aba Arbeitsgemeinschaft für
betriebliche Altersversorgung e.V.

aba response

to the OECD consultation on the

DC Roadmap

(13 April 2021)

The **aba Arbeitsgemeinschaft für betriebliche Altersversorgung e.V**. - is the German association representing all matters concerning occupational pensions in the private and public sector. The aba has 1,100 members including corporate sponsors of pension schemes, IORPs, actuaries and consulting firms, employer associations and unions, as well as insurance companies, banks and investment managers. According to our statutes, our mission is to represent existing schemes as well as to expand coverage of occupational pensions independent of vehicle. We are a member of the European Association PensionsEurope.

Please do not hesitate to contact us if you have any questions:

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1 Introduction

We welcome the opportunity to provide input to this consultation. OECD research and policy recommendations are used widely by policy-makers, regulators and practitioners and are therefore a powerful tool in steering the development of supplementary pensions. Consulting on the changes to the DC Roadmap is a good way of including stakeholders' views and building support for the recommendations.

The aba is the German association representing all matters concerning occupational pensions in the private and public sector. We therefore respond from the perspective and with the aim of strengthening 2nd pillar pensions.

Supplementary pensions are important today – and will gain importance over the decades to come. We support many of the recommendations made in this Roadmap and the underlying concepts, such as Recommendations 1 (The design of DC pension plans should be coherent with their purpose and role in the pension system) and 7 (Ensure protection against longevity risk in retirement).For others, we might support the overall approach, but have nevertheless proposed changes to the text proposed for the DC Roadmap.

Generally, we are in favour of a Roadmap setting broad principles, leaving ample leeway for the specific decision-makers in applying the Roadmap. It should be aimed at those who are in a position to set-up and offer occupational pensions, which from our perspective are social partners and employers.

2 The scope of the DC Roadmap

Title: Changing "DC pension plans" to „DC retirement savings plans"

As we understand it, the term "pension" includes both accumulation and decumulation phase and suggests that at retirement, a life-long pension is paid. The term "retirement savings" seems to refer only to the accumulation (or savings) phase and does not give any indication about what the pay-out phase looks like.

What matters from our perspective is whether a plan provides protection against biometric risks. In Germany, covering at least one biometric risk is a precondition for an occupational pension (if this aspect is missing, the scheme does not attract the tax relief or protection level for occupational pensions).

However, the importance of covering biometric risks might vary with the role the supplementary pension plays in a given pension system. What we would like to stress is that the title should not exclude the decumulation phase (since the paper does include recommendations on the decumulation phase).

- We propose to delete "retirement savings" from the title and only refer to "DC plans".

Preamble

The new preamble clarifies that the DC Roadmap applies both to 2nd and 3rd pillar pensions. While we acknowledge that 2nd and 3rd pillar pensions share certain features, benefits and challenges, there are also significant differences between the two.

Occupational pensions are embedded in labour law, which means that members and beneficiaries are in a completely different situation than individuals taking out a 3rd pillar pension who are protected by consumer protection law. While the role of the employer in DC schemes can be less crucial than in DB schemes, the employer is at least a point of contact for the employee. In automatic enrolment systems, it is the employer who enrols the employee and often also choses or sets up the pension scheme. Again, this is different in 3rd pillar pensions, where the individual and the insurance company / pension provider interact directly with each other.

The Preamble mentions the OECD Core Principles of Private Pension Regulation. This document addresses this issue by having three parts: shared principles for both 2nd and 3rd pillar, and then two separate parts for 2nd and 3rd pillar with specific principles for each pillar. The DC Roadmap should follow a similar approach.

- Where relevant, the text should distinguish between 2nd and 3rd pillar pensions. If the division into three chapters is seen as unnecessary, the preamble should at least acknowledge the differences between the two pillars, e.g. by including the following two sentences (changes always in blue): "Occupational and personal pensions share some features but differ in others. When applying this Roadmap, these differences should be considered."

3 Recommendations where we propose further changes

Recommendation 2 on coverage

To maintain trust and support, policies around automatic enrolment should be tailored and take into account the differences between sectors. We therefore support an approach where the social partners introduce automatic enrolment. At the very least, they should be involved in the process.

- We proposed to add the following text: „... the possibility to opt out. Automatic enrolment should involve social partners since they are experienced to find the right balance between the interests of the covered persons on the one hand and of the plan sponsors on the other hand. Financial incentives are also ….

Recommendation 3 on contributions

Increasing retirement age is an important mechanism to ensure that overall contributions are sufficient. However, we would like to point out there are professions (e.g. manual labour) where it is difficult to work when getting older. We would therefore suggest including this caveat in Recommendation 3.

- We proposed to add the following text: „Encouraging members to contribute for longer by postponing retirement – under the condition that they are able to stay in the job – improves their chances of reaching ….”

