

Forum on CPF and Retirement Adequacy

Tuesday, 22 July 2014

Shangri-La Hotel

International Retirement Income Systems – Challenges for the Future

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International Retirement Income Systems

Practices around the world and challenges for the future

22 JULY 2014

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Melbourne Mercer Global Pension Index

- ▶ Benefits
- ▶ Savings
- ▶ Tax support
- ▶ Benefit design
- ▶ Growth assets

ADEQUACY

- ▶ Coverage
- ▶ Total Assets
- ▶ Contributions
- ▶ Demography
- ▶ Government Debt

SUSTAINABILITY

- ▶ Regulation
- ▶ Governance
- ▶ Protection
- ▶ Communication
- ▶ Costs

INTEGRITY



2013 Melbourne Mercer Global Pension Index

Grade	Index Value	Countries	Description
A	>80	Denmark	A first class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity.
B+	75–80	Netherlands Australia	A system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system.
B	65–75	Switzerland Sweden Canada Singapore Chile UK	
C+	60–65	Nil	
C	50–60	Germany USA Poland France Brazil Mexico	A system that has some good features, but also has major risks and/or shortcomings that should be addressed. Without these improvements, its efficacy and/or long-term sustainability can be questioned.
D	35–50	China Japan Korea (South) India Indonesia	A system that has some desirable features, but also has major weaknesses and/or omissions that need to be addressed. Without these improvements, its efficacy and sustainability are in doubt.
E	<35	Nil	A poor system that may be in the early stages of development or a non-existent system.



Challenges common to many countries include the need to:

- **Increase state pension age and/or retirement age** to reflect increasing life expectancy, both now and into the future, and thereby reduce the level of costs of the publicly financed pension benefits
- **Promote higher labour force participation at older ages**, which will increase the savings available for retirement and also limit the continued increase in the length of retirement
- **Encourage or require higher levels of private saving**, both within and beyond the pension system, to reduce future dependence on the public pension
- **Increase coverage in the private pension system** of employees and/or the self-employed, recognising that many individuals will not save for the future without an element of compulsion or automatic enrolment
- **Reduce leakage from the retirement savings system** prior to retirement thereby ensuring that the funds saved, often with associated taxation support, are used for the provision of retirement income
- **Increase governance of private pension plans** to improve the confidence of plan members

Adequacy Sub-Index



Question	Question weight	Score for each country																			
		Australia	Brazil	Canada	Chile	China	Denmark	France	Germany	India	Indonesia	Japan	Korea	Mexico	Netherlands	Poland	Singapore	Sweden	Switzerland	UK	USA
A1	17.5%	6.9	10.0	10.0	2.7	6.0	10.0	6.6	5.2	0.0	0.0	4.7	0.0	9.4	9.6	3.5	0.2	7.4	7.2	4.6	4.5
A2	25%	9.3	8.3	8.4	6.2	4.8	10.0	8.5	7.8	3.9	0.0	4.5	6.4	5.4	9.2	8.0	5.5	6.8	9.4	5.6	6.2
A3	10%	6.3	3.0	2.6	0.1	8.2	0.0	6.6	5.5	10.0	4.0	2.0	3.4	0.0	1.7	1.7	7.0	3.6	7.0	3.4	4.8
A4	5%	7.0	4.0	10.0	10.0	6.0	4.0	4.0	10.0	10.0	10.0	8.0	10.0	7.0	10.0	10.0	10.0	2.0	10.0	10.0	10.0
A5	10%	8.3	0.0	3.3	5.0	8.3	10.0	10.0	10.0	0.0	0.0	5.0	6.7	6.7	3.3	10.0	6.7	6.7	5.3	6.7	6.3
A6	10%	2.0	5.5	5.0	7.5	0.0	6.7	5.0	4.5	2.5	6.7	0.0	2.0	0.0	7.5	0.0	7.5	7.5	0.0	10.0	0.0
A7	7.5%	10.0	9.0	6.0	10.0	8.0	10.0	8.0	5.0	10.0	9.0	6.0	8.0	4.0	10.0	10.0	10.0	10.0	10.0	10.0	5.0
A8	5%	10.0	0.0	10.0	10.0	10.0	0.0	5.0	10.0	0.0	0.0	10.0	0.0	5.0	10.0	10.0	10.0	2.5	10.0	10.0	10.0
A9	5%	6.9	7.7	6.9	6.6	9.7	6.7	6.2	4.8	9.6	8.4	5.9	5.8	7.2	6.7	8.9	10.0	7.1	3.4	6.8	6.5
A10	5%	8.8	8.1	10.0	10.0	6.3	6.3	6.3	10.0	3.4	6.3	9.8	3.6	5.8	7.0	9.1	2.5	8.1	10.0	10.0	10.0
Adequacy sub-Index	40%	75.6	63.3	72.4	58.6	61.1	75.2	71.7	69.7	41.2	29.8	47.9	43.7	51.9	76.6	64.4	59.0	65.2	72.6	68.2	56.6

Each question is scored for each country with a minimum score of 0 and a maximum score of 10.

