kivisaari, TF lead (Finland)
Anthony Asher (Australia)
Maria Sarli (United States)
Estelle Liu (Australia)