# ACA SESSIONAL MEETING

## With so much change in UK pensions, what can we learn from other countries' experience?

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# PERSONALISATION OF RISK

Governments reducing cost of long term retirement benefits in the face of aging populations

Employers are de-risking by reducing volatile liabilities

Employees obliged to bear the brunt of the risks in retirement planning

# EXTEND WORKING LIFETIMES

- *"67 is the new 65"*
- Linking retirement age to life expectancy
- Remove / restrict early retirement options
- Incentives to work longer and retire later
- With targeted safety nets

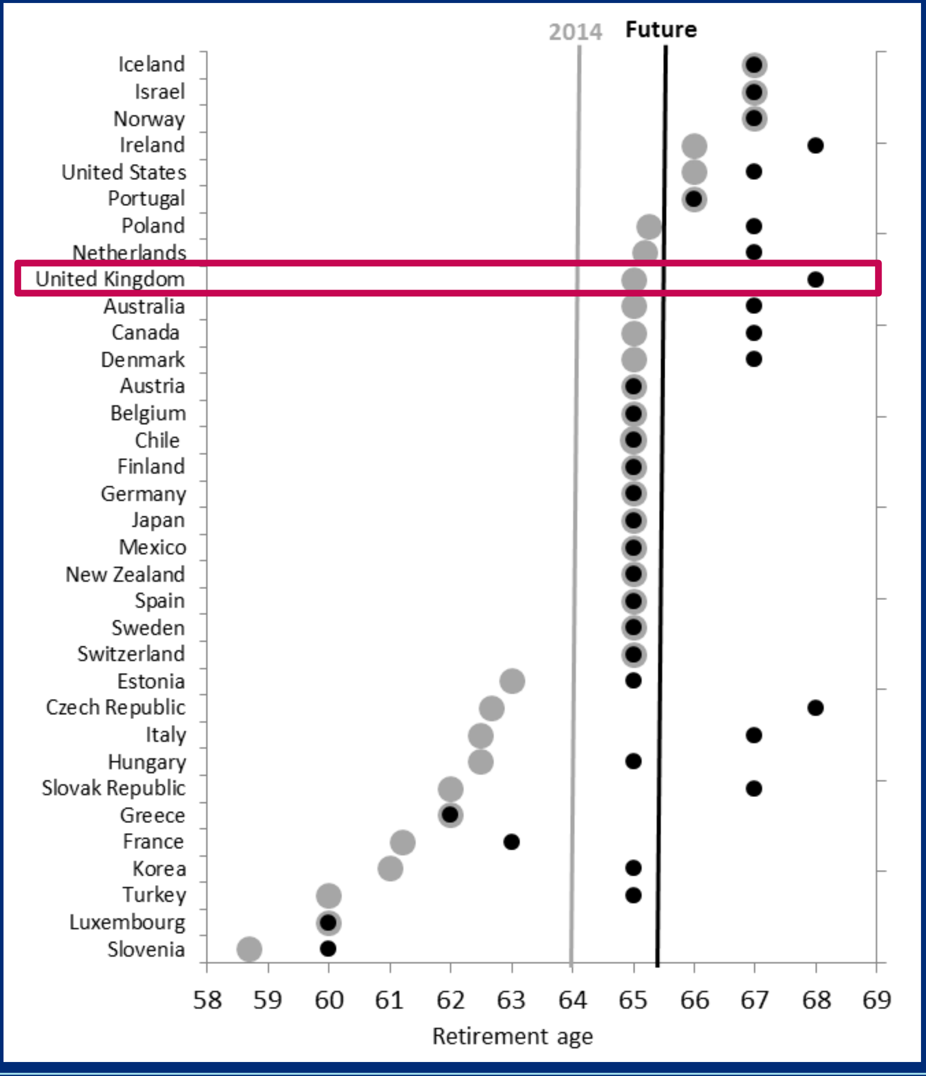
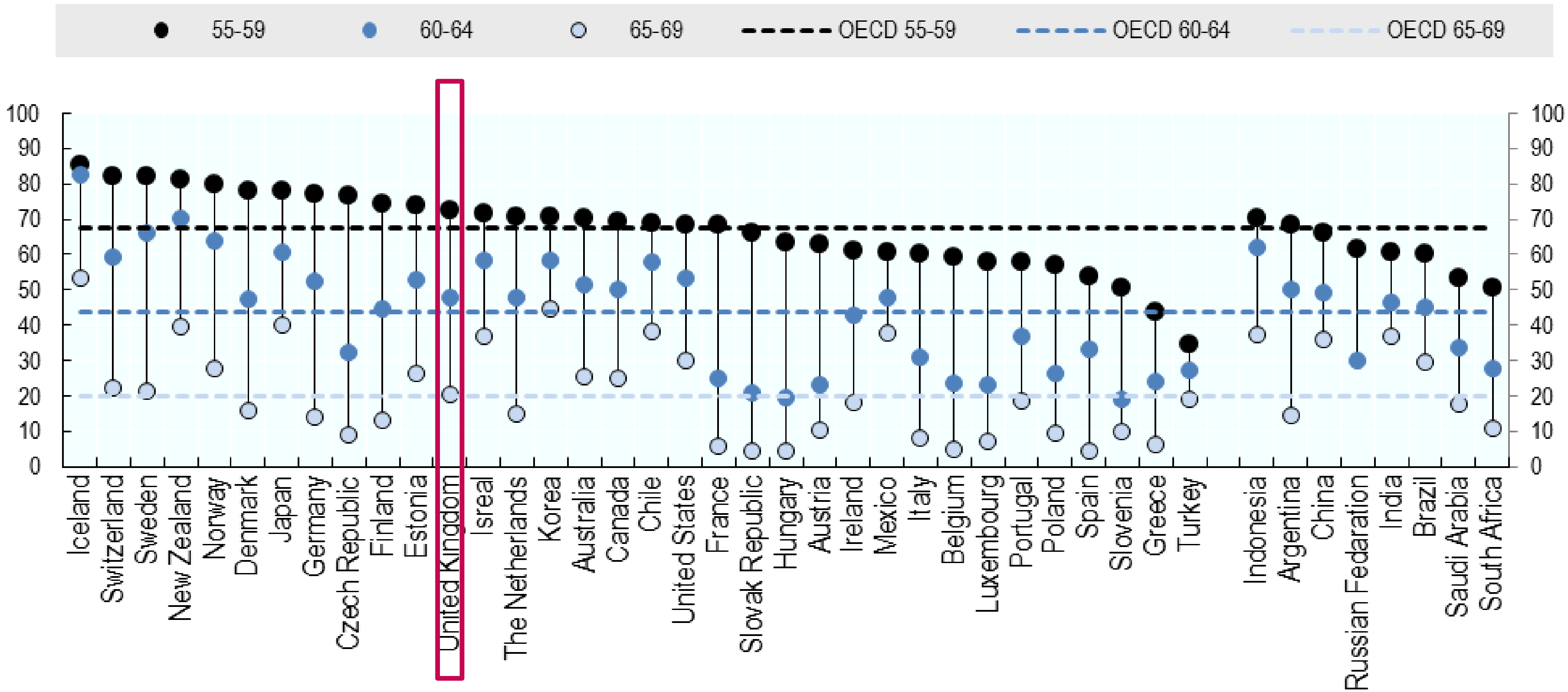