Adequacy

Pooling of risks through CPF Life reduces longevity risks of members



Retirement benefit converted into a life annuity, if it is above the prescribed amount. Any amounts above the prescribed amount do not need to be converted



All benefits must be converted into a life annuity with an insurance company or a programmed withdrawal product, except for any portion of the benefit above a specified maximum



No requirement to take annuity but for those who convert the benefit into tax-advantaged drawdown product, there is a minimum drawdown amount



All retirement benefits must be converted into an annuity (life or fixed term), depending on options from insurance company. Individuals bear some risks as assumptions and payments can vary

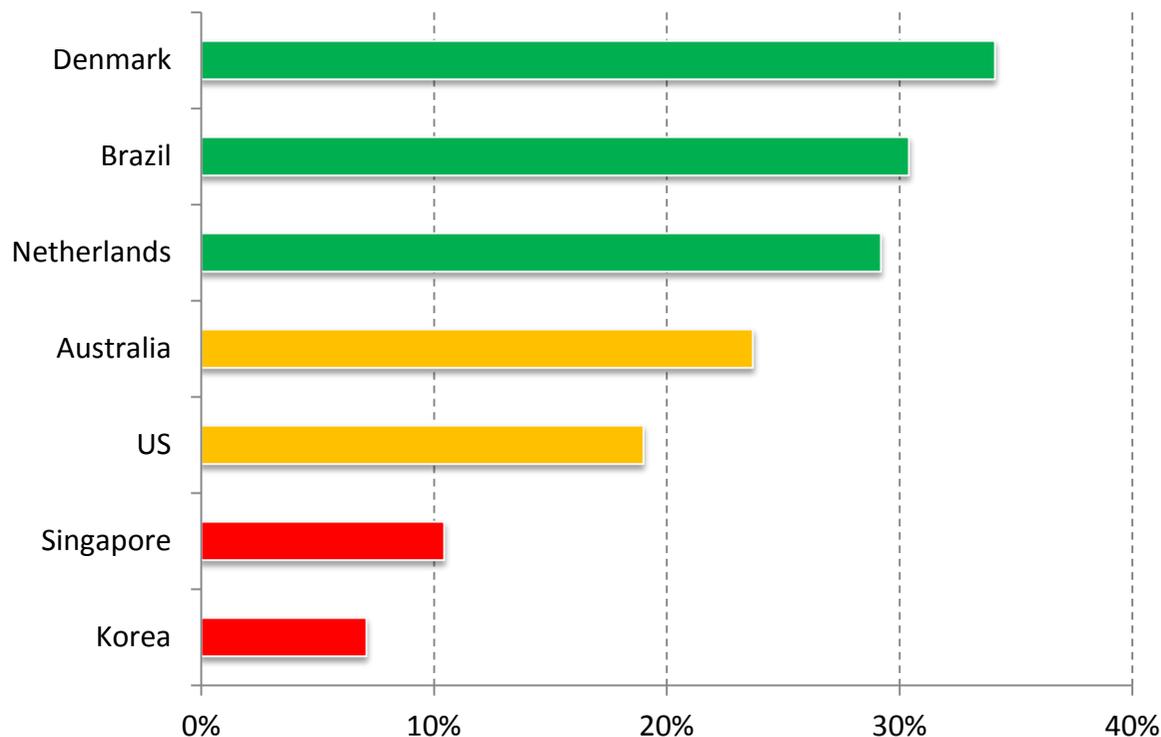


In most circumstances, 75% of the accumulated retirement benefit must be converted into an annuity or income drawdown product (maximum applicable). More flexible drawdown available for those with higher income streams

