International Actuarial Association
Association Actuarielle Internationale

14 April 2021

Ms. Sally Day-Hanotiaux
Organisation for Economic Co-operation and Development
2, rue André Pascal
75016 Paris
France

By Email: Sally.DAY-HANOTIAUX@oecd.org

Dear Sally,

Consultation on the OECD Roadmap for the Good Design of Defined Contribution Retirement Savings Plans

In response to the OECD and its Working Party on Private Pensions draft revised Roadmap for the Good Design of Defined Contribution Retirement Savings Plans, I am pleased to submit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

Our comments are structured around the principles listed in the draft Roadmap.

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 Jason Malone, Chair of the IAA's Pensions and Employee Benefits Forum, via the IAA Secretariat.

Yours sincerely,

Jan Kars
President

Attachment: IAA Comments

1203-99 Metcalfe
Ottawa ON K1P 6L7
Canada

Tel: +1-613-236-0886
Fax: +1-613-236-1386
www.actuaries.org

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 OECD on this important consultation. These comments have been prepared by a 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.

Actuaries have been integral to the management of defined benefit pension schemes since their establishment. As the world has shifted from defined benefit to defined contribution retirement plans actuaries have taken the skills they have developed in the defined benefit space and applied them to defined contribution plans. Actuaries play a range of roles across areas like senior management, product development and investment strategy and importantly provide a link to longevity issues in the management and development of defined contribution plans.

Our comments are as follows:

We would like to commend the OECD on the work done to update the OECD Roadmap for the Good Design of Defined Contribution Retirement Savings Plans (the Roadmap). Defined Contribution retirement savings plans are rapidly evolving in many jurisdictions and in our view will continue to evolve as policy makers and industry grapple with challenges like longevity, coverage, and equity to strengthen retirement income adequacy. On that basis, as you have done in this document, it is important that the Roadmap continues to be updated from time to time. We are generally supportive of the changes made by the OECD where we have not made any comment. We have focused on providing some constructive feedback on the principles in the comments below.

As the term roadmap implies, the development of strong defined contribution plans in retirement income systems is a journey for most countries, with different countries being at different points along their, possibly also different, journeys. It may be appropriate to recognise that in the opening paragraphs in a way that encourages those countries that are newer to the journey and that helps them prioritise which principles to pursue first.

We also note that the first line of the preamble in the draft Roadmap is missing the word “increasingly” when compared with the version in the supporting document.

1. The design of DC pension plans should be coherent with their purpose and role in the pension system.

1.1. We note that the discussion under this principle recommends that Defined Contribution retirement savings plans (DC pension plans) should be designed consistently with other components of the retirement income system. We assume that the statement is not limited to the private pension system and the consistency should also be with public benefits such as social security and potentially other forms of financial support such as from private savings or from family members.

1.2. Arguably, consistency with purpose also extends to whether a particular DC pension plan will solely fund retirement income or whether it may also fund other post-retirement expenses such as health and long-term care costs. The intention of this section may be clearer if the term "objectives" is expanded upon.

1.3. We suggest that it may also help to be more specific when recommending that design should be coherent across accumulation and payout phases. While we can all agree that an incoherent system would not be a good thing, it is not necessarily apparent to the reader what needs to be done to achieve consistency.

2. Make DC systems as inclusive as possible.

2.1. Use of the term inclusive may lead some readers to think that the aim of the principle is to consider excluded or marginalized groups, such as minorities or those with disabilities. While those groups certainly should be included in the DC pension plan components of a retirement income system, we suggest clarifying that the principle is about making coverage in the DC pension plan components of a retirement income system as broad as possible.

2.2. We note that the discussion document accompanying the draft explicitly mentions alternative forms of employment. However, in the draft this has been summarised to "specific groups of people, including women." Given that possible gender inequality in many retirement income systems is a material issue, the reader may miss the fact that the statement is also intended to cover alternative forms of employment. Alternate forms of employment should include gig/platform workers as well as those in the unorganised sector. This is especially relevant in jurisdictions that do not have a social security safety net, so that a large proportion of the workforce in the unorganised sector is left with little or no pension, since these people are not covered under traditional occupational pension schemes. We suggest that it is important to cover both issues and in fact it may be more important to cover gender inequality under principle three.

