Outcome Based Assessments for Pensions

An integrated strategy and assessment tool for diagnosis, policy making, monitoring and evaluation

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Acknowledgments

We would like to thank a wide range of internal and external reviewers for comments that have helped improve the framework during its development including John Pollner, Craig Thorburn and Heinz Rudolph and Michel Noel (all World Bank), Greg Brunner, APRA, Juan Yermo, OECD, Fiona Stewart when she was at IOPS before joining the World Bank, and her many perceptive and useful contributions to the project since then, participants at a number of joint OECD/IOPS meetings at which the concept and developing framework were presented. The framework was also developed through recent projects on a range of countries including in Guyana, Albania, Costa Rica, Trinidad and Tobago and Mexico.
Executive Summary

This report sets out a new Outcomes Based Assessment Framework for Pensions. A central motivation of the project was to put the ultimate outcomes that will improve people’s lives at the heart of the methodology. So the project started with the outcomes and worked back to those features which explain them. These features are used to diagnose key problems in country-specific projects. Recommendations are tested against common implementation problems to enhance deliverability. The OBA is an integrated framework from strategic vision through to initial data requests with an assessment methodology drawing on international best practice. It can be used for broad reforms or projects focused on a specific outcome or concern.

The framework sets out 5 key ultimate outcomes of a pension system. These are efficiency, sustainability, coverage, adequacy and security. These build on and deepen existing work including that with links to improving data collection. For each ultimate outcome a set of ‘key features’ were developed that impact the outcomes. For some international standards exist, for example, on governance of pension funds. For many features no standards exist – e.g. the scale of the institutions delivering pensions. Reviewer judgment remains critical – particularly for trade-offs between outcomes.

The Pensions OBA framework provides a reviewer with an integrated assessment methodology that is flexible and adaptable. It can be easily updated as the evidence on what works develops. The assessment methodology starts with data request sheets that map directly into the framework and facilitates assessment of current outcomes. It then provides a set of reviewer sheets for each outcome broken down by the key features that cause the outcomes. The key features were derived from a range of evidence sources to ensure their robustness – from academics and the private sector to practical experience and the work of international standard setters.

The key features that drive the ultimate outcomes have been mapped against international standards on pensions (from the OECD/IOPS), on insurance (IAIS) and on securities (IOSCO). As far as the authors know this is the first side-by-side comparison of international standards in a common outcome based evaluation. It shows that the OECD/IOPS standards have a broader coverage of factors affecting ultimate pension outcomes but that the IAIS and IOSCO standards have a deeper treatment of some issues, particularly relating to the security of the (pension) system. This mapping can be easily updated as standards evolve, and shows when a particular area is linked to an international standard or not. Most of the key features do not have a direct equivalent in a standard, but where there is the standard is chosen to improve the integration of global pension policy work and avoid duplication.

The Pensions OBA framework is designed to be used in a wide range of country diagnostic work. This can be in Financial Sector Assessment Programs (FSAPs), bespoke technical assistance or projects such as those from the FIRST Initiative to strength financial sector outcomes. For pension FSAPs the framework provides the potential to link the broad based development assessment part of an FSAP led by the World Bank with the separate Report on Observance of Standards and Codes (ROSC) which follows the methodology of the standard setter.

This report covers both the development of the framework and its final form including the tools for reviewers. The approach has been piloted on a number of countries of different sizes and levels of development. Strategic and focused projects were used to test and refine the methodology in a range of
The results so far are very promising. Using the Pension OBA improves the rigor and comparability of the focus on the ultimate objectives of reforms. It will enhance the clarity and consistency of Monitoring and Evaluation. The outcomes and their indicators embody the focus in the new World Bank Group strategy on the eradication of poverty and boosting shared prosperity sustainably, but are applicable to any country seeking to achieve a vision for better pension outcomes.

The framework works not only from ultimate outcomes back to their causes but forward from the core parts of an economy that influence pension outcomes – from the macro-economic and political environment, through the overall regulatory framework including other pension pillars, the market structure, entities and their governance and ultimately to the supervisor. This ability to link from pension system features through to outcomes and back helps to identify which parts of a pension system are in most need of reform and which agency will be responsible for reform. It helps, for example, a supervisory agency to identify the reforms on which they can focus, whilst having a proactive dialogue with the Ministry of Finance or Ministry of Social Affairs on critical reforms outside the control of a supervisor.

The Pension Outcomes Based Assessment Framework has an explicit element on implementation challenges. This ensures the ‘Science of Delivery’ is integrated into the design of policies to improve outcomes. It greatly assists the development of practical programs tailored to country specific implementation capacity and level of ‘initial conditions’ necessary for a successful pension program.

The report builds on many existing contributions from inside and outside the World Bank. Its particular contribution is the creation of a fully integrated assessment methodology unifying theoretical insights with the practical work of a reviewer.

The OBA will be used on increasing numbers of country projects to develop more robust, consistent but still country focused recommendations. As new evidence emerges the OBA framework will be updated. The aim is to help client countries improve the efficiency, sustainability and security of private pensions with inclusive coverage of decent pensions bringing strength through diversified public and private provision.
Chapter 1: Introduction and Outcomes

1.1 Introduction and Overview
This chapter sets out how the project was designed and the key elements of the overall Pension Outcome Based Assessment Framework. Most importantly it explains the development of the 5 ultimate outcomes – efficiency, sustainability, coverage, adequacy and security. It introduces some key concepts that are developed in more detail in subsequent chapters. Readers interested in the step-by-step guide to using the approach in practice should go straight to Chapter Four.

Chapter Two focuses on the review of evidence that determined the key features that help explain the outcomes in a country. It shows how this process is very open to any source of credible evidence or experience that helps to identify features of a pension system that will help us to better understand performance and better design policies to improve performance. Chapter Two also summarizes the exercise to compare and contrast the international standards of relevance to pensions.

Chapter Three sets out how to link a broad view of the ‘building blocks’ of a pension system into the OBA pension framework. It highlights the importance of including the economic and political environment and the pre-conditions as well as a focus on other pension pillars, legislation and supervision. It also shows how a deeper treatment of the market context is needed to ensure that the market structure and governance are part of the potential variables to reform. It also shows how a broad framework can help the dialogue between institutions within a country so each can understand their contribution to improving pensions.

Chapter Four explains each of the reviewer tools in turn in more detail as a practical guide on how the tool is used. The intention is that Pensions OBAs are performed by experienced and skilled reviewers as part of the diagnostic and policy development process of a country engagement. So the Pension OBA is not designed as a mass market self-assessment tool. That said the Pension OBA transparently identifies those features that are most important in understanding pension outcomes so it can help to guide the policy debate without a formal review.

Chapter 5 concludes and sets out next steps. The Pension OBA framework has already been piloted and road-tested. But the intention is that the tool will be continually updated and refined through experience. This will include the development of a deeper set of case studies and evidence links. This will help both reviewers and country clients to extract practical and evidence based material to aid policy development or implementation. It will also include the publication of a formal working paper on the methodology and a detailed working paper on the comparison of pension, insurance and securities market standards within the common outcome framework that was conducted as part of developing the Pension Outcomes Based Assessment.

1.2 Overview of project
The project was developed with a clear set of guiding principles and methodology. Essentially this meant starting with the outcomes and then working through the stages to develop a fully integrated assessment tool that was theoretically robust and practically implementable.
The key guiding principles are below and the stages in the project in simplified form are set out in Figure 1.1:

- Build on previous internal and external work where possible
- Use two experienced team members external to the Bank to ensure open and broad inputs
- Enhance internal and global co-operation including on improved data collection
- Review a wide range of evidence and experience for what is important
- Integrate and compare standards from OECD/IOPS, IAIS and IOSCO
- Develop something practical, usable and scalable – not 400 pages of guidance
- Ensure a framework that can be used for strategic reviews and more focused projects
- Test the work internally and externally and on live projects to ensure usability
- Validate and update against World Bank Group and Private Pension team strategy
- Do not produce a single point rating – but consider this for the future

Figure 1.1: Project stages in development of Pension Outcome Based Assessments

1.3 Developing the 5 key ultimate outcomes

The starting point for the framework was to ask ‘what we are trying to achieve in the long term?’ What does a good private pension system look like? The project experimented with a range of approaches – testing the ultimate outcomes against whether they provided a good guide to understanding and developing a pension system.

A set of 5 ultimate outcomes efficiency, sustainability, coverage, adequacy and security were determined. This section sets out how these 5 ultimate outcomes were arrived at– building on past work from the World Bank, OECD and a wide range of other authors. It also stresses the importance for our framework of linking the ultimate outcomes to data collection and monitoring and evaluation which is a key aim of the Pension OBA framework. A different ordering has been used from some of the related work, which normally starts with adequacy and sustainability. This is because the order presented worked best when doing the pilots. But the order a reviewer uses can be changed to start with adequacy, sustainability and coverage if preferred – the key issue is comprehensiveness.

The 2005 World Bank book ‘Old-Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform’1 set out 4 core outcomes measures - adequacy, affordability, sustainability, robustness. Contributions to economic growth appeared as a secondary goal. Coverage of pensions was discussed in significant detail. It was not explicitly one of the 4 main outcomes but rather was implied by the discussion. Adequacy and sustainability are always central to ultimate pension system outcomes so were clearly needed as part of the framework. They continue to be used

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1 Holzmann and Hinz (2005)
extensively both in World Bank work and that of a wide range of other organizations (Schwarz and Arias, (2014))⁡. The ‘Adequacy – Sustainability’ trade-off is one of the perennial questions in pensions and forms the center of the ‘Global Aging Preparedness Index’³.

