RETIREMENT SAVINGS: STRENGTHENING RESILIENCE

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Purpose, risks and challenges facing retirement savings

- Retirement savings: make sure people have resources to finance retirement
- Investment risk (shocks before retirement (financial markets fall like 2008 and Feb-March with COVID-19)), and longevity risk (outliving one's resources)
- Population ageing, and low growth and low returns, already creating problems: same savings (contributions), same contribution period (number of years contributing), lower annual retirement income
  - Same total retirement income (retirement income or pension wealth) to cover a longer period
  - Same contribution will fetch lower accumulated savings because investment will return less, unless riskier investments, but higher risk of falling short of retirement needs.

New challenges facing retirement savings

- New risks: financial needs due to the economic impact of the pandemic => **access to retirement savings** => less retirement savings tomorrow (less assets, reduction in compound interest earned, liquidity needs and less long-term investment)
- A lower capability to contribute to retirement savings plans from individuals (wages reduced or lose their jobs), and from employers (financial distress) => **lower savings**, lower future retirement income (adequacy problems?)
- An other challenges:

Challenges and policies (guidelines)

Challenges	Policies
Decrease value of assets in retirement savings accounts from falling financial markets	• Stay the course: limit the materialisation of investment losses (e.g. communicating consequences)
Increase liabilities from falling interest rates in retirement savings arrangements with promises	• Secure the solvency of retirement plans and the business of providers (e.g. lengthening recovery periods of DB plans failing to meet funding requirements)
Lower capability to contribute by individuals (job losses, lower wages) and employers	• Stay the course: continue contributing (subsidising contributions)
Operational disruptions, working remotely	• Address operational disruptions (e.g. improving online procedures)
Cyber-attacks, frauds and scams	• Protect from scams and cyber attacks (e.g. warning plan members and giving them tips to avoid them)
Reduction savings and compound interest earned from policy measures to provide short-term relief	• Access to retirement savings measure of last resort and based on individual specific (hardship) circumstances

Guidelines, responses and countries

✓ Limit the materialisation of investment losses (e.g. communicating the consequences short-term looses, of switches and withdrawals)	• Australia, Canada, Colombia, Chile, Germany, Hungary, Latvia, Mexico, New Zealand, United Kingdom, United States
✓ Secure the solvency of retirement plans and the business of providers (e.g. lengthening recovery periods of DB plans failing to meet funding requirements)	• 29 OECD countries + Croatia, Kazakhstan, Kenya, Mauritius
✓ Subsidise contributions (e.g. providing wage subsidies covering pension contributions)	• Iceland, Netherlands, New Zealand, North Macedonia, Slovak Rep., Sweden, Switzerland, United Kingdom
✓ Address operational disruptions (e.g. improving online procedures)	• Most OECD countries
✓ Protect from scams and cyber attacks (e.g. warning plan members and giving them tips to avoid them)	• Australia, Austria, Luxembourg, Mauritius, New Zealand, Slovenia, Sweden, United Kingdom
✗ Provide short-term relief with potential long-term risks (e.g. facilitating early access to retirement savings)	• Australia, Belgium, Canada, Chile, Colombia, Denmark, Estonia, Finland, France, Iceland, Peru, Portugal, Slovak Rep., Spain, United Kingdom, United States

Guidelines to strengthen retirement savings

- Allow access to retirement savings as a measure of last resort and based on individual specific exceptional circumstances. Retirement pots are to finance retirement. Accessing retirement savings could lead to materialising temporary asset values loses, liquidity and investment management problems to pensions funds, and, more importantly to retirement income adequacy shortfalls. Current regulatory frameworks already allow for tapping retirement savings in exceptional circumstances when substantial income losses occur
- Maintain programs subsidizing wages and contributions. The pandemic is an external shock to the entire economy

Strengthen the resilience in retirement savings going forward

- Automatic features, default options, simple information and choice, financial incentives and financial education lead to better retirement outcomes
- Mechanisms such as automatic enrolment and escalation of contributions can harness inertia to make pension systems more inclusive and help increase contribution levels
- People unable, or unwilling, to choose a contribution rate, a pension provider, an investment strategy or a post-retirement product, may benefit from default options
- There are also other tools to help with decision making, including: web applications, limiting options and making comparisons easier, and financial incentives. Pension statements can convey key information simply, while financial education seminars and financial advice can help people understand the information.

Strengthen the resilience in retirement savings going forward

- COVID-19 highlights: People need savings for emergency situations
- A few countries have more than one long-term saving account.
  - They have a retirement saving account (no access)
  - A emergency savings account (access under exceptional circumstances)
- Contributions split between the two. Balances not used at retirement end in the final retirement pot.
- Calls on ‘How best to’ invest assets earmarked for retirement to assist on the recovery, ESG, infrastructure, technology development
- By all means, they should invest, but not on whatever, in those investment opportunities that maximise retirement savings adjusted by risk and fees and charges

MUCHAS GRACIAS

?PREGUNTAS?

http://www.oecd.org/pensions/private-pensions/

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