2.3. We also note that when discussing automatic enrollment as an alternative to mandated contributions the Roadmap suggests that consideration be given to automatic enrolment for the self-employed. We understand the practical difficulties of implementing this, but rather than weaken the point, we suggest mentioning in a

1203-99 Metcalfe
Ottawa ON K1P 6L7
Canada

Tel: +1-613-236-0886
Fax: +1-613-236-1386
www.actuaries.org

separate sentence that coverage of the self-employed should be considered in the system design.

2.4. As noted above, consistency should be considered broadly and the objectives of any DC pension plan components of a retirement income system should be clear. In jurisdictions that provide almost all of retirement incomes through Defined Benefit pension plans and social security, there will be little need for any broad-based DC arrangements. Coverage, and other elements of the design rules for DC pension plans in a retirement income system, should consider the role of those DC pension plans in a jurisdiction's retirement income system as a whole. The principle could read: Make the DC pension plan element of a retirement income system as broad as possible in jurisdictions, where DC pension plans form a major part of the full retirement income system. Alternatively, some qualification could be added to principle one.

2.5. We question whether early access to retirement savings is primarily a measure of coverage, and belongs in principle two. Although we note that those suffering financial strain may be more likely to make use of early access arrangements, provision of early access could be a factor in setting the contribution levels; higher levels might support some flexibility on early access, or in discussion on leakages from the system.

2.6. In addition, we note that early access may be an attractive feature to younger individuals and remove a barrier to saving. Also, it is generally understood that it is beneficial for young people to begin saving for retirement as soon as work is commenced. It may be worth noting that a balance needs to be struck here between encouraging savings and protecting the funds for retirement.

3. Ensure total contributions are sufficiently high to achieve retirement income objectives.

3.1. As noted above, it may be appropriate to discuss gender inequality under this point. We note that in many jurisdictions there is a gender pay gap, women spend more time out of the workforce in carer roles and they generally have greater longevity. Hence, the appropriate level of contributions may need to be higher for women to achieve retirement income levels similar to those of men.

3.2. We noted that the discussion under this principle is focused solely on raising contributions. There is another consideration that the contributions should not be too high. If it is accepted that the purpose of a retirement income system is to appropriately spread lifetime consumption over work and non-work periods, contributions should be sufficient to fund retirement consumption in line with pre-retirement consumption and not significantly more. Excessive contributions potentially reduce overall lifetime consumption in favour of bequests.

3.3. It seems that a key issue that is not directly addressed, is that most individuals do not have sufficient financial expertise to determine an appropriate level of contributions to achieve their retirement income objective and thus face hurdles to make those contributions. We think it is important to call that out, in order to give context to the role

1203-99 Metcalfe
Ottawa ON K1P 6L7
Canada

Tel: +1-613-236-0886
Fax: +1-613-236-1386
www.actuaries.org

of technology and financial experts, including actuaries, in helping members make the right contributions and to talk about the role of compulsion and nudges.

3.4. In considering what the appropriate level of contributions relative to a retirement income objective is, it is apparent that you need to start by defining that retirement income objective. It would be appropriate for the discussion in this section to note the need for a retirement income objective or, alternatively, it could be discussed under principle one. Clearly, the power of compound interest favors early savings at higher rates, as well as encouraging the habit of saving at a high rate early, so having younger people contribute is important.

3.5. Perhaps an element that is missing from the commentary on this principle is that DC pension plans should provide flexibility to vary contributions based on capacity to save. We note that many individuals will face incomes that vary over their life, whether it is because they work in the gig economy or unorganised sector, are self employed in a business with variable income, or have periods out of the workforce. Flexibility in the way they make contributions can allow them to catch up as their income allows.

3.6. The final sentence could be made clearer by focusing on the point that is being made about postponing retirement and not leading with contributing longer. The issues here are more complicated than the sentence suggests. In the first instance, not all members will be able to work longer. While the use of the word “encourage” does not suggest compulsion, we think that is important enough to warrant including “where possible” in the statement.