**Sustainability is not just the government fiscal angle – central though that is – but also addresses systems where there are unsustainable tensions due to the level of contributions required of employers or employees.** This allows a simpler but more comprehensive use of the framework across countries – from employer burdens in a Defined Benefit occupational system - to fiscal deficits in a Defined Contribution system where the transitional deficit from diverting contributions to a funded private system had not been closed. The impact of macro-economic shocks was included within sustainability rather than robustness because, over the lifetime of a pension system, these are not rare or one-off events but a certainty. So a system cannot be sustainable unless it is built to deal with macroeconomic shocks from the outset.

**It was important to ensure in the new framework that coverage of pensions was placed on the frontline of the ultimate outcomes rather than being implied.** The centrality of improving coverage as a policy issue is growing (Levy, (2008)⁴, Bosch and others, (2013)⁵ and Rofman and others (2013)⁶ OECD Pension Outlook (2012)⁷ among many others). These and other resources highlight the importance of focusing on the labor market impact of pension systems, particularly with contributory elements. The trade-off between adequacy and sustainability highlighted above is often of course one between coverage, adequacy and sustainability since the costs of the program can come from either extending coverage, or benefits, or both.

**A second key development the project aimed to build in was an explicit focus on the efficiency of pension systems.** That is, how well do they transfer inputs (usually contributions) into ultimate outputs – pension income? This is clearly an issue for private pension systems where the costs of investment and the rate of return on those investments are critical. But it is also an issue for public pension systems – both when they have assets to invest but also when determining the overall costs of the collection, recording and payment systems (Sluchynskyy (2014))⁸. Moreover, a pension system can have important impacts on labor markets – both positive and negative. The efficiency outcome is not just an enabling factor for the other outcomes e.g. with better investment returns potentially improving adequacy for example, but an outcome in itself. For example, longer working lives can help retirement income, but other things being equal, improved labor market participation will improve long run growth. Extending working lives for the old should not be seen as a threat to youth employment given that strong labor markets tend to show better employment rates at both young and old ages. Or in other words, early retirements for older workers are both costly and ineffective ways to boost youth employment because the jobs are not usually direct substitutes⁹.

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2 Schwarz, A. and Arias, O (2014)
3 Richard Jackson and others (2010 and 2013)
4 Levy, S (2008)
5 Bosch, M. Melguizo, A and Pages, C (2013)
7 OECD Pension Outlook: (2012).
8 Sluchynskyy, O. (2014) forthcoming, which also highlights the importance of scale in reducing average costs.
9 OECD (1994)
The 2012 World Bank report International Patterns of Pension Provision II\textsuperscript{10} set out an updated categorization focusing the ultimate ‘performance indicators’ of pensions. This included not only coverage, adequacy and sustainability but also economic efficiency and administrative efficiency. The OBA project experimented with including separate categories of efficiency in this way. In practice it was often very difficult to draw the dividing lines between different elements of efficiency. This was true both in the data collection (where some elements overlapped) and also in the key features driving outcomes where there was often a great deal of overlap e.g. in the role of governance affecting both costs and investment returns. Moreover, it was important to put the issue of costs and investment returns within the same category of overall efficiency to emphasize the importance of a focus on the net of fee returns from invested assets.

But the similarities between International Patterns and the Pension OBA are much more important than the differences. International Patterns sets out the kind of logical flow from inputs to ultimate outputs that bring together a strategic focus with the practical focus on data collection and measurement. As well as International Patterns, the work of the OECD was a key input via their Global Pension Statistics and Pension Markets in Focus\textsuperscript{11} series. The data collection sheets developed for our project used the International Patterns or OECD Pensions Market in Focus definitions if possible and then added new data questions where necessary (set out below in more detail).

Finally the project aimed to develop a clearer focus on the security outcome. The issues that relate to security – as distinct from long run sustainability – principally focus on the supervisory aspects of a private pension system as well as the ‘shocks’ provided by politics – including the potential for government expropriation of private pension assets seen following the global financial crisis. These are separate from those aspects that drive whether a system can be technically sustainable. They include some elements that other authors had covered – for example in the ‘robustness’ category in Holzman and Hinz (2005). But the category in the Pension OBA framework integrates for example the 10 International Organization of Pension Supervisors (IOPS) Principles for Supervision\textsuperscript{12}. Though these affect other outcomes too their primary focus is whether a system will be secure overall in terms of whether the assets are secure from a range of issues from fraud to maladministration. The OECD Principles of Occupational Pension Fund Provision\textsuperscript{13} are broader than the IOPS Principles on Supervision so map at least in part to a wider range of outcomes (the methodology for the mapping and comparison with other standards is set out below).

The terminology used by organizations to describe their approach can often be different but often includes very similar elements. For example Melbourne-Mercer Global Pension Index\textsuperscript{14} looks at Sustainability, Adequacy and Integrity. The last category includes a number of elements of good regulation and supervision which were included in security, but also the issue of costs. Whilst we think costs fits more naturally in an overall assessment of efficiency it is heartening that in many cases we are discussing the same core issues. Likewise the American Academy of Actuaries’ ‘AGES’ framework relates to Alignment, Governance, Efficiency and Sustainability as 4 elements that can “provide a framework for well-functioning retirement plans that meet the needs of stakeholders in the retirement-income

\textsuperscript{10}Pallares Mirralles, Whitehouse and Romaro (2012)
\textsuperscript{11}http://www.oecd.org/pensions/PensionMarketsInFocus2013.pdf
\textsuperscript{12}IOPS (2010)
\textsuperscript{13}(OECD (2009)
\textsuperscript{14}Melbourne-Mercer Global Pension Index
system”\textsuperscript{15}. So two of the outcomes are shared. The Pensions OBA has governance as a critical element in determining good outcomes – a core design feature to be discussed below. And the concept of alignment relates to a number of the key design features we look at – essentially an input towards the ultimate outcomes rather than an outcome in itself but clearly a vital part of the story.

**Equity is such a critical feature of a pension system that it has been integrated it within each of the outcomes.** But other authors have taken a different approach as in the IMF’s ‘Equitable and Sustainable Pensions’\textsuperscript{16} by highlighting equity separately. As set out later in the data collection element and the indicators for each of the ultimate outcomes the distribution of the benefits of a pension system are centrally important to understanding its performance. Coverage needs to focus on who is covered by age, gender, region – or other relevant dimension. The key shared position is clearly that equity is important.

It proved essential to keep all 5 outcomes as a set rather than to have some as elements that flow into others or are subsets of others. There was experimentation for example with having efficiency and security as contributory factors to sustainability and adequacy and coverage. If efficiency is improved this is an economic benefit in and of itself. Moreover, there is a choice with what to do from the gains from efficiency. It may be to improve adequacy, coverage or sustainability, or even security if it contributes for example to bail out funds in the event of sponsor default. Or it may allow a country to redirect capital and labor to other priorities – the pension reform contribution to improving growth. So the role of efficiency needs to be taken as part of the overall outcomes not subsumed within them. Likewise, improving security is not just an input into coverage, sustainability and adequacy but impacts the experience and fears and ultimate trust in a pension system. These, though sometimes difficult to measure, are important ends in themselves – much like reduction in crime, and the fear of crime, are both legitimate targets of policy action.

In conclusion the 5 ultimate outcomes draw a clear line from earlier work, updating it for important new contributions and ensuring a strong link to efforts to improve data collection. In work with numerous client countries the aim is to develop pension systems which are efficient, sustainable and secure and deliver broad (or inclusive) coverage of adequate retirement income\textsuperscript{17}. Put simply, if this can be achieved good pensions for all generations are being built.

Trade-offs between the outcomes are often important when determining a reform agenda. The judgment of the reviewer and the country client is essential in making the right trade-offs. It would be possible to construct an overall index with weights for each outcome and try to automate or quantify the trade-offs to help make decisions on priorities. At this stage it is not felt that a single index or forced quantitative rankings would be the best approach. Clearly any reform program needs to set out the payoff in terms of improving the measurable outcomes. The issue is simply that judgment is still important – particularly when looking at what package would be able to be implemented successfully.

\textsuperscript{15} American Academy of Actuaries Forward Thinking Task Force (2014)
\textsuperscript{16} Clements and others (2014)
\textsuperscript{17} World Bank (2013)
1.4 Defining the 5 ultimate outcomes

The development of the 5 key outcomes involved a process of refining their definitions, developing measures of success and then the data collection process. The key definitions are set out below. Some key headline measures of success then follow.

**Efficiency:** Maximizing net of fee returns by improving investment and cost performance. It also relates to the efficiency of the labor and capital market as each interacts with the pension system with direct contributions to pensions (e.g. through longer working lives and contributions or reducing the cost of capital or increasing financial inclusion) as well as indirect contributions to jobs and investment. For labor markets this includes removing disincentives for work or formal work caused by excessive contributions, or contributing to growth by increasing labor market participation at older ages. For capital markets it relates to capital market depth through the development of non-bank financial capital to fund productive investment and maximize the benefits of wider capital market reforms e.g. in securities markets and infrastructure financing.