Adequacy

Opportunity to address minimum pension level

Minimum Pension as a Percentage of Average Wage



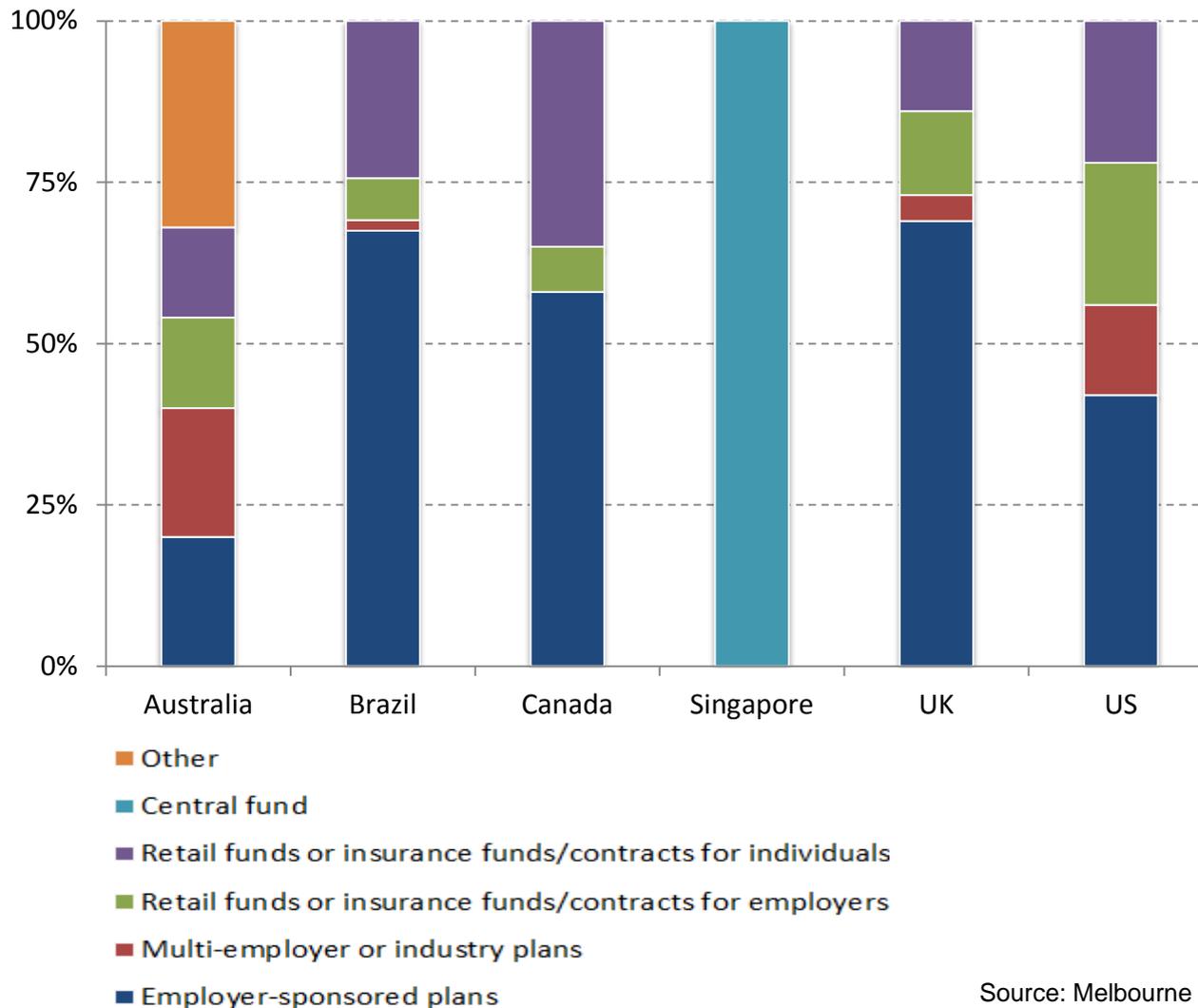
Source: Melbourne Mercer Global Pension Index 2013

- Important objective of any retirement income system is to provide a minimum pension to all aged poor for life
 - No correct answer as to minimum pension level, but ~30% of national earnings (per OECD) is estimated to meet poverty alleviation goal
- Singapore figures based on public assistance programs e.g. GST vouchers, utility bill offset
- CPF members who do not reach minimum sum subject to drawdown over 20 years
 - Also impacts citizens who do not have an adequate work / earnings history