3.7. Working longer is not just about contributions. It also reduces the period the individual will spend in retirement – so the extra contributions increase the amount available to fund retirement but also reduce the amount needed for retirement. There are also health and social benefits beside the financial benefits that take this comment outside of purely being about the design of DC pension plans.

3.8. We also note the use of the term “desired retirement income”. Whether it is a desired, or an adequate retirement income is a question about the objectives of the system, the view taken on appropriate smoothing of lifetime consumption and the willingness to invest in financial incentives. Deferring retirement should lead to a higher retirement income, so that statement can be made without the need for any other judgements.

3.9. Providing pathways for transition into retirement can also be a valuable component of a retirement income system, including the DC pension plan components. That could be called out when discussing working longer, but could alternatively be mentioned when discussing coherent accumulation and pay-out phases.

4. Design financial incentives to maximise the impact on enrolment and contributions.

4.1. We suggest that affordability and targeting of these incentives are also important considerations. We understand that some governments have questioned the need to target high income earners that are likely to save anyway. Some have also experienced

1203-99 Metcalfe
Ottawa ON K1P 6L7
Canada

Tel: +1-613-236-0886
Fax: +1-613-236-1386
www.actuaries.org

that unless incentives are clearly targeted, they typically go disproportionately to the highest income earners.

4.2. In the discussion on principle three we already noted the importance of an objective to deduce the appropriate level of contributions. This statement suggests both maximisation of enrolment and contributions. Maximising contributions to the point of over-saving may not be a desirable outcome.

4.3. We note the statement that tax rules should be "common across retirement savings plans to avoid confusion" may not always be desirable. For example, U.S. tax law and regulations provide favorable tax treatment of different types, e.g., permitting deferral of taxation on pre-retirement income that is contributed to a plan and investment returns on these contributions until the amounts are withdrawn as retirement income, and/or, permitting contributions out of already taxed pre-retirement income with no future taxation on these contributions and investment returns even when they are withdrawn as retirement income. This choice of taxation timing may encourage more individuals to save for retirement.

4.4. Of course, giving choices that might encourage savings needs to be balanced against simplicity. So, we suggest that the principle to be advocated is the avoidance of confusion and paralysis caused by providing too many options. Simplicity, stability and commonality may assist with that.

5. Promote low-cost and cost-efficient retirement arrangements in both the accumulation and pay-out phases.

5.1. As noted in the supporting document this principle has been expanded to the promotion of both "low-cost" and "cost-efficient" concepts. We support the intention behind including cost-efficient to leave room for judgement on what represents value for money. However, we question whether both terms are needed and suggest that cost-efficiency adequately covers both low cost and value for money, noting that the discussion under the headline principle uses low-cost in situations where that is appropriate.

5.2. Another issue with cost efficiency is where individuals are forced to or have by default multiple accounts, with multiple fees and charges. A good system should allow easy portability between accounts to reduce the number of multiple accounts and, where possible, reduce the unnecessary creation of new accounts.

5.3. We note that efficiency can be defined more broadly than cost efficiency. Efficiency could cover all forms of "leakage" from the system, where leakage is any outflow from the system that does not provide retirement income (e. g. taxes, commissions, administration costs). In the payout phase, leakage can occur through bequests where the products do not support the individual drawing down fully on their savings during the retirement phase. Suggesting that a good system should seek to improve efficiency by reducing leakage could be covered under a principle of efficiency or under principle seven that discusses

1203-99 Metcalfe
Ottawa ON K1P 6L7
Canada
Tel: +1-613-236-0886
Fax: +1-613-236-1386
www.actuaries.org

longevity protection. Tools to enhance efficiency might be transparency on comparability issues between DC providers as unification of tax treatment between jurisdictions.

6. Ensure that all individuals have access to appropriate investment strategies and a well-designed default.

6.1. It may be appropriate to mention that having access to appropriate investment strategies is not an encouragement to provide too much choice. Excessive investment choice is unlikely to be cost efficient and risks decision paralysis from members, thus reducing the level of active investment choice.

6.2. It is not clear whether the last sentence is saying that policy makers should be assessing the risks of different investment strategies against policy objectives or that the assessment of risk is a matter for the fiduciaries managing the DC retirement savings plans. We contend that the role of policy makers is to encourage fiduciaries to appropriately consider the full range of risks and to ensure that information is available to allow them to do so according to common investment principles for individual or group financial risk profiles, ages, and time horizons.