**Sustainability:** Ensuring that the promised retirement income will be delivered for this and future generations but without placing burdens on government, employers or workers for financing that will not be met. It is inherently improved by a diversified set of pillars or tiers so that one part of the system, public or private, does not have to bear all the weight of long run demographic trends. Sustainability also relates to political and individual support – with a technically viable reform having sustainability challenges if: there is too little political consensus; public expectations are not realistic; it is not equitable; or there is significant inter-generational inequity.

**Coverage:** Maximizing the proportion of the working age population that is accumulating retirement income entitlements and the proportion of retirees receiving such financial support in retirement. Hence this encompasses measures to include informal and other difficult to reach workers within retirement benefit accumulation, which may include expanding targeted non-contributory ‘social’
pensions, and hence equity between sectors of the population. The coverage outcome includes the impact of a wide range of policies from broad eligibility rules, through tax relief and educational support to improvements in compliance and formality.

**Adequacy:** Seeking to ensure that retirees within the pension system have accumulated retirement benefit entitlements that protect them from poverty, ensure people share in increased prosperity and protect against a severe drop in living standards at retirement, taking account of other sources of financial support. To the extent that the system is contributory this encompasses seeking to ensure sufficient and equitable contributions during retirees’ working careers to generate adequate retirement benefits. It can be measured in a range of ways, which will include retirement income as a percentage of average wages, poverty levels and own (career) earnings. It will also relate to immediate post retirement outcomes and those as people age to reflect the impact of inflation on retirement income over time. And it is essential to see who has inadequate pensions e.g. to include the distribution by gender, income and other characteristics.

**Security:** This starts with the security of the assets to minimize the risks that funds that have been or should have been accumulated to provide retirement benefits are lost or mis-appropriated before the benefits are delivered. The importance of long run growth in assets is central to the promise of pensions. But this is of no use if the assets are not there in 50 years when they are needed to generate income. So, security covers a wide range of elements, including basic pre-conditions, such as: the enforceability of law to accounting, actuarial and auditing capacity; data, payment systems; valuations and risk management and control frameworks. It also covers the processes to ensure any permitted asset shortfalls (e.g. in DB plans) are recovered. The security outcome relates to the performance of the supervisor as well as compensation mechanisms and protection of assets from government or employer expropriation.

### 1.5 Measuring the 5 ultimate outcomes

A central aim of the Pension OBA framework is to improve the clarity and focus on data collection and monitoring and evaluation. A set of data collection sheets were developed. These document both core data to understand a system and data to evaluate performance. Some elements are purely descriptive – for example the number of providers. But when combined with other measures, e.g. market size they create key information such as provider scale that should link to the efficiency of a system. This mirrors the approach In Global Development Finance Reports. Some of the Pension OBA indicators could be used to extend the Global Development Finance Report focus on pensions within its Depth, Inclusion (Coverage), Stability and Efficiency categories - these are highlighted in the detailed data and indicators sheet.

For each country project there is a necessary process of data collection, although often there are significant gaps. One of the aims of the OBA approach is that filling these gaps will be given a much higher priority. It is important to recognize that doing so is essential to working out whether meaningful outcomes have been achieved. The aim is to progressively improve data, even if from a low base. Moreover, with a more consistent form of data collection information on private pensions could be extended in future versions of International Patterns of Pension Provision.

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1.6 Monitoring the 5 ultimate outcomes

A key part of the Pension OBA framework is the creation of an integrated strategic process that sees a clear flow from specifying the ultimate outcomes, determining the features that impact them positively or negatively, developing and implementing reforms to improve the situation and then tracking, monitoring and evaluating the results.

This strategic or monitoring and evaluation loop helps to integrate the development of a long term vision into the day-to-day project delivery with client countries across the world. It also helps to identify areas on which to focus work on global best practice. For example, improving investment returns would have a powerful impact on improving efficiency. So part of the team’s global knowledge management work focuses on developing better ways to improve investment strategy and investment governance, including through the use of benchmarks\(^\text{19}\).

The monitoring and evaluation loop is shown graphically below. It highlights the cycle from the overall goal of the private pension team work through its specific objectives to the detailed activities and projects of the team ultimately to the way in which these activities change the final outcomes of a pension system. This process should significantly assist interaction with a wide range of development funders who are rightly concerned about tracing the link from inputs to outputs and outcomes. The

\(^{19}\) Stewart (2014)
Financial Reform and Strengthening Trust Fund (FIRST)\textsuperscript{20} for example require a robust results framework that shows the link between inputs and ultimate development impacts (using their terminology).

\textbf{Figure 1.4: Strategy, monitoring and evaluation and the Pension OBA process}

\textbf{The new Monitoring and Evaluation approach is delivered with an OBA}

\begin{itemize}
  \item \textbf{Goal:} Ensure private pensions are efficient, sustainable and secure so they deliver inclusive coverage of adequate pensions lasting the whole of retirement
  \item \textbf{Objectives*:}
    \begin{enumerate}
      \item Deliver system-wide strategic reform projects for countries in all regions (with Social Protection unit)*
      \item Deliver reform to second or third pillars*
      \item Deliver reform to the payout phase*
      \item Deliver projects to enhance a specific impact (efficiency, sustainability, coverage, adequacy and security)*
      \item Improve data, understanding and desire to reform*
      \item Create new solutions to improve efficiency, sustainability, security, coverage or adequacy*
      \item Build and Leverage Partnerships*
    \end{enumerate}
  \item \textbf{Development impacts:}
    \begin{enumerate}
      \item Increase efficiency with better investment returns, lower costs and better capital and labor markets
      \item Improve the sustainability for governments, employers and employees with no hidden liabilities or unaffordable contributions
      \item Improve security so regulatory and supervisory standards are high and governance is strong
      \item Increase coverage of contributors and recipients and tackle gender gaps
      \item Increase core and broad adequacy of contributions and income in retirement
    \end{enumerate}
  \item \textbf{Outputs – Decision by countries:}
    \begin{enumerate}
      \item Introduction of fiscal, legal, supervisory, and market structure reforms recommended / decision not to introduce reforms with negative impacts
      \item Increased data on pensions, interest in pension reform, requests for input from specialists and decisions to start projects or own reform program
    \end{enumerate}
\end{itemize}

\* All activities focus on implementing, developing or explaining solutions in fiscal (e.g. reducing costs of tax relief), regulatory (e.g. investment regs or contribution levels), supervisory (e.g. Risk Based Supervision) and market structure (e.g. governance, default options for members, lowering costs)

\textsuperscript{20} FIRST (2014)
Chapter 2: Developing the key features which drive outcomes

2.1 Building on the evidence – introduction

After developing the ultimate pension outcomes, the project then focused on determining the ‘key features’ that help drive these outcomes. The idea was to take a flexible and simple-to-update approach – to develop a framework where good evidence of impact was used from a broad range of sources to determine which features are the most important for driving outcomes. When this evidence changes – for example if a particular feature once thought to be important turns out to be less so it can be taken out of the assessment framework or have its importance reduced. Equally if new evidence suggests a focus on a new feature this can be easily added into the framework.

The OBA framework draws on a wide range of sources to inform the allocation of key features to outcomes. These can be broadly categorized as evidence from: academic and private sector research; international best practice, including the experience of the OBA team themselves and others working for the World Bank; various published working papers and case studies; and international standards. Where there is a strong evidence base for the features that support good outcomes, which is the case for most of the outcomes, the available evidence was the primary source for developing features. In relation to security, pension regulators and supervisors often embody their experiences and near-misses in updated standards and guidance. So these are critical sources for the key features but not ‘evidence’ in the sense of an academic paper. That said there has been useful work in this area over a number of years\(^{21,22}\) as well as many reports and enquiries in the aftermath of the global financial crisis on standards in general\(^{23,24,25}\). Moreover, there are some case studies prepared for use by the Toronto Centre among others\(^{26}\). But the vast majority of this work does not focus on pensions specifically. The Outcomes Based Assessment Framework will help overtime to redress the balance by providing a more comparable set of pension assessments and reform proposals based on better and more comparable data and more case studies of what works.

\(^{21}\) FSB (2012)
\(^{22}\) Sharma (2002)
\(^{23}\) Vinals and Fiechter (2010)
\(^{24}\) World Bank (2013a)
\(^{25}\) World Bank (2014)
\(^{26}\) See for example: Toronto Centre International Program for Securities Regulators: Averting Failures and Managing Surprises and material for Toronto Centre International Program for Insurance and Pensions Supervisors
The Pension OBA aims to be a practical framework which reviewers can use in the field. So we had to find a balance between a comprehensive list of features and a manageable list to review and discuss with client countries and market participants. As set out in the project brief the aim was not to develop 400 pages of guidance to follow when doing an assessment. So the project experimented with different formulations of features. The piloting process was extremely useful in determining which areas needed their own focus and which could be grouped within one feature. In particular, some features cover both the accumulation and payout phases, which have distinct literature. Hence, some features are supported by multiple sources.

The features then work as a set of areas to investigate in both the diagnosis and policy development phases of a project. The types of areas covered are set out in the figure below to give an example of what is covered before looking in more detail at the evidence gathering process. What follows is not a full literature review of each area but an identification of some key evidence on which the project drew to justify the inclusion of a particular feature.