Adequacy

Sole reliance on CPF for retirement savings

Characteristics of pension industry



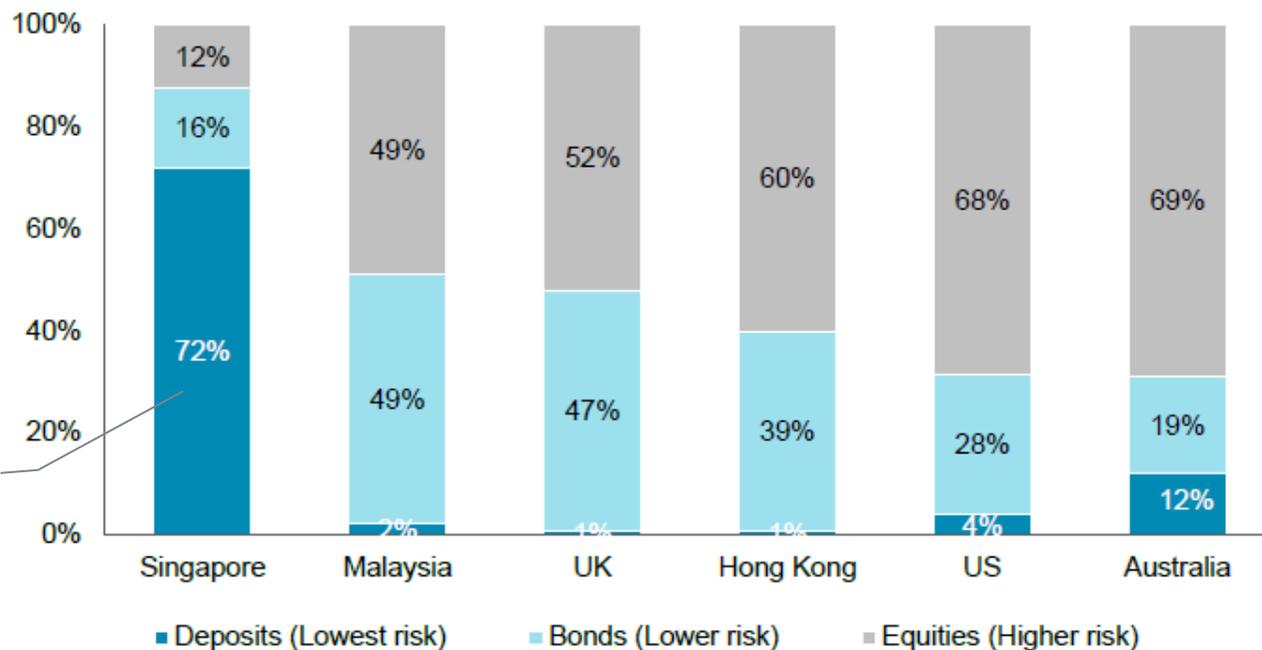
- Individuals are not adequately saving through other means
 - Majority of Singaporean retirement funds are held in CPF
 - Sizeable portion attributable to housing
- Companies indicate a willingness to set up supplemental programs, however adoption has been low

Source: Melbourne Mercer Global Pension Index 2013

Adequacy

CPFIS provides options, but there is nevertheless a lack of diversification across a range of asset classes

Observed investment allocations for investible retirement savings



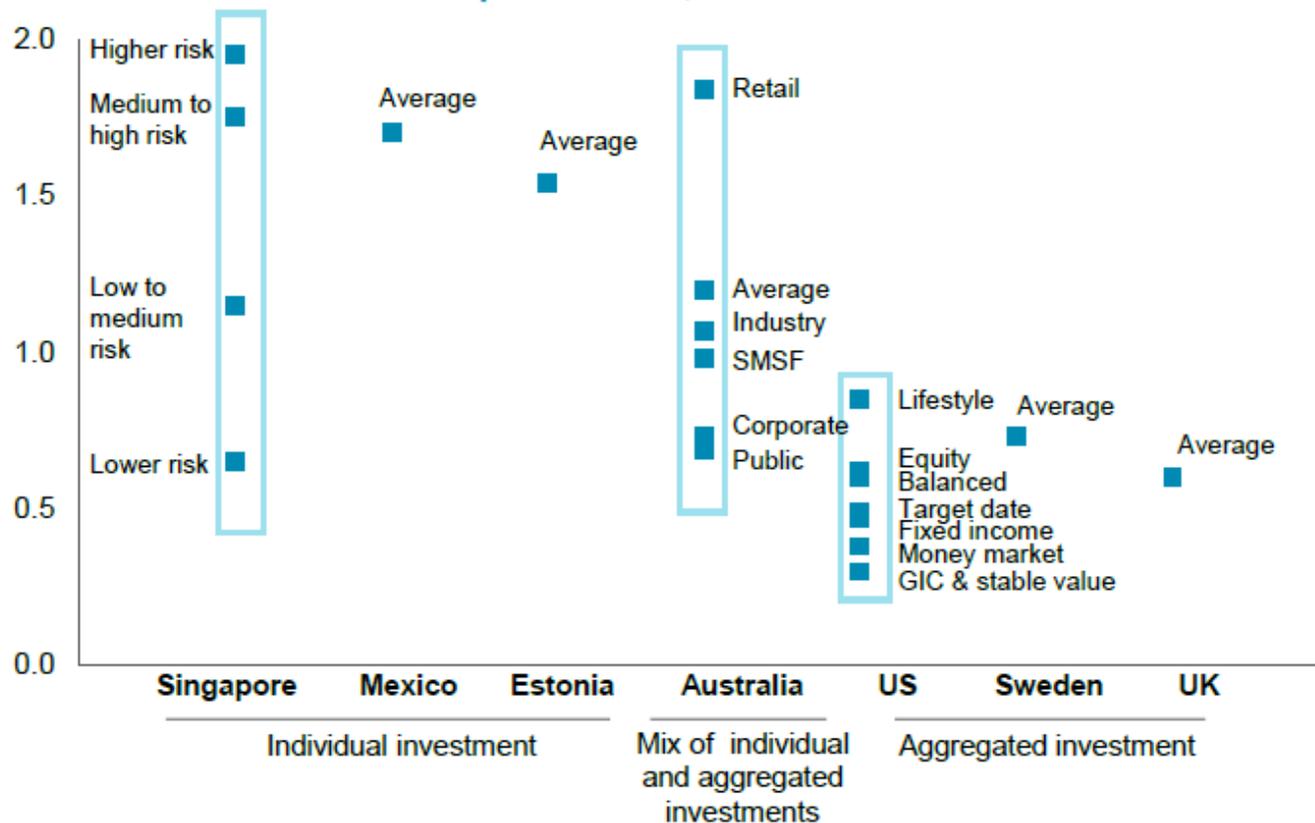
Driven by policy restrictions, investment behaviour and higher rates paid on SSGS relative to commercial market deposit rates