Recommendation 4 on financial incentives

We agree that financial incentives should be designed to maximise the impact on enrolment and contributions, both for employers / social partners and members. The text mentions the role of taxation, but in some countries this might only be part of the picture, because social insurance contributions can have an effect on retirement saving and income as well.

In addition, the Roadmap should have a higher level of ambition than promoting a tax system which does "not discourage" supplementary pension – the tax system should "encourage" them.

- Amend the text as follows: "Tax and social insurance rules should encourage ~~not discourage~~ individuals to save for retirement."

Recommendation 5 on cost

As the explanatory paper points out, cheapest is not always best, and this idea should be reflected by adding the concept of cost efficiency to this recommendation (Nr. 31 and 32). However, from our perspective this does not go far enough, the Recommendation should refer to "value for money". We appreciate that value for money is more difficult to measure than what is "lowest cost", however, this should be the aspiration of this recommendation.

- We propose to amend the recommendation as follows: "Promote ~~low-cost and cost-efficient~~ value for money in retirement arrangements in both the accumulation and pay-out phases."

We would also like to stress that not all systems rely on competition and comparability to keep costs in check, and that these mechanisms do not work in all systems. Where employees do not have a choice into which system they are enrolled in, comparability with other schemes matters less. Pension schemes set up by employers for their staff are not in competition with each other. They should therefore not fall under the same rules as schemes which do compete with each other. A DC plan offered by an employer / the social partners is not a consumer product.

- We propose to amend the recommendation as follows: "Depending on the overall set-up, i~~I~~t ~~is~~ can be essential to promote initiatives to foster competition and to improve disclosure, comparability, and transparency."

Recommendation 6 on access to appropriate investment strategies

We agree that members should have access to an appropriate investment strategy. One solution is to give them very limited or even no choice in this regard. While this lifts the burden of decision making from the member, it also allows for a collective approach to investment.

- We propose to insert the following after the third sentence: "Employers / social partners can also decide on behalf of the members and beneficiaries what an adequate asset allocation is."

Recommendation 7 on the pay-out phase

We welcome that the Roadmap includes a Recommendation on the pay-out phase. From a policy-maker's perspective, there are important advantages to a life-long pension over a lump sum, which beneficiaries might spend straight away and later fall back on the state for financial support. Like during the accumulation phase, taxation can also be used as an instrument to steer behaviour in the decumulation phase. Depending on the role the 2nd pillar plays in the overall pension system, tax incentives can be used to encourage members to choose a lifelong pension over a lump sum payment. The recommendation should use this positive approach rather than discouraging lump sums.

- The following sentence should therefore be amended as follows: "Life-long pensions should be encouraged ~~Full lump-sums should be discouraged~~ in general, except for low account balances or extreme circumstances."

Recommendation 8 on the monitoring and management of longevity risk

Regarding the call for the data to be as granular as possible, we would like to caution against the repercussions this approach can have. There is a potential that this granularity leads to a an ever-smaller collective in which the risk is shared, potentially undermining the whole idea of sharing the risk. While this is not always the case, the possibility should be considered.

- We therefore propose the following addition: "This data should be as granular as possible without atomizing the community of policyholders which is necessary for an adequate risk-sharing, to facilitate …"

Recommendation 9 on communication

From our perspective it is important to consider the question whether pension communication adds something for the members and beneficiaries. It is not enough for pension communication to be clear and simple, it will not be beneficial unless it provides added value for members and beneficiaries. The relevance of the information provided (which is related to the decisions a member can or has to make) determines this added value. We would like to stress that members and beneficiaries in collective systems which leave limited choice to the individual need less information than those in systems providing a lot of options.

- The first sentence should therefore be amended as follows: "Ensure effective, personalised, regular, consistent and unbiased communication which adds value for ~~to~~ members."

4 Going forward: areas for future work

DC pensions are constantly developing. We expect the research of the OECD Working Party on Private Pensions to be as important in the future as it is today. We therefore would like to suggest to look at the role of the employer / the social partners for occupational pensions, and consider how their role might help achieve the objectives set out in this Roadmap.

Collective systems organised by the social partners / employers can for example help to alleviate issues around choice overload, inertia, biases etc.. This could address some of the issues raised in Recommendation 9 (communication) and Recommendation 10 (financial education).

More options often lead to higher costs, which are often ultimately borne by members and beneficiaries. When employers / social partners offer schemes with less choice, this could address Recommendation 5 on cost effectiveness. In addition, employers or social partners are often better placed to make decisions than an individual: they bring (or buy) expertise and the necessary power to negotiate better conditions than most individuals on their own. This addresses again Recommendation 5 (cost-effectiveness) and Recommendation 10 (financial education).

- We therefore suggest carrying out research on the role of employers / social partners in occupational pensions, taking the different set-ups of collective and individual DC into account.

Berlin, 13 April 2021 / VM