7. Ensure protection against longevity risk in retirement.

7.1. We note that this principle commences with the term "ensure" and that the first supporting sentence states that the interaction with other elements of the broader retirement income system may make this unnecessary. We suggest that the principle could be amended to "ensure access to protection against longevity risk in retirement" which would allow for the means of access being determined in each case.

7.2. The other concern with the strength of this statement is that it reduces individual choice. There are many situations where a lump sum is appropriate - where other pillars of retirement income provide material support (including those provided to a spouse), where significant other assets exist or where a person is in poor health. This is again an area where reducing flexibility may not encourage higher retirement savings.

7.3. An important consideration with the design of longevity protection in defined contribution plans is the impact on equality. Higher income earners typically have the health and other resources available to them that will allow them to improve their life expectancy. Hence pooling lower and higher income earners in a single longevity pool with the same entry basis has the potential to provide cross subsidies that increase inequality. We note that this issue is touched on under principle eight but avoiding factors that may increase inequality needs to be considered as part of the product design.

7.4. When considering retirement policy, we suggest that it is important to make an active decision about whether the individual or the household is the appropriate economic unit when considering policy. That is particularly the case when considering longevity.

1203-99 Metcalfe
Ottawa ON K1P 6L7
Canada

Tel: +1-613-236-0886
Fax: +1-613-236-1386
www.actuaries.org

7.5. One of the features of the diversification of risk is that moving from one risk exposure to two provides the biggest proportionate diversification benefit. Adding subsequent exposures further reduces risk, but by a smaller amount for each extra exposure.

7.6. Where policy is based on the household rather than the individual, it is appropriate to consider that not all relationships are permanent and many households form and reform from time to time. It may be appropriate to have policies that allow for changing household structures and consider equity between members of the household in the event of a relationship breakdown.

7.7. We consider it important to provide possibilities to turn lump sums accumulated elsewhere into pensions.

8. Facilitate the regular monitoring and management of longevity risk.

8.1. We support the idea of proper underwriting of conversion of balances to retirement income and the availability of data. However, we observe that this may be difficult to achieve in jurisdictions where, for example, using sex distinct mortality to provide a lower annuity to women is viewed as unfair discrimination. There is a policy decision, which should be supported by data, about which distinctions between groups of individuals are justified.

8.2. We also question whether this is a principle for the design of DC pension plans or a principle for the wider retirement income system, including insurers that might underwrite these risks. The point about access to fairly priced longevity protection could be made under principle seven, thereby making room for an additional point in place of the current principle eight.

9. Ensure effective, personalised, regular, consistent, and unbiased communication to members.

9.1. The communication strategy for DC pension plans should start with an objective. We suggest that, while there is necessarily an element of informing members about their account and providing information to allow them to make decisions, it is more important that the objective should be to engage members. In DC pension plans members are asked to make the decisions, like how much to contribute, where to invest and what level of savings to target, that will determine whether they reach their desired retirement outcome. That is the purpose of the nudges mentioned in the discussion on principle nine.

9.2. Any communication strategy should reflect the members it is communicating to. In being clear and simple it should reflect the level of understanding of financial concepts that those members have. It should cover different media, recognising that different individuals will have different preferences and absorb information in different ways.

9.3. The services delivered to members should recognise that most members are unlikely to be able to easily assemble answers on how much to contribute, where to invest and how much to save into a coherent strategy. Projections tools and advice services need to provide guidance for members that are not experts.

1203-99 Metcalfe
Ottawa ON K1P 6L7
Canada

Tel: +1-613-236-0886
Fax: +1-613-236-1386
www.actuaries.org

9.4. We believe that the specific guidance on the illustration of risk in projection tools may perhaps be too narrow. For example, there is no mention on the important point that projections should be in real dollars. Neither are other factors mentioned that might be relevant to providing useful projections.

9.5. The final sentence notes that "Policy makers should ensure" certain things about the delivery of financial advice that may not be possible for policy makers to deliver. For example, it is not clear to us how policy makers can ensure that advice is accessible. If, for example, policy makers legislate for affordability, the market may not be willing to deliver advice at that price. It seems that the role of policy makers is to create an environment that supports the provision of financial advice that is accessible, accurate and unbiased.