- Sources:
- Singapore: Based on 2012 Q3 asset allocation split for investible amount within the Ordinary Account and Special Account
 - Malaysia: Based on 2011 EPF asset allocation split
 - UK: Based on the 2012 UBS report on pension fund indicators, indicating the industry-wide asset allocation split
 - Hong Kong: Based on 31 Dec 2012 share of net asset value for approved constituent funds of MPF Scheme
 - US: Based on average lifetime asset allocation split for the 401k assets, as per Dec 2012 Employee Benefit Research Institute Issue Brief
 - Australia: Based on June 2012 Superannuation Bulletin

Adequacy

Relatively high investment costs erode additional returns

Benchmark of investment expense ratios, %



Sources:

- Singapore: Average expense ratios for the CPF unit trusts
- Mexico and Estonia: Average administration fee in mandatory DC system, OECD 2011
- US: Contribution/401(k) Plan Fees by Investment Company institute
- Sweden: National Social Insurance Board and Stockholm University
- Australia: Rice Warner Actuaries, Credit Suisse estimates, by Superannuation segments
- UK: Marsh Lifecycle Funds, NEST

Source: *Retiring in Comfort*, Singapore Exchange and Oliver Wyman, Singapore

Sustainability Sub-Index

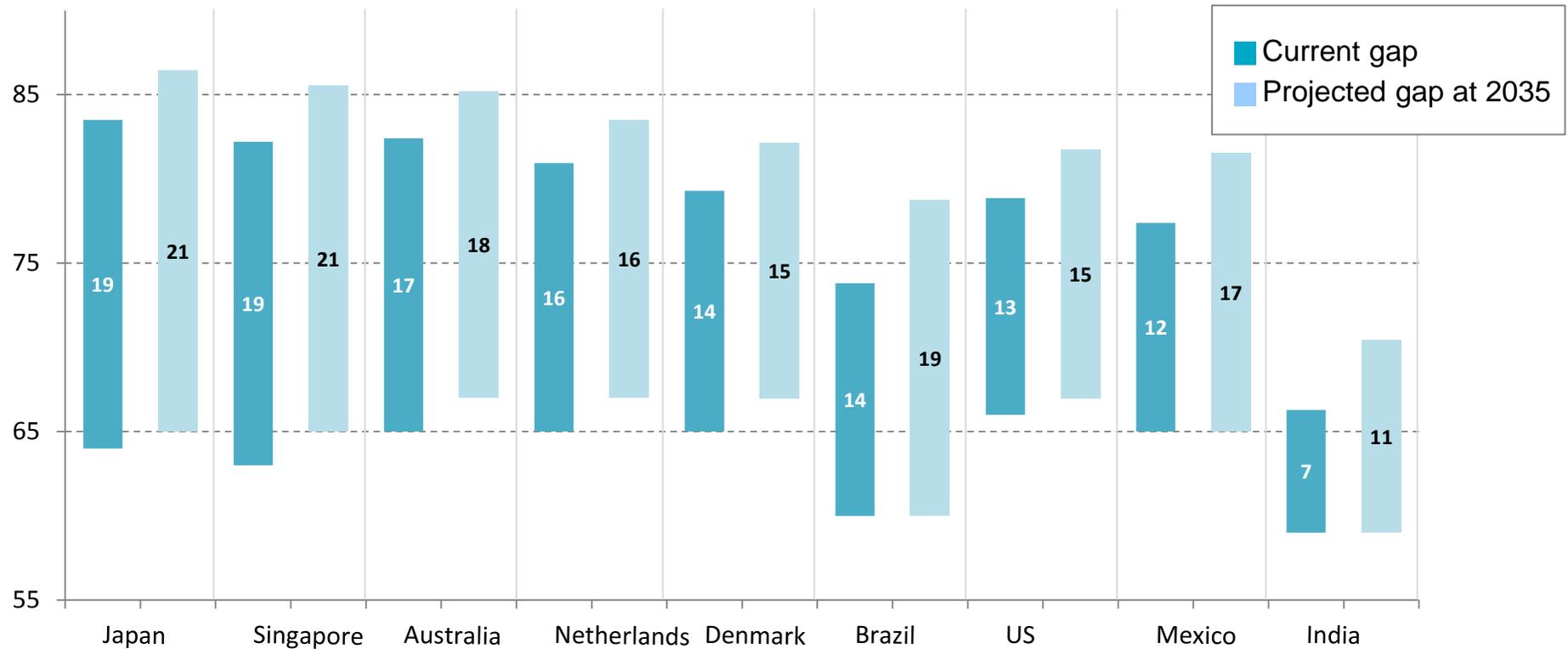
Question	Question weight	Score for each country																			
