Role of Pension Supervisory Authorities in Improving Pension System Coverage and Adequacy

Private pension systems are playing an increasingly important role in many countries as public, PAYG systems are being scaled back to cope with demographic pressures.

How to increase coverage of these systems and to ensure that they provide adequate retirement income is a major challenge for all the pension supervisory authorities which are IOPS Member

A wide range of policy responses to raise pension coverage have been tried including:

- Making participation mandatory or soft compulsion
- Using tax incentives or subsidies (matching contributions)
- Making pension arrangements simpler to join and choices within them more straight forward
- Introducing flexibility into the system (e.g. allowing irregular contributions / allowing for withdrawals/ allowing housing based loans based on pension savings amounts etc.)
- Financial education programmes
- Introducing a universal, non contributory pillar

Which policy tool is most appropriate will depend on where the source of the coverage problem lies. For example, a universal pension may be required to cover informal sector workers, whilst mandating participation may work for the self-employed, or subsidies may be required to encourage participation by younger workers, whilst financial education can be targeted at specific groups (e.g. rural or migrant workers to ensure they claim benefits due to them).

Pension supervisory authorities can play an important role in improving pension system coverage in several ways:

- Make sure those who are meant to be participating in the system (due to compulsion/ auto enrolment) are doing so

- Monitor membership to identify gaps in particular social groups which could then be targeted (young, certain types of workers, women)

- Assist in making pension systems easy to join (transparency and disclosure role)

- Take part in or lead financial education programmes to encourage membership

Likewise they play a key role in improving the adequacy of retirement benefits which our pension systems deliver:

- Ensure funds are safely/ prudently invested

    - Accumulation – balance of investment restrictions for protection vs. access to investment opportunities

    - Decumulation – supervisors can oversee the purchase of suitable retirement products

- Monitor and control costs (which have a major impact on eventual retirement income levels)
- Encourage further savings
    - transparency and information disclosure (e.g. show how balances increase with higher contributions on pension statements)
    - Financial education programmes to encourage savings