



The new normal in Europe: DC private pension funds and the trend towards obligation

Pillar II of private pensions celebrates 15 years - A successful reform on
Romania's European path

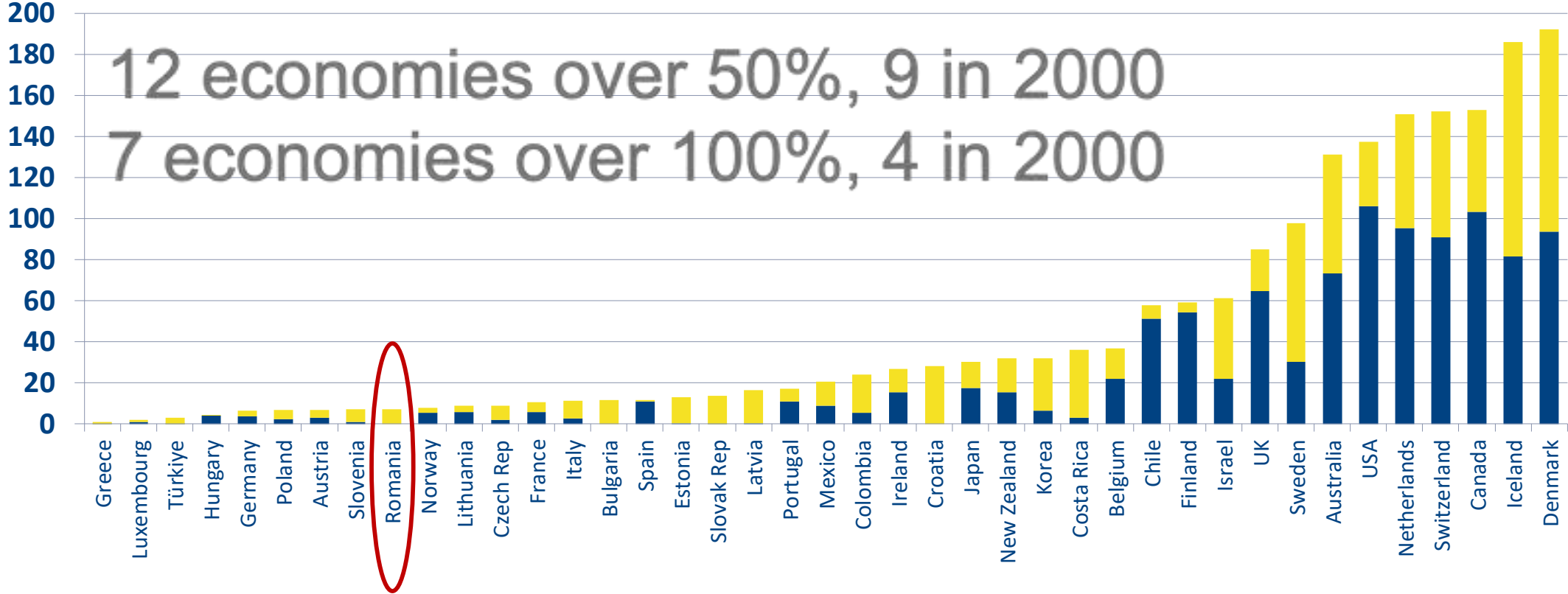
Bucharest 7 November 2023

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The growing importance of funded systems (assets earmarked for retirement, % GDP)