		Australia	Brazil	Canada	Chile	China	Denmark	France	Germany	India	Indonesia	Japan	Korea	Mexico	Netherlands	Poland	Singapore	Sweden	Switzerland	UK	USA
S1	20%	8.9	0.0	5.8	9.8	0.4	10.0	6.6	5.4	0.0	0.0	3.0	3.0	7.1	10.0	6.6	8.2	10.0	9.2	4.7	5.4
S2	20%	6.6	0.9	5.9	4.0	0.5	10.0	0.9	1.3	0.4	0.0	3.4	2.9	0.0	9.0	1.1	4.5	5.9	7.4	6.4	7.0
S3	20%	5.7	7.3	5.5	5.2	4.2	6.8	3.7	4.4	10.0	7.6	2.0	2.3	8.8	5.5	6.7	3.3	5.2	4.0	5.7	7.9
S4	15%	7.7	0.0	6.2	8.3	3.3	10.0	0.0	0.0	6.9	4.8	2.1	3.8	5.2	6.7	1.9	10.0	7.2	7.5	0.8	3.4
S5	10%	5.9	4.2	5.9	5.8	4.2	5.8	1.3	6.1	4.1	7.0	7.2	6.0	4.0	4.8	0.1	5.6	9.0	8.0	5.1	6.2
S6	10%	8.2	5.5	4.3	9.4	9.4	6.7	4.0	4.5	5.5	8.4	0.0	8.1	7.1	5.2	6.3	10.0	7.5	6.7	4.0	2.9
S7	5%	10.0	0.0	8.0	0.0	0.0	10.0	8.0	8.0	0.0	0.0	4.0	10.0	0.0	10.0	9.0	10.0	10.0	4.0	8.0	6.0
Sustainability sub-Index	35%	73.0	26.0	57.9	65.6	28.9	86.1	31.7	36.8	40.8	37.7	28.9	41.0	50.8	74.1	42.6	67.5	74.5	69.0	48.0	57.8

Each question is scored for each country with a minimum score of 0 and a maximum score of 10.

Sustainability

Recent increases of DDA to age 65 will help reduce financial strain due to increasing longevity, but the gap is widening nevertheless

Current and projected gap between life expectancy at birth and state pension age



“The pension reform with the most positive long-term economic effects is one that extends people’s working years.”

*Karam P, Muir D, Pereira J and Tuladhar A
“Beyond Retirees, Finance and Development”, 2011*