The framework aims to be comprehensive and adaptable. If an important area of literature has been missed that justifies including another key feature the authors would be very happy to receive comments and evidence. If a feature has been included on which the evidence of impact is too weak to justify a focus in country diagnostic work, then comments here too would be very useful. It is hoped and expected that the precise areas of focus will evolve over time. The OBA aims to be inclusive and consider evidence from any legitimate source. The evidence base should guide reviewers and policy-makers.
2.2 Academic and private sector evidence

The literature on efficiency is vast and only some of the references that were most compelling are used here. The intention is not a full literature review but the determination of which features need to be addressed to understand and improve efficiency. Recent evidence from the World Bank and OECD and a range of academic authors as well as a review of the literature was set out in ‘Evaluating the financial performance of pension funds’\(^27\). There has been extensive research by Keith Ambachtsheer, the Dutch Central Bank (DNB) and many others on the drivers of investment performance, using the CEM database\(^28\). These research papers are supplemented by research papers published by the Australian prudential regulator (APRA) using data from $1.4 trillion Australian private pension funds. The evidence supports seven key features as follows:

- **Scale**: not only are net returns correlated with size of pension fund – so are gross returns\(^29\). This picture is confirmed by very many studies and other benchmarking data, for example from Investor Data Services\(^30\), reviews conducted as part of the Cooper Review in Australia\(^31\) and across a wide range of DC plans in the US\(^32\) and the link between costs and size appears in small

\(^{28}\) Cost Effectiveness Benchmarking (CEM) Inc is an independent provider of benchmarking information with a database covering 370 pension funds worldwide with assets of about $5.8trillion (2011) going back to 1990.
\(^{30}\) Investor Data Services, London
\(^{31}\) Deloitte, Touche, Tohmatsu. (2009)
\(^{32}\) Investment Company Institute/Deloitte (2011)
occupational funds in the UK\textsuperscript{33}. Good data on costs and size is often lacking in many countries and improving the data could be a useful part of many projects.

- **Member-focused governance**: Ambachtsheer has used the CEM evidence to indicate that good governance is worth at least 1\% a year in net investment returns\textsuperscript{34} – APRA research shows persistence in returns over time suggestive of good governance having an effect. Both CEM and APRA have shown that not-for-profit pension funds out-perform commercial pension funds\textsuperscript{35} or mutual funds\textsuperscript{36}, indicating that the greater member-focus of the former has a significant effect. Other research (using Polish pension funds\textsuperscript{37}) has shown that independent board members improve commercial pension fund investment performance. APRA research shows a correlation between good governance and lower operational as well as investment costs\textsuperscript{38}.

- **Expertise of governing body**: this is a key attribute of high performing governance as defined by Ambachtsheer and colleagues in their research correlating investment performance with governance and the work from Professor Gordon Clark, Roger Urwin and others\textsuperscript{39, 40}.

- **Robust strategy process**: this is another of the key governance attributes identified by Ambachtsheer and colleagues and Clark and Urwin among many others in their research.

- **Controls on advisors and investment managers**: as well as this being another governance key attribute, CEM researchers and APRA have hypothesized that the ability to negotiate better deals helps large funds reduce costs further, while funds with in-house investment management, which can presumably be better controlled, out-perform funds that out-source investment management\textsuperscript{41}.

- **Optimal long term investment strategy and appropriate limits**: optimal strategy is another key attribute of governance, and there is considerable literature showing a correlation between investment style and returns\textsuperscript{42}, potential benefits from greater allocations to illiquid investments\textsuperscript{43}.

- **Cost control, caps and transparency**: not surprisingly the evidence shows costs strongly correlated with net returns, except that for large funds additional expenditure on governance\textsuperscript{44} and investment management may correlate with improved net returns. APRA research has pointed to the likelihood that investment costs are sometimes hidden, worsening cost control at less well governed funds\textsuperscript{45}. This echoes a finding regarding the prevalence of hidden investment costs from the Netherlands\textsuperscript{46}.

\begin{thebibliography}{99}
\bibitem{33} Lane, Clark, Peacock (2013)
\bibitem{35} Sy W. (2008)
\bibitem{36} Bauer, R, Cremers, M & Frehen, RG P. (2010)
\bibitem{37} Jackowicz, K. and Kowalewski, (2011)
\bibitem{38} Sy, W. and Liu, K: (2009)
\bibitem{40} Clark, G. L and Urwin, R. (2008)
\bibitem{41} From, Dyck, Alexander & Pomorski, and Bauer, Cremers & Frehen, and Cummings (2012)
\bibitem{42} For instance, Koedijk K; Slager A; Bauer R (2010)
\bibitem{43} Cummings, JR. and Ellis, K: (2011)
\bibitem{44} Ambachtsheer 2005, see above.
\bibitem{45} Sy and Liu 2009, see above.
\bibitem{46} Netherlands Authority for the Financial Markets (2011)
\end{thebibliography}
Strong evidence on the impact on replacement rates of both aspects of the ‘optimal long term investment strategy and appropriate limits’ come from OECD modeling and analysis. This covers the impact of different quantitative approaches to regulate investment risk on the retirement income stemming from DC pension plans. Other analysis relevant to this feature and to ‘competition, choice and transfers’, shows negative effects on performance arising from excessive fund manager competition or minimum return guarantees. Modeling building on analysis of available research has also demonstrated the superiority of life-cycling portfolios (a security outcome feature) as well as problems with participant investment choice and good practice in providing default portfolios.

Academic literature and relevant practical experience support the regulation of optimal asset allocation in DC as well as DB pension funds (see the summary in Castaneda and Rudolph, 2011). The paper covers also the appropriateness of limits, the potentially sub-optimal impact of competition and choice unless it is well regulated and how the interests of members and fund managers can be aligned, hence avoiding conflicts of interest, which contributes to member-focused governance.

There is evidence of the features that are associated with substantial reductions in charges to pension plan participants. The Turner Commission in reviewing international experience noted that compulsion by itself is not guaranteed to achieve this objective, especially if, as in Australia, there are high marketing costs, and that Swedish and Danish experience illustrate that significantly lower costs can be achieved through a nationally administered scheme, in which the government collects money through the tax system, administers individual accounts centrally, and purchases fund management services in bulk from the wholesale industry. Subsequent UK experience has shown that auto-enrolment associated with scale benefits and a state-sponsored not for profit pension fund with strong governance and a low cost mandate (NEST) can drive down charges. Competition by itself appears to be inadequate to drive lower costs if individual choice is the motor. Lack of transparency is a big issue in determining what costs are. But even where there is very good transparency and excellent annual reporting from an independent body as in Turkey with the Pension Fund Monitoring Center the impact on outcomes is limited and the market structure and demand and supply conditions tend to dominate.

The Melbourne Mercer Global Pension Index supplies a different strand of international evidence on the features that drive ultimate outcomes. Its suite of indicators relate to features which researchers consider help to deliver ‘adequacy, sustainability and integrity’ – outcomes not so different from the OBA’s. Many of the 50 indicators are descriptive, but some normative indicators are included under

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47 Antolín, P. et al. (2009)
49 Viceira LM: (2010)
50 Castañeda, P. Rudolph, HP. (2011)
52 The charges issue in Australia is being addressed by reforms based on the ‘Cooper Report’ 2010 – “Review into the Governance, Efficiency, Structure and Operation of Australia’s Superannuation System” Australian Government. This report documents the scope for cutting fees and makes recommendations for doing so through greater transparency, competition and structural change.
53 In particular, see Office of Fair Trading Defined contribution workplace pension market study 2013 revised 2014 Office of Fair Trading, London
54 Pension Fund Monitoring Center (2013)
55 Published annually by the Australian Centre for Financial Studies (ACFS) in partnership with Mercer
‘adequacy’. They prompted the addition to the OBA of ‘adequacy: fair treatment of spouses and dependents’. Other adequacy features common to the Index and OBA cover: ‘tax and financial incentives’; ‘controlling early access’; ‘portability’; ‘years of vested participation’; ‘protection against post retirement inflation’; and ‘income provided until death’; and ‘contribution levels and benefit accrual rates given income objective relative to other pillars’. It has been applied in a range of countries including both developed and developing.

There is also evidence on what works in improving coverage in a sustainable manner. Evidence from across the EU indicates that tax incentives can make a contribution but have their limitations. For instance concerns have been raised about their redistributive effects, and that they are no substitute for mandatory or soft compulsion. This finding is supported by research in other countries which also points to the importance of Government action to ensure that pensions are made available by all employers.

2.3 International Best Practice including World Bank work

Guidance on international best practice prepared by OECD, IOPS and the World Bank, in particular, provided an important underpin to the choice of features. Some of the OECD guidance papers are cross-referenced within the OBA database. More internal and external papers can easily be cross referenced for ease of access for reviewers and client countries. The main documents falling within this category so far are:

- The OECD Roadmap for the Good Design of Defined Contribution Pension Plans (2012), which draws on earlier OECD research and modeling that is referenced above, and is particularly strong on adequacy.
- The OECD/ IOPS Good Practices for Pension Funds’ Risk Management Systems (2011) identify general good practices particularly relevant to security. This is based on analysis conducted in relation to the OECD/IOPS Working Paper on risk management, guidance papers issued by OECD/IOPS members and international good practices for other types of financial services.
- The OECD/IOPS “Good Practices on Pension Funds’ Use of Alternative Investments and Derivatives” (2011) supplements the risk management good practices from the experience of pension supervisors in this area.

