



INVESTOR SERVICES

Building Efficient Pensions

Learnings from the global markets

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A Challenging Landscape for Pensions: Shaping the Future

Globally pensions continue to be fiscally challenged:

- Demographically
 - Reduced fertility rates
 - Longevity challenges sustainability of pensions
- Economic landscape post Global Financial Crisis (GFC)
- Regulation – governance, reporting, transparency

Impacts:

- Increasing dependency ratio
- Challenging the overall sustainability of pension systems
- Regulatory oversight brings focus on efficiency

Some Data

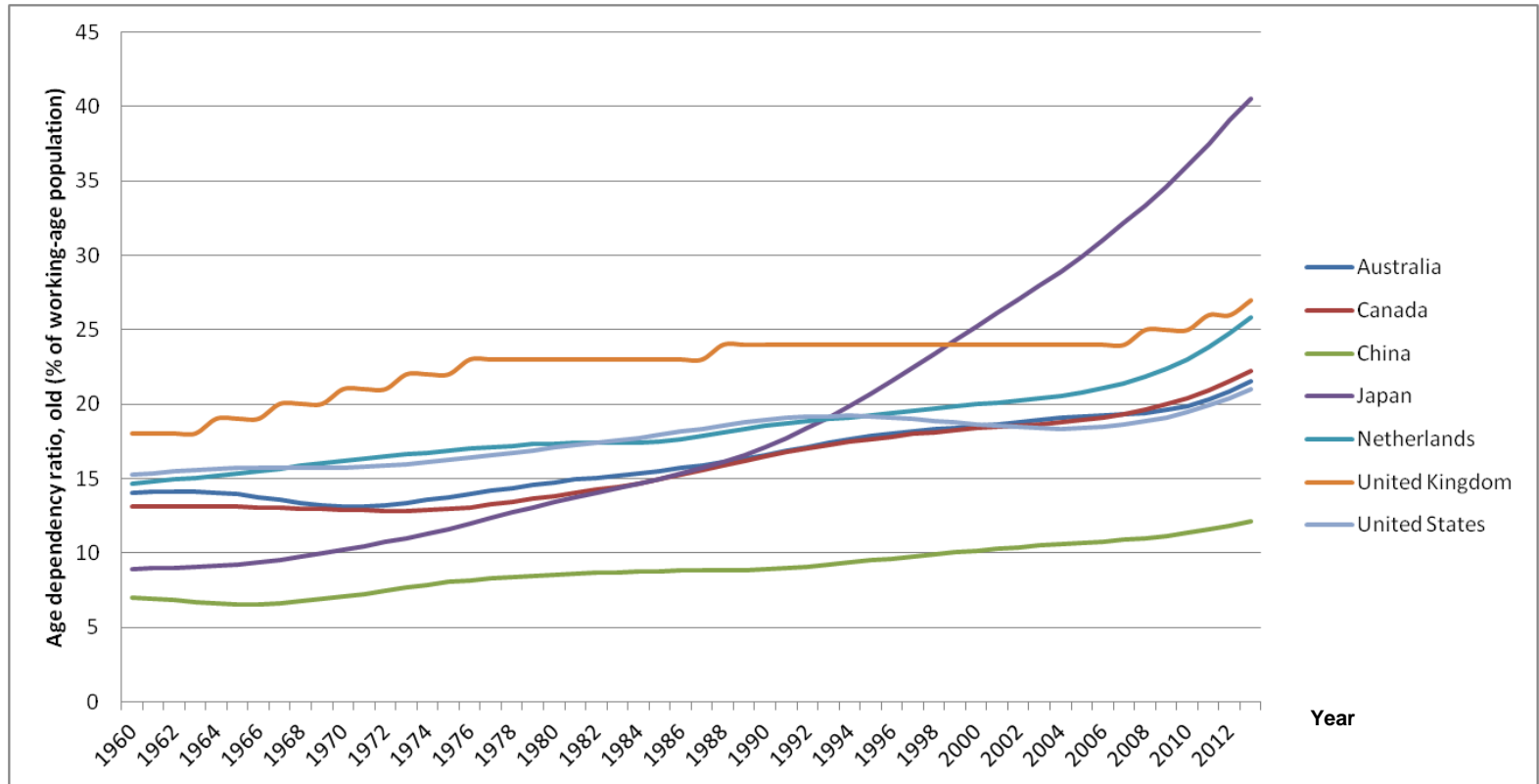
- ▶ Population ageing follows from declining fertility and increased life expectancy
- ▶ In less developed regions fertility is expected to drop from 2.69 children per woman in 2010 to 1.99 (ie below replacement rate of 2.1) by 2100 but the drop is steepest in the 49 least developed countries where fertility was 4.53 children per woman in 2010 and is projected to fall to 2.11 by 2100
- ▶ The most populous countries with below replacement rate fertility:
 - China
 - USA
 - Brazil
 - Russia
 - Japan
 - Vietnam
 - Germany
 - Iran
 - Thailand