2000-2022

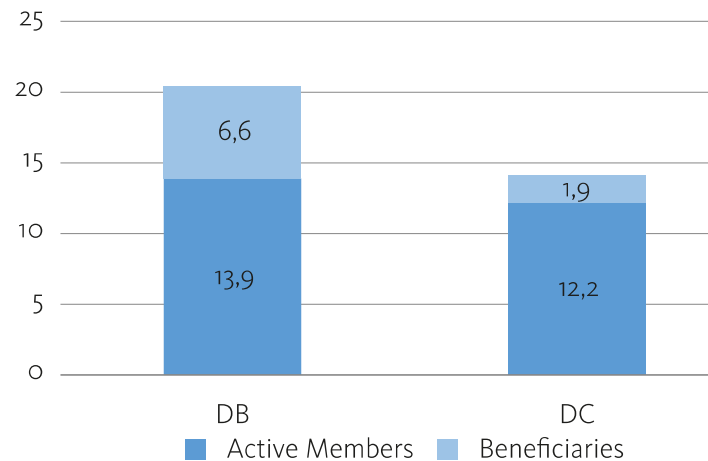


Source : OECD

DC increasing in Europe

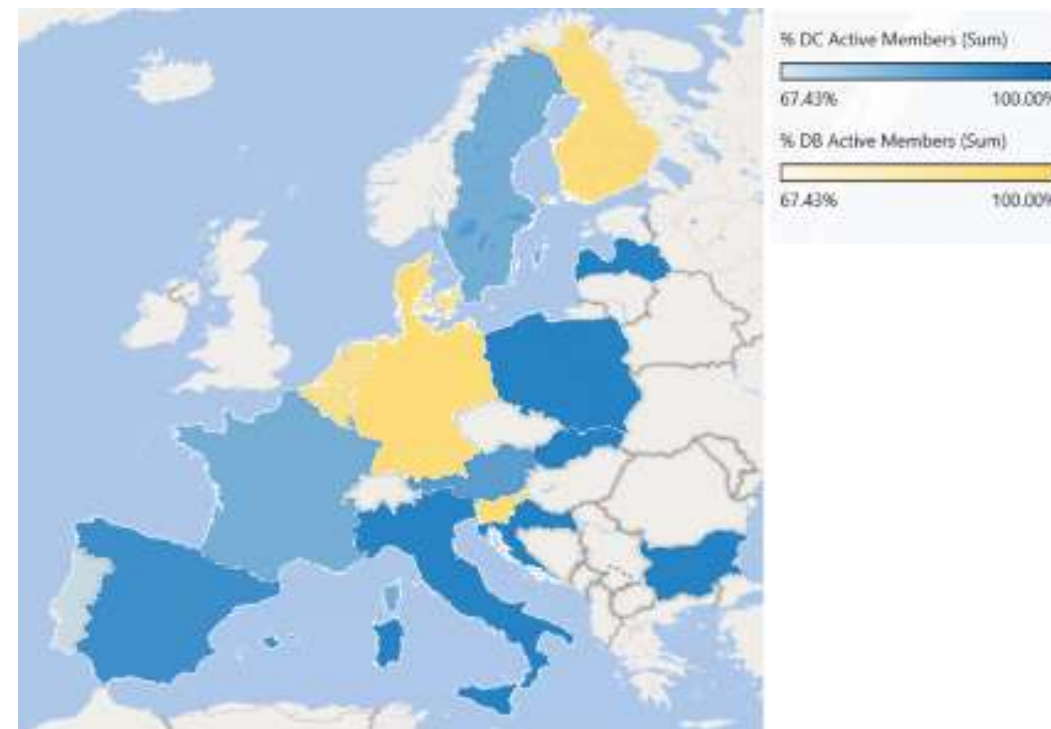


Figure 29 – Number of active members and beneficiaries by scheme in millions, 2020