Figure: Current and future retirement ages for a man entering the labour market at age 20

Source: OECD – Pensions at a Glance 2015

# EXTEND WORKING LIFETIMES

Employment rates of workers aged 55 to 59, 60 to 64 and 65 to 69 in 2014




Source: OECD – Pensions at a Glance 2015

# INCREASE PRIVATE PENSION COVERAGE

| | |
|---|---|
| Mandatory occupational | • Examples: Australia, Finland, Iceland, Norway, Switzerland<br>• Cover 70% or more of working age population |
| Quasi-mandatory occupational | • Industry-wide or national collective bargaining agreements<br>• Cover 60% or more of working age population |
| Mandatory personal accounts | • Prevalent in Latin America and Central & Eastern Europe<br>• Variable coverage |
| Voluntary occupational | • Belgium, Czech Rep, Germany, Iceland, New Zealand have coverage over 50%; coverage close to 50% in the US<br>• But Greece and Portugal have coverage below 5% |

# AUTO-ENROLMENT

| | Italy | New Zealand | UK |
|---|---|---|---|
| **System established** | 2007 | 2007 | 2012 |
| **Entry** | All private sector employees | All new hires aged 18-64<br>Existing employees can opt in | All workers not covered by private pension plan, aged 22 to SPA, earning £10,000+ |
| **Employer contributions** | 6.91% of salary (redirect TFR conts) | Minimum 3% of wages | 3% of qualifying earnings (minimum from 2018) |
| **Employee contributions** | Voluntary | Minimum 3% of wages | Up to 5% of qualifying earnings (incl. tax relief from 2018) |
| **State contributions** | None | Initially kick start NZD 1,000; match 50 cents per member dollar up to NZD 521.43 pa | Tax relief at 1% of qualifying earnings (from 2018) |
| **Opting-out window** | Within 6 months of automatic enrolment | 2-8 weeks following automatic enrolment | Within 1 month of auto-enrolment |
| **Re-enrolment after opt-out** | No automatic re-enrolment | No automatic re-enrolment | 3 year cycle |
| **Effect on coverage** | From 8.5% in 2006<br>To 15.9% in 2013 | From 15.8% in 2006<br>To 64.4% in 2013 | |