World Population UN Projections (2012 Revision)

| Year | Population (million) |
|------|----------------------|
| 2013 | 7,200 |
| 2025 | 8,100 |
| 2050 | 9,600 |
| 2100 | 10,900 |

- ▶ Almost all of the projected increases in population arise in developing nations
- ▶ In more developed regions the population aged 60 or over will rise from 287 million in 2013 to 417 million in 2050 and 440 million by 2100
- ▶ In less developed regions the population aged 60 or over is growing at its fastest rate ever with 554 million in 2013, 1.6 billion in 2050 and 2.5 billion in 2100

Old Age Dependency Ratio

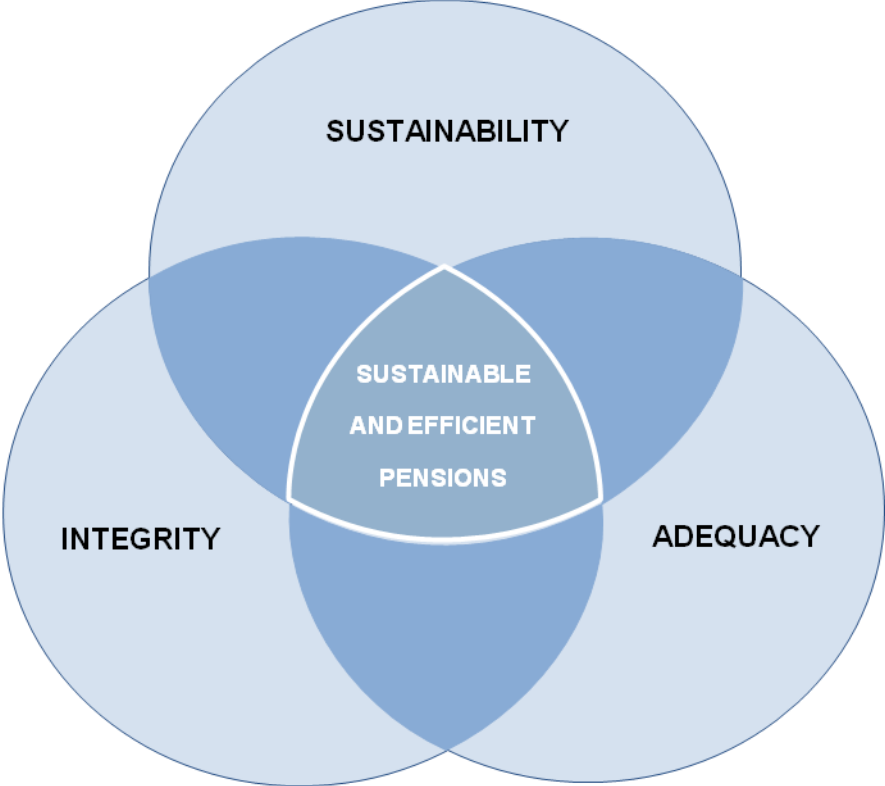


Source:

The World Bank; Age dependency ratio, old (% of working-age population), downloaded 6 May 2015; Data is compiled from various sources including census reports, the United Nations Population Division's World Population Prospects, national statistical offices, household surveys conducted by national agencies, and ICF International

<http://web.worldbank.org/WBSITE/EXTERNAL/0,,contentMDK:22547097~pagePK:50016803~piPK:50016805~theSitePK:13,00.html>

How can pension systems respond?