9.6. Principles nine and ten do not specifically deal with the payout phase. We would observe that individuals may not have confidence to manage their withdrawals and later in retirement may face cognitive challenges with managing their finances. Clearly, products that provide full longevity protection may avoid the need for member input, but anything else needs to consider how members will be supported throughout the payout phase.

10. Promote awareness and support financial education about retirement and pensions.

10.1. Any system of financial education should start with the financial basics, like budgeting, the time value of money and trade-off between risk and return. We are of the view that it is very challenging to attempt to educate individuals about retirement income systems if they do not already have an understanding of basic financial concepts. Hence, we suggest that principle 10 should start by encouraging financial education strategies that cover the basics to provide the groundwork for education about retirement income systems.

11. Other

11.1. Arguably, the following concept could be incorporated into principle nine or other earlier principles, but we are of the view that an important principle is that the system is able to adjust over time. Circumstances at a national level and at an individual level will change over time and assumptions about the path to adequate retirement will differ from actual experience. One of the theories in actuarial science is the actuarial control cycle. The actuarial control cycle suggests that defined benefit pension plans and insurers can be managed through a cyclical process of making assumptions, projecting a future path, taking actions, measuring experience, and then adjusting the initial assumptions to allow for that new information. The same support needs to be provided to individuals in defined contribution plans so they can adjust their contribution rates and investment strategies over time to correct their path to an adequate retirement income.

11.2. There is a role for technology in solving the issues that the principles seek to address. We note that digital tools are touched on in the discussion on principles nine and three. But under most, if not all of the principles, there should be room for innovation to improve the outcomes of DC pension plans. Encouraging innovation, growth and development could be a principle in its own right.

1203-99 Metcalfe
Ottawa ON K1P 6L7
Canada

Tel: +1-613-236-0886
Fax: +1-613-236-1386
www.actuaries.org

11.3. We note that some retirement income systems, including some that are recognised as global leaders, incorporate an element of life insurance in their DC pension plans. We are not recommending that the provision of life insurance should be part of the Roadmap for all DC pension plans, but it may be appropriate for the Roadmap to address ancillary benefits noting that they should provide value for individuals that participate in those DC pension plans that outweighs any leakage.

11.4. In some countries the definition of what constitutes a DC pension plan is subject to some debate, particularly around longevity protection and guarantees. We note that the second paragraph of the statement contains components of a common definition but note that where longevity protection or some investment guarantee applies, the retirement income will be affected by more than contributions and investment returns.

1203-99 Metcalfe
Ottawa ON K1P 6L7
Canada

Tel: +1-613-236-0886
Fax: +1-613-236-1386
www.actuaries.org

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 Spolecnost Aktuárù (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 Islenskra Tryggingastær8fræ8inga (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 Aktuaru Asociacija (Latvia)
Lebanese Association of Actuaries (Lebanon)

1203-99 Metcalfe
Ottawa ON K1P 6L7
Canada
Tel: +1-613-236-0886
Fax: +1-613-236-1386
www.actuaries.org

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 Aktuariuszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Asociatia Romana de Actuariat (Romania)
Russian Guild of Actuaries (Russia)
Udruzenje Aktuara 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)

Appendix B

Members of the Executive Committee

(April 2020)

Jan Kars	President
Roseanne Harris	President-elect
Tonya Manning	Immediate Past President
Albert Beer	Member
Alf Gohdes	Member
Charles Cowling	Member
David Dubois	Member
Estella Chiu	Member
Jacques Tremblay	Member
Jeremy Brown	Member
Lisa Wade	Member

Members of the Task Force

(April 2020)

Jason Malone (Chair)	Canada
Marius Du Toit	South Africa
Jürgen Fodor	Germany
Tim Furlan	Australia
Maria Sarli	United States
Simon Sutcliffe	Caribbean
Lisa Ullman	United States

1203-99 Metcalfe
Ottawa ON K1P 6L7
Canada

Tel: +1-613-236-0886
Fax: +1-613-236-1386
www.actuaries.org