Turning to the World Bank:

- Its (2005) primer on pension system reform explains the Bank’s perspective on pension reforms benefiting from presentations and comprehensive discussions with the pension community inside and outside the Bank including experience in 22 countries. The guidance has a particular and thorough focus on system sustainability, but covers much else.
- The World Bank have further (2008) considered and concluded upon the pre-conditions for a multi-pillar pension system on the basis of developing experience. The same authors also developed a note for use by reviewers of FSAPs that has fed into the OBA framework.
- The World Bank’s (2010) guidance on policy options for payout systems covers similar ground, but obviously from the perspective of payout.

57 Notably: Munnell, A., & Quinby, L. (2009)
59 Rudolph H & Rocha R: (2009)
The concordance between the pension system features commended in these various forms of guidance, and the features developed in the OBA is set out in Box 2.1. Out of the 66 key features there is only an exact match to a standard in 10 cases. But the wider guidance often focuses on the importance of features, such as scale, for which a standard is unlikely ever to be set. This shows the importance of having a broader ‘what works’ approach for the OBA for pensions whilst using the work of standard setters where possible to improve alignment.

Box 2.1: concordance between some of the pension system features commended in OECD and World Bank guidance, and OBA features. NOTE NOT ALL KEY FEATURES ARE IN THE TABLE SEE FIG 2.3 FOR A FULL LIST

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<td>Role of advisors and investment managers</td>
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<td>Fair, efficient, deep and transparent capital markets</td>
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<td>Good communication and disclosure</td>
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<td>Efficient operational, recordkeeping and data.....</td>
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<td>Reduce labor market distortions</td>
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<td>Government costs sustainably funded</td>
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<td>Affordable employer and employee costs</td>
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<td><strong>Coverage</strong></td>
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<td>Mandatory, behavioral or social stimulus to participate</td>
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<td>Reducing incentives for labor market informality</td>
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<td><strong>Adequacy</strong></td>
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<td>Contribution levels and benefit accrual rates etc.</td>
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<td>Income provided until death</td>
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<td>Protection against pre- and post-retirement inflation</td>
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<td>Fair treatment of spouses and dependents</td>
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60 Rocha, R. & Vittas, D: (2010)
Publicity and education  √

Security
Consistently enforced business law regime  √
Clear legal structures for pension entities  √(p)
Standards and professionals in accounting etc.  √
Data: economic, demographic and personal  √(2)
Risk management and internal controls  √ √
Assets appropriately separated and ring-fenced  √ √
Valuation of assets and liabilities’  √
Prudent funding of commitments.....  √ √(4)
Investments are sufficiently secure, liquid, diverse  √ √ √
Matching assets to liabilities and member life-cycle  √(3) √ √
Risk-based supervision & other supervisory features  √ √

Notes:
(a/p) specifically covers accumulation and payout  (p) payout only
(1) In relation to low cost pension products  (2) relating to longevity data
(3) in relation to life-cycling  (4) pre-funding of pension benefits
(5) system-wide data and systems

IOPS Guidelines on Supervisory Assessment of Pension Funds (2008) and on Supervisory Intervention, Enforcement and Sanctions (2009) expand on the IOPS Principles of Private Pension Supervision, embedded as features contributing to the security outcome. These also are cross-referenced within the OBA database. World Bank guidance also supports strong pensions supervision.

A World Bank publication on mandatory DC systems in Latin America⁶¹ provides further evidence on efficiency. As well as showing scale is a driver of performance, research referenced in the publication on Latin American pension funds provides evidence on ‘competition, choice and transfers’; and ‘cost-effective distribution and intermediaries’, ‘cost control, caps and transparency’ as drivers of efficiency. It notes the strong international evidence of participant inertia, compounded by regulations that made switching of providers harder, and poor understanding of the system. Research shows that switching in Latin American mandatory systems was primarily correlated with sales agent activity with limited, if any, correlations with returns or fees. Despite competition, charges to affiliates varied substantially, while sales agents’ costs substantially increased the size needed for a pension fund to be considered efficient⁶². Alternatives to individual-choice based competition in the market, making recommendations to introduce competition for the market (auctions) and to improve the design of price controls, based in particular on New Zealand (Kiwisaver) evidence. Research into reforms from 2009 in Chile, where competition in the market had not been driving efficiency, also shows that auctions enabled new entry with much reduced commissions⁶³. Much of this work mirrors the findings from the work pioneered by

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⁶² Regulation limiting marketing activity reduced the minimum size for efficient operation – for instance in Chile from 1 million to 150,000 contributors.

Professor Madrian and colleagues\textsuperscript{64}. However, in Chile the use of auctions has not led to lower fees for everyone because companies that do not win the auction do not have to lower their fees and even if they do win an auction the winning bid only applies to new members.

The framework can draw also on the response of public pension funds to issues of efficiency, governance, costs and investment strategy that feature in the OBA framework. For instance, an influential survey of international expertise on how to improve governance and investment strategy in public pension funds investing assets has been set out in Rajkumar and Dorfman (2010)\textsuperscript{65}. Many of its lessons are equally applicable for private sector or arms-length not-for-profit funds including those in occupational systems. Further experience from practitioners on investment management of a range of public pension assets and reserve funds has been gathered through a series of annual conferences arranged by the World Bank Treasury\textsuperscript{66}.

Improving coverage is a growing area of focus which highlights the importance of using a mix of public and private, contributory and non-contributory pensions - indeed an effective mix is important for achieving all the ultimate outcomes. The Chilean pension reforms in 1981 have been much studied and praised but the exclusively contributory privately funded model was always going to struggle to ensure broad coverage. This was why major reforms were needed in 2008 to introduce a ‘zero pillar’ to ensure the country has near universal coverage of (some retirement income) to complement the large funded defined contribution system. The same journey has been seen following the 1997 Mexican reforms which replaced the public system with a fully private contributory system for new workers entering the labor force. The old pay-as-you-go public system had an extremely long ‘transition’ period as workers who had one day of contributions under the old system could retire under the pre-1997 benefit formula rather than the new 1997 system, which was designed to wholly replace the pay-as-you-go public benefits. But in a series of changes the Mexican government has begun to fill in the gaps in retirement income that would be left under the post-1997 system. Originally targeted at relatively small groups and above age 70 (the 70 y mas program) the scope of the retirement income provision in addition to the contributory DC system has been gradual widened (for example 70 y mas became 65 y mas). These and other examples show the need for multi-pillar balance in the long run pension design. A series of studies has brought together international expertise on how to improve coverage using a range of mechanisms\textsuperscript{67,68,69}. Rofman and others (2013) includes a chapter on both the Chilean and Mexican experiences as well as 12 other country case studies. This demonstrates that pension system design is not an ‘either-or’ activity but one where a range of solutions are needed to tackle the biggest gaps, which may include ‘social’ non-contributory pensions or income transfers to the elderly as well as contributory pensions and savings.

\textsuperscript{64} For instance, Madrian, B.C. (2012). and Beshears, J., J. Choi, D. Laibson, and B.C. Madrian 2006
\textsuperscript{65} Rajkumar, S. & Dorfman, M. eds. (2010)
\textsuperscript{66} See for example “Global Symposium on Pension and Sovereign Fund Investments” - Cape Town, South Africa - Nov 18-20, 2013 arranged by the World Bank Treasury.
\textsuperscript{67} Holzmann R., Robalino D., & Takayama Eds (2009)
\textsuperscript{68} Rofman, R. Apella, I and Vezza, E (2013)
\textsuperscript{69} Bosch, M. Melguizo, A. and Pagés-Serra, C (2013)
Key lessons that under-pin ‘security - protection from Government policy reversal’ are set out in a World Bank review\textsuperscript{70} of the evidence from the policy reversals following the financial crisis. This also supports the following features:

- ‘Sustainability - Government costs sustainably funded’ - the importance of sustainable income-streams financing transition to a multi-pillar system;
- ‘Efficiency - cost control, caps and transparency’ - avoiding excessive costs, and the benefits of some types of price controls;
- ‘Efficiency - optimal long-term investment strategy and appropriate limits’ and ‘security - matching assets to liabilities and member life-cycle’ - the importance of using portfolio benchmarks, on a life-cycled basis. This conclusion also assumes the importance of other drivers of efficiency covered above;
- ‘Adequacy - appropriate guarantees on income and returns’ - the need for care in applying performance guarantees; and
- ‘Coverage - mandatory, behavioral or social stimulus to participate’ - the value of considering quasi-mandatory coverage, such as through automatic enrolment.

On the balance between the pillars, there is EU evidence that reducing Pillar II contributions, if not reversed, increases ultimate public debt – see Egert (2012) for one example\textsuperscript{71}, while World Bank research across Europe and the former Soviet Union countries documents the negative effect that over-generous pillars 0 and I can have when they try and fulfil all the tasks of a pensions system\textsuperscript{72}. There is also evidence on the importance of funded pensions being perceived as taxes\textsuperscript{73} (Coverage - Building trust given economic and political history) and avoiding worsening the tax wedge by funding pillar I pensions from general taxation.

2.4 Working Papers and case studies
This category of evidence comprises a wide range of working papers and case studies supporting various features as drivers of outcomes. In particular, various country studies have also provided evidence to support the features contributing to the OBA outcomes.

A review of the development of the annuity market in Chile\textsuperscript{74} has shown how policy developments have improved efficiency outcomes through regulation. This is relevant to ‘efficient transition to payout phase’ and adequacy - income provided until death’, and, regarding the payout phase, to: ‘efficiency - cost-effective distribution and intermediaries’; ‘adequacy - appropriate guarantees on income and returns’; adequacy - protection against post-retirement inflation; and ‘security - prudent funding of commitments...’. Further research on this subject\textsuperscript{75}, in five other countries, supports these findings, and adds support from experience of annuity regulation in Switzerland to ‘efficiency - cost control, caps and transparency’, as well as covering retirement product risk-sharing relevant to ‘sustainability - effective and counter-cyclical adjustment mechanisms’.