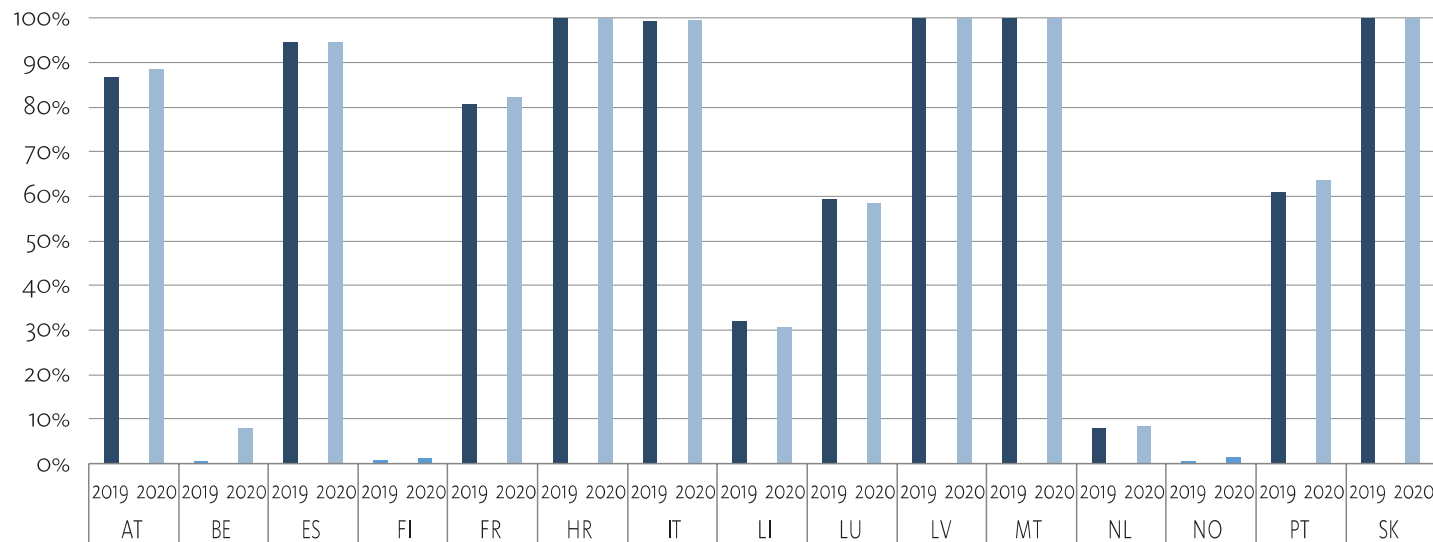
Source: IORPs pension database

Figure 31 – Percentage of DB and DC active members by Member State, 2020



Source: IORPs pension database

Figure 30⁽¹⁷⁾ – Percentage of DC members over total members by market, 2019 - 2020



Source: IORPs pension database

Source: EIOPA Consumer trend report 2021

OECD Core Principles Private Pension Regulation

- Complementary asset-backed pensions work in the best interest of member
 - Best retirement income outcomes: real long-term returns net of fees adjusted by risk and taking into account the overall pension system
 - Diversification: government bonds?; invest domestically (yes, but strong regulation, appropriate investment vehicles for SMS pension funds)
 - Private equity; infrastructure; illiquid investment; ESG; hedging (yes, but avoid speculative): yes, but understand what you are investing in, necessary strong regulation, appropriate investment vehicles SMS pension funds
- Communication: volatility, higher potential retirement incomes

OECD Recommendation on Good Design



- Coherence
 - Long-term; external; internal; risk assessment
- Inclusiveness
 - Participation; enrolment; compulsion; AE; voluntary
- Contributions
 - High enough contributions to achieve retirement income objectives
 - New savings; no shifting from PAYG (costs)
- Incentives
 - Maximise impact on enrolment and contributions
- Cost efficient
 - Low-cost plans in both accumulation and pay-out phases

Trend towards obligation

- Participation is becoming increasingly mandatory or quasi – mandatory – both in OECD and non-OECD countries.
- Auto-enrolment to increase coverage
- United Kingdom: AE reform in 2012
 - Cover over 10.7 million employees
 - Increase of 50% in participation rate since 2012
- Poland: AE reform in 2019
 - Coverage remains low at 6.3%
- Lithuania: AE reform in 2019
 - Participation now to 75.7% in 2020
- Upcoming reform: AE in Ireland
 - Will impact over 750.000 workers