Source: Melbourne Mercer Global Pension Index 2013

Integrity Sub-Index

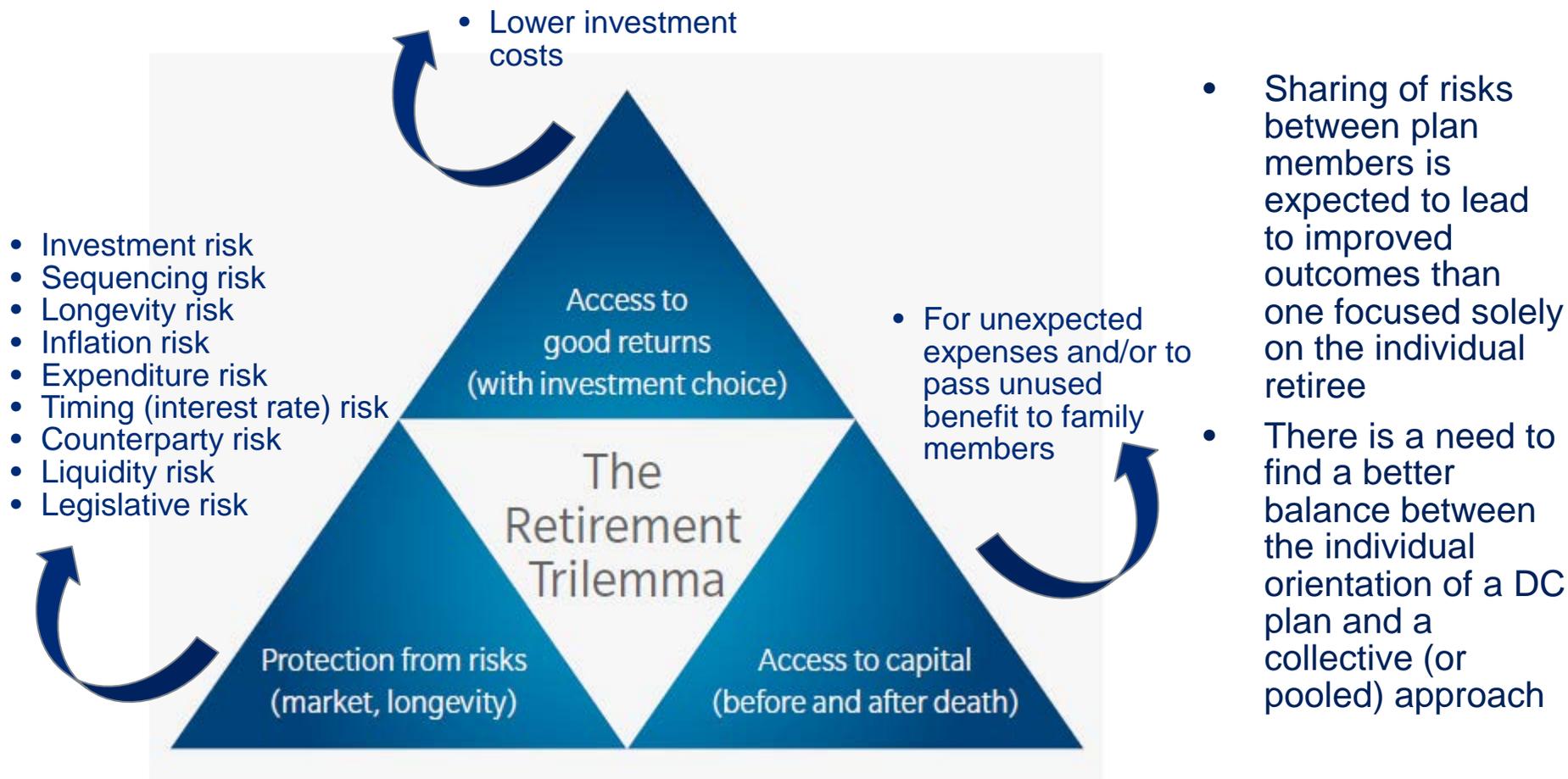
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Do private sector pension plans need regulatory approval or supervision to operate?	10%	10.0	10.0	10.0	10.0	10.0	10.0	5.0	8.8	10.0	10.0	7.5	7.5	2.5	10.0	7.5	10.0	8.8	10.0	10.0	10.0
Is a private pension plan required to be a separate legal entity from the employer?																					
Are private sector pension plans required to submit a written report in a prescribed format to a regulator each year?																					
Does the regulator make industry data available from the submitted forms on a regular basis?	12.5%	9.2	9.2	8.7	9.2	4.4	10.0	8.2	7.4	6.4	9.2	7.6	4.4	7.6	9.2	7.6	5.6	9.2	8.4	10.0	7.6
How actively does the regulator (or protector) discharge its supervisory responsibilities?																					
Where assets exist, are the private pension plan's trustees/executives/fiduciaries required to prepare an investment policy?																					
Are the private pension plan's trustees/executives/fiduciaries required to prepare a risk management policy?	12.5%	10.0	10.0	7.0	8.0	4.0	8.0	6.0	8.0	4.0	8.0	4.0	0.0	0.0	8.0	8.0	10.0	8.0	6.0	9.0	0.0
Are the private pension plan's trustees/executives/fiduciaries required to prepare a conflicts of interest policy?																					
Do the private pension plan's trustees/executives/fiduciaries have to satisfy any personal requirements set by the regulator?	5%	10.0	10.0	7.5	7.5	10.0	10.0	10.0	7.5	5.0	10.0	7.5	0.0	10.0	10.0	7.5	7.5	7.5	7.5	7.5	5.0
Are the financial accounts of private pension plans (or equivalent) required to be audited annually by a recognised professional?																					
What is the capacity of the government to effectively formulate and implement sound policies?	10%	9.0	1.8	8.8	7.2	0.4	9.9	7.0	7.8	0.5	0.0	6.5	5.1	1.3	9.1	4.4	9.3	9.5	8.8	7.9	7.2
What respect do citizens and the state have for the institutions that govern economic and social interactions among them?																					