\textsuperscript{70} Price W & Rudolph H: (2013)
\textsuperscript{71} Egert, B.(2012)
\textsuperscript{72} Schwarz, A, Omar S.A, et al.(2013)
\textsuperscript{73} Leszek, K., Laursen, T., & Skrok, E. (2008)
\textsuperscript{74} Rocha R & Rudolph HP (2010)
\textsuperscript{75} Rocha, R. Vittas, D & Rudolph, HP (2010)
Turning to coverage, research\textsuperscript{76} shows that mandatory DC systems (in Latin America at least) can lead to good affiliation rates for the formal workforce but have significant problems with informality. Overall adequacy is impacted by issues with persistence, while the large informal, SME and contractually irregular parts of the workforce are scarcely covered, proving support to several coverage and adequacy features, most notably ‘adequacy - years of vested participation’ and ‘coverage - reducing incentives for labor market informality’. The issue was recently tackled in the 6\textsuperscript{th} Global Pension and Saving Conference which included case studies of improving coverage in informal sectors were provided from India\textsuperscript{77} and Kenya\textsuperscript{78}. This is a challenging and important area and one where more research and piloting is needed. It also shows the need for both public and private elements to a pension system. Without public provision there will never be enough coverage of the life-time poor of income in retirement. But equally without building privately funded pensions at the appropriate point as countries develop it will not be possible to deliver sustainable solutions that both eradicate poverty and share increasing prosperity across generations.\textsuperscript{79}

On adequacy, research on developments in Chile\textsuperscript{80} shows that improvements in the way that pension projections are calculated and presented has increased voluntary contributions and led to postponement of retirement, therefore supporting two of the adequacy features. There has been extensive similar work by a range of reviewers including David Blake at CASS Business School and Netspar in both working papers and formal academic publications\textsuperscript{81}.

On security, a review of the development of private pensions in the Russian Federation\textsuperscript{82}, as well as confirming many of the features referred to already, demonstrates the problems that can occur when the ownership by participants of their pension assets is unclear. This supports security features relating to clear pension fund structures and asset segregation. It is well known that in some jurisdictions the combination of lack of inflation protection, and often of benefit preservation, within DB pension funds has resulted in significant surpluses that have often reverted in part or whole to sponsoring employers rather than member benefits, although literature on the subject is limited – there is supporting material on consequent regulatory reforms in South Africa\textsuperscript{83}.

The experience of Nigeria\textsuperscript{84} has also been influential. In this country prior to the 2004 pensions reform, under-funding of public and private pension funds, coupled with a lack of member-focused governance, (inadequate supervision) and low levels of coverage resulted in too few citizens with pensions and too few of those with pensions receiving their due payments on time. The reform aligned pension promises with what could be delivered, introduced mandatory DC accounts and greatly strengthened regulation and supervision, supporting features relating to the sustainability and coverage outcomes, member-focused governance and several security outcomes.

\textsuperscript{76} Rafael R & Oliveri ML: (2012)
\textsuperscript{77} See ‘Invest India Micro Pension Services’ http://www.micropensions.com/
\textsuperscript{78} Odundo, E (2014)
\textsuperscript{79} 6\textsuperscript{th} Global Pension and Saving Conference (2014) www.worldbank.org/fpd/pensionfunds
\textsuperscript{80} Antolin, P. and Fuentes, O. (2012)
\textsuperscript{81} Dowd and Blake (2013)
\textsuperscript{82} Rudolph, HP. & Holtzer, P. (2010)
\textsuperscript{83} For instance, this subject is covered in Andrew J.P.(2001)
\textsuperscript{84} A summary can be found as ‘historical background on the website of the National Pension Commission of Nigeria.
The Maxwell case in UK (along with several other contemporary fund failures such as the Madoff scandal, MF Global, Lehman’s) has also provided a graphic example of what can happen if some basic controls over security are missing. Subsequent reports\(^85\) supported the need for better segregation of assets, a prohibition of self-investment, funding standards, inflation protection for deferred members, member-nominated trustees, independent professional auditors and actuaries with whistle-blowing duties, clearer definition of what can happen to fund surpluses, independent supervision and a fraud compensation scheme.

Three OECD working papers with a broader reach have also contributed to developing the features:
- Research on the pro-cyclical and return-reducing impacts of funding and accounting rules\(^86\) emphasizes the importance of funding and solvency rules for DB plans being counter-cyclical, which supports the final feature under ‘sustainability’.
- Research has shown\(^87\) that mandatory pensions result in much higher coverage than achieved in voluntary systems, while financial incentives and auto-enrolment can significantly improve coverage, supporting further the two of the features of the coverage outcome. There is also some evidence on the importance of setting sufficiently high default contribution rates (relating to the first adequacy outcome). The paper refers to the limited evidence from the USA linking financial education with coverage (another feature).
- Research on pension guarantee or protection funds\(^88\) has enabled conclusions to be drawn on appropriate design principles, which are relevant not just to ‘security - sponsor/provider guarantees and compensation funds’ but the prudent funding and asset liability matching features. An update to this paper would be beneficial, as we know that the funds have since prevented significant pension losses in the countries concerned, by contrast with serious losses where such funds do not exist, e.g. Waterford Crystal in Ireland. This failure, and other DB failures, such as pre-2004 failures in the UK also point to the need for winding up provisions to share losses between classes of members (so that active members do not lose nearly all their benefits while pensioners are fully protected) and preventing solvent companies winding up funds without paying pension debts in full.

### 2.5 The contribution of International Standards in pensions, insurance and securities to developing the key features

**International principles and standards for financial regulation and supervision were an important source of input for the key features.** International principles and standards can serve many purposes, but their fundamental purpose is to drive the development of systems that can better achieve the objectives of financial regulation and supervision. Such objectives, as elaborated in the international standards, include protecting consumers by contributing to the safety of financial institutions, the fairness and stability of markets, and good market conduct. These objectives have some commonality with the desired ultimate outcomes of a private pension system, so it is appropriate to look to the international standards for insight on features that the standard setters consider important to the achievement of such objectives.

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\(^86\) Severinson, C. and Yermo, J. (2012)  
\(^87\) Antolin, P., Payet, S. and Yermo, J. (2012)  
The OECD and IOPS standards were reviewed since they were formulated specifically for the pension sector. The IAIS standards were also relevant, for a variety of reasons. In many jurisdictions, insurers play an important role in the pension system. They also take on long-term obligations and make long-term investments, as do pension entities. The IOSCO standards were considered because they deal with issues that have close parallels in the pension sector, such as collective investment schemes and the information needed by consumers to make appropriate investment decisions, similar to many defined contribution pension arrangements. The BCBS (banking) standards were considered but were not part of the detailed analysis, because the banking system is not as closely related to pensions as are insurance and securities, and because relevant topics were already well-covered by the other international standards.

The international standards are structured along functional lines, rather than according to the outcomes they seek to achieve. Nevertheless, some broad observations can be made about the relevance of various types of standards to the outcomes on which the project has focused. Standards dealing with supervision and prudential matters strongly relate to the safety and soundness objectives of financial regulation and supervision – and the security outcome. Governance, disclosure, and distribution strongly relate to the market conduct and fair treatment objectives of financial regulation and supervision – and the efficiency outcome. But to be truly useful, it was necessary for the analysis to move beyond these generalities.

One aim of the project was to perform a comparison of the different standards in a common outcome based framework. So the OECD/IOPS, IAIS and IOSCO standards were mapped to the outcomes. One purpose for which the OECD standards are used is to assess the pension systems of countries that seek to join the OECD. For this reason, as well as their focus on the pension sector, it is unsurprising that they cover more outcomes than the other standards. However, the IAIS standards had more developed implementing guidelines and also provide a more integrated link between regulation and supervision than do the OECD/IOPS standards, which deal with these issues separately.

Each set of international standards deals with supervision which feeds into our security objective. The IOPS standards focus exclusively on supervision, and the OECD standards directly incorporate the IOPS standards. The IAIS and IOSCO standards relating to supervision cover essentially the same ground, although differing in the details. Although supervision can deal with prudential and market conduct matters, the focus in either case is to ensure that consumers will receive what they have been promised. Accordingly, the key features of supervision are primarily drivers of the security outcome.

The OECD and IAIS standards relating to financial matters, such as valuation, investments, risk management, and funding, provided further indications of key features that drive security. In addition the OECD guidelines provide particular reinforcement for several features including: ‘efficiency, notably good communication and disclosure’; ‘sustainability - understanding of intended outcomes and risks’; ‘sustainability - Effective and counter-cyclical adjustment mechanisms’; ‘coverage - Eligibility for participation’; adequacy- years of vested contributions, portability and enforcement; and the majority of the security features.

The need for good governance is highlighted in all international standards. Good governance can help to drive all desired outcomes. However, because of the strong evidence of the importance of governance to driving positive investment results – and the importance of positive investment results to
controlling the cost of pensions – key features of governance were primarily considered to be drivers of efficiency.

