

# AN IDEAL RETIREMENT SYSTEM: WHAT'S REQUIRED?

## Improved outcomes require a tailored approach

There is no single solution to creating the best retirement system that will fit all countries. Countries must take into account their own circumstances:

**ECONOMIC. CULTURAL. POLITICAL.  
HISTORICAL. CAPITAL MARKETS.**



## Proven fundamentals

There are common principles that countries can apply to their own circumstances to create better outcomes. The best retirement systems have the following:



**HIGH COVERAGE**  
WITHIN THE PRIVATE  
PENSION SYSTEM



**MANDATORY CONTRIBUTIONS**  
OF AT LEAST **8%**  
OF EARNINGS



AT LEAST **60%**  
OF EARNINGS NET  
REPLACEMENT RATE  
FOR THE MEDIAN  
INCOME EARNER



FUNDED ASSETS  
FOR THE FUTURE  
**>100%**  
OF THE COUNTRY'S GDP



A BASIC PENSION FOR  
THE POOR  
OF AT LEAST **25%**  
OF AVERAGE EARNINGS



A STRONG  
REGULATORY  
FRAMEWORK THAT  
LEADS TO IMPROVED  
GOVERNANCE AND  
BETTER PROTECTION  
FOR MEMBERS

## The Way Forward

**TEN  
PRINCIPLES  
FOR AN IDEAL  
RETIREMENT  
SYSTEM**

IMPROVED  
RETIREMENT  
SYSTEM

DELIVERS  
ADEQUATE  
BENEFITS  
FOR ALL  
WORKERS

MORE  
SUSTAINABLE  
OVER THE  
LONGER  
TERM

A sustainable system needs scope to adjust the following:

- Mandatory contributions
- Level of taxation
- Eligibility requirements, including age
- Indexation of pensions
- Benefits of funded pensions

# TEN PRINCIPLES FOR AN IDEAL RETIREMENT SYSTEM

**1** Clear **objectives** for the whole retirement system, including the complementary roles of each pillar of income or financial support.

A multi-pillar approach allows for risk diversification and efficiency

## PILLAR 1



A BASIC PUBLIC PENSION THAT PROVIDES A MINIMUM INCOME

## PILLAR 2



A MANDATORY, FULLY FUNDED SYSTEM LINKED TO THE WORKING YEARS

## PILLAR 3



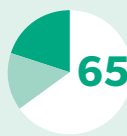
A VOLUNTARY, FULLY FUNDED SYSTEM

## PILLAR 4



SAVINGS FROM OUTSIDE THE PENSION SYSTEM

**2** A minimum level of **funding** for all workers with contributions by employers, employees, and the self-employed.



65%-80%

AN IDEAL INCOME IN RETIREMENT IS 65-80% OF AN AVERAGE REVALUED INCOME



A LIFETIME APPROACH TO CONTRIBUTION LIMITS RATHER THAN ANNUAL LIMITS WILL ALLOW PEOPLE TO BE ABLE TO "CATCH-UP" ON THEIR RETIREMENT SAVINGS WHEN THEY CAN AFFORD TO PROVIDE THIS FLEXIBILITY



RETIREMENT SAVINGS NEED TO INCLUDE CONTRIBUTIONS FROM INCOME REPLACEMENT (I.E., SICK/DISABILITY LEAVE OR PARENTAL LEAVE AS WELL AS EARNED INCOME)

**3** Cost-effective and attractive **default** arrangement before and after retirement.

With the ability to make personal decisions in relation to

- The level of contributions, above the required minimum
- Investment choice, particularly for DC members
- The type and level of any life or disability insurance
- Retirement age

**4** Administration and investment **costs** should be disclosed with some competition present to encourage fair pricing.

**5** **Flexibility** as individuals' personal and financial circumstances vary, and retirement will occur at different ages and in different ways across the population.



THE GLOBAL WORKFORCE IS AGING; PEOPLE ARE WORKING FOR LONGER, BUT MORE FLEXIBLY.



INDIVIDUALS SHOULD BE ABLE TO RECEIVE A PART PENSION WHILST CONTINUING TO RECEIVE OR MAKE CONTRIBUTIONS WHILST WORKING PART-TIME.

**6** Benefits provided during retirement should have an **income focus** but permit some capital payments, without adversely affecting overall adequacy.

Capital may be needed for a variety of purposes including:



MEDICAL



DENTAL



PURCHASE OF A CAR



REMODELLING OF THE HOME DUE TO A DISABILITY



AGED CARE FACILITIES

BETWEEN 20% and 40% should be able to be accessed during retirement years

**7** Contributions (or accrued benefits) at the required minimum level must have **immediate vesting**. These benefits should be accessible only under certain conditions, such as retirement, death, or permanent disability.

8

**Taxation support** from the Government in an equitable and sustainable way, providing incentives for voluntary savings and compensating individuals for the lack of access to their pension savings.



TAXATION SUPPORT SHOULD HAVE INTRA-GENERATIONAL EQUITY

9

The **governance** of pension plans should be independent from the government and any employer control.



Trust and confidence is critical in any retirement savings system.

Trust and confidence require good governance, strong regulation, consumer protection, cost-efficiency, good communication, access to education and advice.

### All about communication

Pension plans within the ideal retirement system should communicate with their members in many ways and many forms:



AN ANNUAL BENEFIT PROJECTION PROJECTING THE LIKELY RETIREMENT INCOME



AN ANNUAL REPORT ABOUT THE PENSION PLAN

10

**Appropriate regulation**, including prudential regulation of pension plans and some protection for pension scheme members.

[cfainstitute.org/ideal-retirement-system](http://cfainstitute.org/ideal-retirement-system)