Each question is scored for each country with a minimum score of 0 and a maximum score of 10.

Integrity Sub-Index

Question	Question weight	Score for each country																			
		Australia	Brazil	Canada	Chile	China	Denmark	France	Germany	India	Indonesia	Japan	Korea	Mexico	Netherlands	Poland	Singapore	Sweden	Switzerland	UK	USA
For defined benefit schemes, are there minimum funding requirements? What is the period over which any deficit or shortfall is normally funded?	100%	10.0	8.0	9.0	10.0	7.5	10.0	5.0	8.0	5.0	5.0	9.0	9.0	6.0	10.0	10.0	5.0	8.0	9.0	9.0	8.0
For defined contribution schemes, are the assets required to fully meet the members' accounts?																					
Are there any limits on the level of in-house assets held by a private sector pension plan? If yes, what are they?	5%	10.0	7.5	8.8	10.0	7.5	10.0	5.0	8.8	8.8	0.0	0.0	10.0	7.5	10.0	7.5	6.3	10.0	10.0	10.0	5.0
Are the members' accrued benefits provided with any protection or reimbursement from an act of fraud or mismanagement within the fund?																					
In the case of employer insolvency (or bankruptcy), do any unpaid employer contributions receive priority over payments to other creditors, and/or are members' accrued benefits protected against claims of creditors?	5%	5.0	0.0	2.5	2.5	2.5	2.5	2.5	7.5	2.5	10.0	2.5	0.0	0.0	0.0	2.5	5.0	5.0	7.5	10.0	5.0
When joining the pension plan, are new members required to receive information about the pension plan?	5%	10.0	10.0	10.0	10.0	0.0	0.0	10.0	10.0	0.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Are plan members required to receive an annual report about the pension plan?																					
Is the annual report required to show: i. The allocation of the plan's assets to major asset classes? ii. The major investments of the plan?	5%	9.0	10.0	2.5	3.0	0.0	0.0	0.0	2.5	0.0	0.0	3.8	0.0	0.0	8.0	0.0	8.0	3.8	8.0	4.5	8.0
Are plan members required to receive an annual statement of their current personal benefits from the plan?																					
Is this annual statement to individual members required to show any projection of the member's possible retirement benefits?	7.5%	6.7	6.7	6.7	10.0	6.7	6.7	3.3	3.3	3.3	6.7	3.3	3.3	6.7	10.0	6.7	6.7	10.0	10.0	6.7	6.7
Do plan members have access to a complaints tribunal which is independent from the pension plan?	2.5%	10.0	0.0	7.5	7.0	0.0	10.0	0.0	5.0	5.0	10.0	0.0	0.0	0.0	10.0	5.0	0.0	0.0	10.0	10.0	5.0
What percentage of total pension assets is held in various types of pension funds?																					
What percentage of total pension assets is held by the largest ten pension funds/providers?	10%	5.7	6.0	4.6	5.5	6.7	8.8	4.1	5.4	9.9	8.3	8.6	8.2	8.0	7.4	7.5	10.0	8.2	5.6	6.2	3.7
	25%	88.1	73.6	74.5	79.9	50.0	80.0	55.1	71.1	50.3	67.3	60.5	47.9	46.0	87.0	68.9	77.2	81.5	82.9	85.4	61.2

The combination of different needs faced by retirees suggests that a single product is unlikely to be the ideal solution.



“...while there is a need to ensure that retiring workers opt for an adequate level of annuitization, care must be taken to avoid forcing an excessive level of annuitization.”

*Rocha R and Vitas D, “Designing the Payout Phase of Pensions Systems”
Policy Research Working Paper, The World Bank, 2010*

Summary: Considerations for Singapore

- Raising the minimum level of support available to the poorest aged members of society
- Closing the gap between retirement age and life expectancy
 - Increasing the labour force participation rate amongst older workers
 - Synchronizing retirement age with drawdown age
- Increasing capital wealth accumulation
 - Diversification of retirement funds to growth-based asset classes, particularly in early years of working life
 - Lower expense ratios via aggregation of investment options
 - Stronger education and enhanced investment platforms
 - Risk profiling and portfolio fund-based approach
- Increasing private / supplemental pension participation to complement CPF
 - Reducing barriers to establishing tax-approved group corporate retirement plans
- Encouraging increased monetization of housing asset
 - Alternatively, segregation of retirement funds