The international standards touch on various aspects of the environment in which the financial sector operates and in which regulation and supervision take place. In some cases, they are discussed as preconditions for effective regulation and supervision, while in other cases they are among its objects. For example, IOSCO has a standard dealing with auditing, for which many securities regulators have oversight responsibility, while the other international standards consider it a precondition. These environmental aspects are equally important to pensions, and can affect a range of outcomes.

In summary, a number of the key features can be linked to the international standards. However, there are also many key features that have no supporting standards. The traditional standard-setting exercises have not dealt with the full range of outcomes, but focus on issues that are under the control of the regulator or the supervisor. Some key features, such as those that relate to the economic environment and market structure, are typically beyond the control of the regulator or supervisor. The OBA framework is able to build on the strengths of all standards to make sure that it covers all the right features of a system. For instance, the available evidence regarding “efficiency-fair, efficient, deep and transparent capital markets” is underpinned by IOSCO standards, while ‘Efficient operational, recordkeeping and data management’ is well supported by the IAIS standards. These other standards may in any case be directly relevant to pensions delivered by insurance companies or securities’ managers. The OBA in no way aims to replace the role of the standard setters.

The benefit of the mapping exercise in a common outcomes framework means evidence and standards can be mapped to the ultimate outcomes and a given key feature. This helps interactions with standard setters if evidence on a particular area suggests a fruitful area of a future revision of a standard. It also allows a reviewer to know whether or not a feature is covered by standards - in which client countries are often interested. The mapping also allowed us to compare the breadth and depth of the different standards. It also allows us to create an integrated framework where the overall country diagnostic and the work of the standard setters can be integrated if desired. Each has a sensible separate role but they work most strongly as part of a common endeavor to improve pension outcomes globally. Finally, as standards change over time the tool allows the mapping to be updated.

The OBA framework has already been useful in supporting a co-operative and constructive discussion with OECD/IOPS as the OECD reviewed its standards on pensions during the life of this project. This dialogue will continue going forward as part of the important on-going collaboration and co-operation between the OECD, IOPS and World Bank.
2.6 Detailed methodology for Comparing International Standards

International standards include both principles and supporting standards or implementation criteria. As noted above, some of the principles broadly correspond to outcomes on which the OBA framework focuses. However, this correspondence is not one-to-one. Some principles are relevant to more than one outcome, while the supporting standards under a particular principle often relate to more than one key feature. Comparing the international standards in a common outcome based framework is not a simple exercise.

To facilitate the comparison, a ‘master spreadsheet’ was built, which maps the international standards and selected international guidance to the ultimate outcomes. The international standards mapped were:

- OECD, 2010, "Methodology for Assessing the Implementation of the OECD Core Principles of Occupational Pension Regulation".
- OECD, 3-4 December 2012, “Revised Core Principles of Private Pension Regulation (draft)”.  

The key features were developed through reviewing evidence, past reviews and standards and are used to structure the diagnosis. Governance is in many of them
The international pension guidance documents mapped were:

- IOPS, 2008, “Guidelines for the Supervisory Assessment of Pension Funds”.

The mapping of international standards included both the principles and, except in the case of IOSCO, the more detailed standards that support the principles. The mapping of the international pension guidance documents was also done at the detailed level. The master spreadsheet allows each standard to be mapped to the ultimate outcomes and the specific key features that drive them.

The master spreadsheet is an Excel workbook, which contains separate worksheets detailing each of the international standards and another worksheet detailing the international pension guidance documents. It also contains a worksheet that sets out the key features and their explanations, along with a mapping of each key feature to the four key parts of a pension system – environment, framework, market and supervision. This provides a high-level mapping of inputs and influences to outcomes. It is carried through to the mapping of international standards and guidance to the key features.

This construction allows the mapping worksheet to be sorted in a variety of ways. Sorting by key feature readily shows which standards and guidance are relevant to it. This allows a reviewer to see if there is an international standard on a particular area – or whether there is some guidance or best practice. Sorting by international standard shows the key features that each of its standards supports. The result shows that the OECD/IOPS standards have broader coverage of the outcomes and key features than the IAIS or IOSCO standards – as would be expected given the focus of the different organizations – but the IAIS has a deeper focus on security.

Sorting by key parts of the pension system shows the standards relevant to each, which can assist a reviewer who is focused on a particular part of the system, such as supervision. The spreadsheet can be updated as evidence, guidance or standards change, so that the reviewer tools described in chapter 4 can highlight new guidance and standards and new evidence and case studies on the different outcomes and key features. The master spreadsheet cross-checks the outcomes against the many different approaches of other organizations – with the reviewer tools capturing the information in a simple way to use on the road.

2.7 Integrating implementation and the science of delivery

Having reviewed a pension system using the OBA, the next step is to formulate recommendations for improvement. In many cases a wide range of changes will be needed which could affect primary legislation, market structure, regulation, guidance or supervisory organization or processes. This will necessitate a reform project, which is likely to face significant challenges.

To help the establishment and success of reform projects, the OBA ends with a short checklist asking questions about the implementation process that reflect the literature on challenges/risks to the delivery of complex projects. It was derived from guidance issued by the UK Office of Government Commerce and UK National Audit Office. The relevant documents are referenced from the checklist. The
The key aim for the project was to ensure a clear implementation ‘module’ or set of questions. If there are other sets of questions or implementation processes that would be more effective these can be used in the future in place of the specific set of questions chosen here. The combination of a focus on the most important changes to impact the long term outcomes, with a focus on whether a reform package can be implemented given scarce institutional capacity and competing priorities is an important part of adding value working with country authorities.89

Figure 2.4: Questions on implementation capacity and risks

<table>
<thead>
<tr>
<th>Implementation/ Delivery Risk Area</th>
<th>Detailed Question</th>
<th>Guidance/Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project link to overall strategy (of Gov / org)</td>
<td>Are there clear links between the project and the organisation’s key strategic priorities, including agreed measures of success?</td>
<td>OGC/NAO</td>
</tr>
<tr>
<td>Senior Ownership clear</td>
<td>Is there clear leadership and ownership from senior management and Ministers?</td>
<td>OGC/NAO</td>
</tr>
<tr>
<td>Stakeholder engagement</td>
<td>Is there effective engagement with stakeholders?</td>
<td>OGC/NAO</td>
</tr>
<tr>
<td>Project and risk management skills</td>
<td>Does the team/organization have the skills and proven approach to project management and risk management?</td>
<td>OGC/NAO</td>
</tr>
<tr>
<td>Project broken into Achievable steps</td>
<td>Has development and implementation of the project been broken down into manageable steps?</td>
<td>OGC/NAO</td>
</tr>
<tr>
<td>Long term value driving decisions not SR cost</td>
<td>Has evaluation of proposals driven by long run value for money rather than initial price/cost?</td>
<td>OGC/NAO</td>
</tr>
<tr>
<td>Understanding of suppliers</td>
<td>Is there deep understanding of, and contact with the supply industry at senior levels in the organisation purchasing the services?</td>
<td>OGC/NAO</td>
</tr>
<tr>
<td>Integrated project team</td>
<td>Is there effective project team integration between clients, the supplier team and the supply chain (where applicable)?</td>
<td>OGC/NAO</td>
</tr>
</tbody>
</table>

2.8 Ensuring a framework that updates as the evidence updates – Updating the ‘Master Spreadsheet’ and mapping tool

The strength of the evidence supporting the OBA varies, and in some cases more research is needed. But in the first iteration of the framework an inclusive approach was taken to ensure comprehensiveness. There will be a regular process of review as OBAs are performed. This will include progressively expanding the references to useful work and case studies. It will also involve updating links to international principles and standards as these are updated (for example the OECD/IOPS standards on occupational pensions are currently at an advanced state of review). Short case-studies of real-life examples from client countries are particularly important because these often contain highly relevant material that will take a long time to reach the academic literature, working papers or standards. It is also a very effective form of knowledge management. An example is given in Box 2.2.

Box 2.2: Enhancing the evidence base with case studies from OBA projects

89 Rodrik (2007)
The Outcomes Based Assessment Framework for Pensions has been used for a FIRST funded project in Costa Rica to support the enhancement of Risk Based Supervision. During the review the reviewers were told by a variety of sources how excessive, and in some cases fraudulent, sales agent activity had increased costs and churn and hence impaired investment efficiency, as well as damaging the system’s reputation, with few discernible benefits. The decisive action taken by the regulator to restrict sales agent commissions and change the process for transfers between funds resolved the problems. It reduced costs and liquidity requirements. In the case of one pension fund fees to affiliates were cut. It provides good additional evidence for several of the efficiency outcomes. So a case study has been written that will be available to enhance the evidence base for future reviews.\textsuperscript{90}

To keep the OBA updated, the team will also monitor the latest academic research that links features with outcomes, as well as developments in international standards, which hopefully will themselves track developments in the OBA. Finally, the structure of the OBA, and the analysis of evidence supporting its features, provides pointers to areas where further research would be valuable in strengthening or revising the linkages between features and outcomes.

\textsuperscript{90} See Ashcroft, Price and Robles (2014) forthcoming
Chapter 3: Developing the assessment tool – turning outcomes and key features into a tool for reviewers and countries

3.1 Linking outcomes to different institutions and parts of the pension system.

A central motivation of the project was to put the ultimate outcomes that will improve people’s lives at the heart of the methodology. This is why the work started with the ultimate outcomes and worked back to those features which explain these outcomes. These features are then used to diagnose the key problems in a country-specific review and set out recommendations in a road map that can be implemented.

