

PENSION SUPERVISORS' RESPONSES TO THE FINANCIAL CRISIS

FIAP CONFERENCE

May 2011

Ross Jones

IOPS President

Pensions and the Crisis: Policy Prescriptions

- The financial and economic crisis of recent years tested confidence in financial institutions in general
- While pension funds were neither the source of nor a mechanism propagating the crisis, they did not escape the general decline in confidence in financial services
- There is moreover some evidence of a decline in contributions to voluntary schemes
- How did pension supervisory authorities react to try and rebuild confidence in the pension systems?

Pensions and the Crisis

- Complementary private pensions are a necessity
- Saving for retirement is long term
- Minor changes to pensions supervision regimes
- Improve DC plans
- Improve governance and risk management
- Improve disclosure, communication and financial education

Quantitative Rules vs. Prudent Person

- Quantitative investment rules were not strengthened in light of the crisis – indeed the general trend towards deregulation / prudent person rule continues
 - Interesting interpretations of later –e.g. DNB gold
- However, international diversification was delayed in some more developing countries (where a home market bias provided protection)
- Names of investment options were changed in some countries following the crisis to better reflect their levels of risk
 - Chile from A, B, C, D and E to riskiest, risky, intermediate, conservative and most conservative, respectively.
 - Pakistan investment options re-named to reflect volatility

Improving DC Protection

- General acknowledgement following the crisis that DC funds do not provide enough protection in severe markets conditions for those close to retirement
- Some countries (e.g. in CEE) are therefore debating introducing guarantees ...though who pays for them is the key question
- Life cycle default funds are gaining popularity...but are under more scrutiny
 - US funds are increasingly using life-cycle as the default option
 - Following the crisis regulators in Israel were required to mandate a more conservative system for investing older workers' pensions
 - Chile has introduced choice in the life-cycle path (more or less aggressive)

Improving DC Protection

- Some authorities provided guidance to funds on what the risk management systems they expect to be in place
 - EFSA in Estonia published advisory guidelines regarding risk management for pension fund managers
 - IOPS Good Practices on Pension Funds' Risk Management Systems

Supervisory Cooperation and Structure

- Given the crisis highlighted the interconnection between financial institutions and sectors, one response was to step up coordination with other authorities
 - In Poland cooperation has intensified between the pension supervisor and other financial sector authorities
 - The FSC in Bulgaria holds communication and exchange of information with the relevant expert groups within the Ministry of Finance and the National Bank
 - The Pensions Regulator in the UK is working closely and in tandem with officials of all the major Government ministries and other regulators
 - CONSAR in Mexico have been in contact with legislators in order to explain that the main concerns raised by politicians are of a transitory nature and that it may not be advisable to overact with stiff policy measures

Supervisory Cooperation and Structure

- Some countries have rethought their whole supervisory structure – with the ‘twin peaks’ model back in vogue
 - The issue of uniting financial regulatory authorities has been raised in Lithuania, and the formation of a national regulator was raised in Canada
 - USA introduced a consumer protection agency
 - Move to a ‘twin peaks’ type model in the UK and South Africa – though pensions remain independent

Supervisory Communication

- The role of rebuilding confidence in pension systems often falls to pension supervisory authorities
- In many countries pension supervisory authority stepped up communication strategies around the time of the financial crisis with the goal of providing reassurance to investors and to remind members of pension funds that these investments are long-term and that reactive trading or switching between assets could have a detrimental effect
 - MAPAS Macedonia public media campaign explanation situation, effects on members of pension funds, long term perspectives and nature of the pension system
 - CONSAR Mexico intensive media campaign explaining the differences between a permanent loss and a mark-to-market drop
 - Israel an extensive advertising campaign (TV, dedicated internet site) launched in May 2009 in order to increase the public's involvement in long term savings
 - Some authorities (e.g. in Spain) focused on ensuring that their own staff were sufficiently prepared to provide information
 - Other authorities (e.g. Hong Kong) used the crisis as a catalyst to build on existing communication and education programmes
 - Other authorities (e.g. in the UK) worked with pension fund trustees or fiduciaries

Financial Services Guide

I'm worried about my super and I'm close to retirement

Step 1: Revisit your retirement plans

- You are not alone
- Get back to basics
- Revisit your attitude to risk
- Talk to your advisor
- When the numbers just don't add up

Financial Services Guide

I'm worried about my super and I'm close to retirement

Step 2: Review your super arrangements

- Pay close attention to statements and reports
- Talk to your fund or financial planner
- Should you switch investment options
- Should you switch funds
- Review transition to retirement arrangements

Financial Services Guide

I'm worried about my super and I'm close to retirement

Step 3: Start to move forward

- Slow your transitional arrangements
- Keep working and retire later
- Boost your balance
- Adjust your expectations

Financial Services Guide

I'm worried about my super and I'm close to retirement

Step 4: Avoid common traps

- Early access scams
- Selling at a loss
- Too good to be true
- Talk to your advisor
- When the numbers just don't add up



Financial Services Guide

I'm worried about my retirement income

Step 1: Look after yourself

- Watch your health
- Get professional help if you're not coping
- Time to rebuild



Financial Services Guide

I'm worried about my retirement income

Step 2: Review your financial plan

- Get back to basic
- Revisit your attitude to risk
- Talk to your advisor
- What if the numbers just don't add up

Financial Services Guide

I'm worried about my retirement income

Step 3: Review your current portfolio

- Growth investments
- Income streams
- In a frozen mortgage trust?
- Lost money in a managed investment scheme?
- Other points to consider

Financial Services Guide

I'm worried about my retirement income

Step 4: Strategies for the future

- Consider income support
- Cut back your spending
- Make use of cash reserves
- Stay diversified
- Should you sell investments?
- Go back to work?
- Sell the family home?
- Should you take out a reverse mortgage?
- Should you chase high returns?