# OPTIONS AT RETIREMENT

| | Lifetime annuity | Income drawdown | Lump sum |
|---|---|---|---|
| Australia | Allowed, but very little demand | Allowed. Main options are account-based income streams | Allowed and relatively common |
| Canada | Allowed, with significant demand | Allowed, although with restrictions in some cases | Limited for DC pension schemes |
| Chile | Default option | Restricted to “programmed withdrawals” | Not allowed |
| Denmark | Unlimited deferred annuities | Restricted amounts can be allocated to term annuities | Allowed |
| Ireland | Required, unless income above drawdown threshold | Allowed given sufficient income | Restricted to 25% or 1.5 times income as tax-free lump sum |
| Netherlands | Mandatory | Not allowed | Not allowed, except very small pots |
| Singapore | Mandatory | Not allowed | Not allowed |
| Switzerland | Default option, and subsidised | Not allowed | Allowed, but discouraged |
| US | Allowed, but demand is weak | Allowed | Allowed |

Source: Financial Conduct Authority: The retirement income market - comparative global research

# INNOVATION – ANNUITIES & DRAWDOWN

## Australia

- "Longevity pensions" = deferred annuity from age 85 bought at retirement
- "Market linked" income streams = lifetime annuity but payments can vary by up to 10% with variation in asset value
- Account based drawdown options with capital guarantees and minimum returns

## Chile

- Popular programmed withdrawal option allows for income to be drawn up to 200% of the annuitised amount, allowing early access to funds

## Denmark

- Term annuities with life expectancy phased withdrawals, take account of account holder and spouse's life expectancy, updated annually

## United States

- Variable annuities with guaranteed minimum withdrawal benefit
- G'teed Minimum Accumulation Benefit = value will not fall below the principal investment amount
- Continual payout plans, using 5-year term annuities
- Modified guaranteed annuities = fixed term annuity allowing early withdrawal of funds

# DC INVESTMENTS – AUSTRALIA

| | NUMBER OF ENTITIES | NUMBER OF MEMBER ACCOUNTS | TOTAL MEMBER ASSETS | AVERAGE MEMBER ACCOUNT BALANCE |
|---|---|---|---|---|
| Corporate | 34 | 346,000 | AUD 50.6 bn | AUD 146,000 |
| Industry | 43 | 11,303,000 | AUD 404.5 bn | AUD 36,000 |
| Public sector | 38 | 3,524,000 | AUD 342.3 bn | AUD 97,000 |
| Retail | 146 | 13,751,000 | AUD 530.9 bn | AUD 39,000 |
| Self-managed (SMSF) etc | 559,286 | 1,054,000 | AUD 592.0 bn | AUD 562,000 |

Source: APRA – Annual Superannuation Bulletin, June 2015

| SELF MANAGED SUPERANNUATION FUNDS (SMSF) – ASSET ALLOCATION BY FUND SIZE (AUD) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1-50k | 50-100k | 100-200k | 200-500k | 500k-1m | 1-2m | 2-5m | 5-10m | > 10m | Overall |
| **Shares** | 23% | 25% | 26% | 28% | 30% | 33% | 35% | 36% | 36% | **30%** |
| **Cash & term deposits** | 57% | 52% | 49% | 36% | 31% | 29% | 26% | 22% | 17% | **35%** |
| **Trusts & managed investments** | 5% | 8% | 11% | 14% | 15% | 17% | 18% | 20% | 22% | **14%** |
| **Property** | 2% | 4% | 6% | 13% | 15% | 15% | 15% | 15% | 13% | **12%** |
| **Other** | 13% | 11% | 8% | 10% | 8% | 7% | 6% | 8% | 12% | **9%** |

Source: Australian Tax Office – Self-managed super fund statistical report, June 2015

# DC – SUPPORTING MEMBERS

How much to contribute / save?

Which options to choose?

Variation by country from prescribed to total flexibility

Financial education

Default options

Projections & modellers

How much is enough for a comfortable retirement?

Where to get information guidance and advice

Annuity?

Drawdown?

Cash?

What investments are “best”?

Government led?

Pension fund led?

Saver led?

# DB RISK MANAGEMENT

| |  |  |  |  |  |  |
|---|---|---|---|---|---|---|
| Plan design options | ✓ | ✓ | New hires | ✓ | ✓ | ✓ |
| Buy-in / Buy-out | Developed market | Developed market | Not common | Developed market | Developed market | Developed market |
| Lump sums / exchanges | For some members only | All members | Some pensioners | Increasingly common | Not common | For some members |
| Longevity protection | Developed market | | | | | One transaction |
| Investment strategy | Developed market | Growing trend to LDI | Unfunded | Developed market | Developed market | Developed market |

# TAKE AWAYS

- Economic environment combined with aging population is proving a challenge for all
- No direct comparisons for new UK pension freedoms
- Plenty of opportunity for new ideas and developments
- Watch this space!

MAKE TOMORROW, TODAY

MERCER