Reference - Mercer (2013), *Melbourne Mercer Index*, Australian Centre of Financial Studies, Melbourne

Adequacy and Sustainability

Will I have enough to retire on?

- Pension system is underpinned by contributions, taxes and savings from people in employment
- Social security systems must have a balance between contributions and entitlements and between the working population and retired beneficiaries

| | state pension | Maximum annual | Earnings related? | earnings in £ | STATE PENSIONAGE | |
|----|---------------|---------------------|-------------------|---------------|------------------|------|
| | | | | | Average | Men |
| 1 | SPAIN | £26,630 | ✓ | £23,491 | 65 | 65 |
| 2 | GERMANY | £26,366 | ✓ | £29,366 | 65 | 65 |
| 3 | SWEDEN | £25,155 | ✓ | £37,014 | 65 | 65 |
| 4 | USA | £18,856 | ✓ | £36,162 | 66 | 66 |
| 5 | FRANCE | £15,811 | ✓ | £29,817 | 60 | 60 |
| 6 | BRAZIL | £14,969 | ✓ | £5,318 | 65 | 60 |
| 7 | AUSTRALIA | £12,640 | ✓ | £49,283 | 65 | 64.5 |
| 8 | DENMARK | £11,381 | | £45,661 | 65 | 65 |
| 9 | NETHERLANDS | £10,981 | | £35,627 | 65 | 65 |
| 10 | IRELAND | £10,415 | | £41,803 | 65 | 65 |
| 11 | CANADA | £7,843 | | £35,745 | 65 | 65 |
| 12 | UK | £7,488 ^a | | £31,413 | 65 | 62 |
| 13 | JAPAN | £5,530 | | £28,902 | 65 | 65 |
| 14 | GREECE | £3,756 | ✓ | £17,772 | 65 | 65 |
| 15 | SOUTH AFRICA | £1,044 | | £7,421 | 60 | 60 |

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Footnotes: a Basic state pension after 2016 reforms **Source:** OECD and ISSA. **Accurate to:** 1 March 2013

- Importance of workplace pensions

Adequacy and Sustainability

Will I really have enough to retire on?

Key Challenges

- **Transfer of risk to the individual**
- **Member disengagement** – unable or unwilling to choose appropriate funds
 - Financial literacy
 - Education and guidance
- **Participation** – impact of coercive vs compulsory markets on scale and efficiency
- **Contribution rates**
- **Post retirement products**



Adequacy and Sustainability

Reform

Structural reform in workplace pensions

For most the move to DC is global

- **US** – Corporate 401K; public funds remain DB

- **Europe**
 - Large but declining DB market vs. fragmented DC market
 - Collective DC
 - Auto enrolment in the UK

- **Asia** – Government DC pension funds

- **Australia** – multi-employer super trusts

- **Netherlands** – DB still dominant but some element of risk sharing

Policy reform

- **Mandatory**
 - Australia and significant parts Asia

- **Voluntary**
 - UK – Auto enrolment
 - US – myRA - auto enrolment for all US citizens to access an Individual Retirement Account (IRA)

Integrity

Trends

➤ Regulation and governance

- What is fit for purpose
- Transparency

➤ Efficiency

- Value for money, low cost provision

➤ Socially Responsible Investing

- Making the right and proper investments
- *The United Nations led Policy for Responsible Investment (PRI) is an initiative and a set of aspirational and voluntary guidelines for investment entities wishing to address environmental, social, and corporate governance (ESG) issues*

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