In addition to the outcomes lens a report on a pension system still requires a more traditional narrative structure that describes the country context and main architecture as an introduction to the analysis. Ranges of different ways of setting the scene from different reports were reviewed. It was decided that it was important to use the narrative introduction to emphasize the key building blocks of a pension system that would be important in understanding and improving the outcomes.

As different key features that drove the outcomes were reviewed they seemed to settle into four main areas; the economic and political environment; the overall framework including other pension pillars and key rules; the market structure, entities and their governance; and supervision. Some of these were obvious, such as the legislative framework and the interaction with other parts of the pension system or the role of the supervisor. Some such as the economic and political environment and the pre-conditions for a pension system were sometimes included but not universally so and were often treated too briefly or in a simple pass or fail approach. The ‘market’ was often described but in a cursory way that did not get into issues of structure and governance that had proved critical in understanding what was driving the ultimate outcomes.

Ultimately the project focused on the four broad ‘building blocks’ of a pension system. They emphasize the importance of taking a broad view of what actually determines outcomes which can be an essential element in improving pension design. For example if the economic environment is one with high degrees of labor informality this is one of the most critical features to guide design of both public and private pension systems.

So the framework was developed in a way that allows both an institutional description as well as an outcomes description but in an integrated way. It is also very important to assign the lead responsibility for different elements of a broad pension reform program to different parts of the government. This is important to design sensible reform programs that tackle the biggest risks. But it is also important to ensure that the lead client – a supervisory agency for example – can be given an action plan that can clearly identify those parts of the reform for which it should be held accountable and those parts that are beyond its control. Where the changes are beyond its control the analysis allows for a proactive dialogue with Ministries of Finance or Social Welfare on legal changes they can introduce that would help improve outcomes so that there is a positive pro-reform dialogue developing in the country. In the context of an FSAP a key part of the final recommendations is a detailed table linking policy actions to the relevant ministry. So the OBA directly delivers this element.
The headline picture that links outcomes with the different parts of a pension system is set out in the figure. The next section explains how this was developed throughout the project and why each element plays an important role in the overall framework.

Figure 3.1: Linking the main elements of a pension system to the ultimate outcomes

3.2 Pre-condition and the Economic and Political Environment

Understanding the economic and political environment of a country and whether it has the ‘pre-conditions’ for pension reform is an essential element of developing a reform path tailored to the needs of a country. It is vital to see whether a country has the pre-conditions for a successful private pension system before launching major reforms. These include economic factors such as the macro-economic situation through to the availability of legal, accounting and actuarial professionals. But in our review it found that these ‘pre-conditions’ never really go away in terms of being sensible areas to probe. Or in other words they are not a pass/fail that one can then ignore if a country has the pre-conditions necessary to support private pensions.

Perhaps the best example that pre-conditions never go away comes from the very challenging macro-economic environment for pensions caused by the financial crisis and the extraordinary monetary policy measures such as quantitative easing that followed. Another good example is provided by the scandal in the UK arising from actuarial deficiencies at an insurance company Equitable Life. This led to wholesale changes in the regulatory and supervisory structure for actuaries in the UK with the formation of the Board for Actuarial Standards. So even in a country with a well-established and professional actuarial profession the need remains to review if actuaries are working to high standards and delivering good results.

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92 Penrose (2004)
93 Board for Actuarial Standards
A critical pre-condition for successful reform can be the development of a political consensus for those reforms. Using techniques such as Pension Commissions with cross party and independent membership is gaining increasing attention as way to improve the security of pensions systems\textsuperscript{94}. This is due both to an analysis of some of the private pension ‘reversals’ in the Europe and Central Asia region\textsuperscript{95}. It is also due to analysis of some of the more successful pension reform stories\textsuperscript{96}. As with pre-conditions this element is not really pass or fail as the need for reforms continues. Some of the most respected pension systems have continued to use external pension commissions to take their pension systems to the next level – either proactively or in response to the exposure of weaknesses previously under-appreciated\textsuperscript{97, 98}. In nearly all countries in which the World Bank works politicians and policy makers say that the local politics makes reform difficult. This is clearly true. But the successful reformers in other countries often face similar or worse problems. The key difference can be the commitment to building and sustaining a reform agenda through the mechanism of some form of commission.

Figure 3.2: Adding ‘pre-conditions into the front line of regular country diagnostics

\begin{itemize}
\item In the past the economic and political pre-conditions would be assessed, and then the focus would be on the overall framework and supervision.
\item Economic and political Environment
\item Overall Framework – other pillars and key rules
\item Supervision
\item The project agreed with the central importance of ‘pre-conditions’ but this element is not really pass / fail – even strong systems can be impacted negatively by features in these ‘pre-conditions’ e.g. the role of the actuaries in ensuring robust assumptions, or the impact of changing labor market dynamics on coverage
\item In addition the role of market structure, governance and conduct needs to be given more prominence. The evidence of the benefits of a strong demand side – and the role of institutions with scale, expertise, member-focused governance – is seen over many years in multiple countries at different levels of development.
\end{itemize}

\textsuperscript{94} Price (2014)
\textsuperscript{95} Price and Rudolph (2013)
\textsuperscript{96} UK Pension Commission (2005)
\textsuperscript{97} Cooper, J (2010)
\textsuperscript{98} Marcel Commission, (2006)
3.3 Regulatory Framework and Other Pension Pillars

The need to review the overall regulatory framework including other pension pillars is an essential part of any pension review. The Pension OBA framework identifies the key features of the regulatory system and other pillars on which a reviewer should focus. There is a focus, for example, not only on the main intentions of legal arrangements for pensions but whether the system introduces any automatic adjustment mechanisms to ensure that the system can cope for example with rising life expectancy by automatically changing parameters such as retirement ages.

One of the most critical areas, most closely linked to the adequacy outcomes, is the combined impact of all the pension pillars. The right level of contributions for example to an expanded private pension pillar clearly depends on the sustainable future level of the state pension. Bringing these elements together can be a challenging but important part of a broad strategic review of a pension system. The
World Bank uses its PROST model to review the expected evolution of pension payouts. PROST reviews the contributions, benefit entitlements, revenues, and expenditures to provide a quantitative picture of long run sustainability and adequacy of a pension system\textsuperscript{99}. The OECD produce Pensions at Glance based on a consistent modeling of future payouts from a pension system, combining the state pension and mandatory private pensions\textsuperscript{100}. For some countries this modeling is extended to the voluntary private pensions - including the often large employer based pensions in countries such as the UK.

In general the list of key features linked to the regulatory system mirror those used in existing approaches – for example the key parameters reviewed in International Patterns of Pension Provision II. As set out below the greater innovation has been in the next additional element of the market structure, entities and governance. The OBA framework seeks to look at the full context of a pension system in order to determine the right set of pension reform policies. It can be used for a full review of all aspects of a pensions system – which could also include long run actuarial modeling of the form in the World Bank’s PROST model. This would make the projects more comprehensive but longer in nature. The approach can be used when there are funded social security schemes as well as privately managed or not for profit ‘hybrid’ institutions investing assets to create retirement income for members. As highlighted above in the evidence section there is considerable cross-over and commonality for example in the governance and investment issues faced by any institution running assets for the benefit of members. The policy solutions may be different depending on the analysis. But a critical common element is using a rigorous diagnostic as in the OBA and using the tools and techniques set out in the Pensions Core Course.

3.4 Market Structure, Entities and Governance

One of the most important lessons in recent years is recognizing the impact that market structure or ‘industrial organisation’ can have on pension outcomes – particularly the impact of higher costs and lower investment returns on efficiency\textsuperscript{101}. Our review highlighted a need to make sure that the whole issue of market structure and the entities that would be involved in private pensions and their delivery received much greater attention.

There are a very wide range of options when determining exactly how a pension system will have its private assets collected, managed and paid out. Moreover, many of the issue of investment strategy and execution often discussed in wholly private pension systems are as applicable to anyone running pension assets – from provident funds to funded or partially funded state pension funds like the Canada Pension Plan\textsuperscript{102}.

There is no ‘one-size-fits-all’ design but a need for a careful review of a wide range of key features from scale to capital market development to levels of governance and expertise. But the overall design chosen will have a profound impact on the demand and supply sides of the market – and the ‘distribution’ elements. The distribution issue focuses on how contributions get from members (or employers and government) to be invested to generate future assets to deliver a retirement income. In many systems this element has proved to be very costly. It can also have some negative impacts due to excessive churning of pension portfolios. In other words there are costs that do not add any value overall so are a net negative for the system. So the Pensions OBA ensures that these issues have great

\textsuperscript{99} Bogomolova, T (2013)
\textsuperscript{100} Pensions at a Glance (2013), OECD
\textsuperscript{101} Impavido and Lasagabaster (already cited)
\textsuperscript{102} Rajkumar, S. and Dorfman, M (2010)
prominence – to add to the normal ‘market conduct’ elements often considered by regulators and supervisors.

**Box 3.2: Country Case Study: Guyana**

A Pensions Outcomes Based Assessment was undertaken in Guyana as part of the diagnosis phase of a World Bank FIRST project to assist the authorities in creating a new private pensions law. The project highlights the flexibility of the tool as Guyana is a small country with relatively low income compared to its neighbors. The pension system has a National Insurance style public pillar with voluntary occupational DB and DC plans organized on a trust-model. The OBA identified issues principally in the efficiency of existing private pension arrangements (particularly in relation to investment), coverage of private pensions – including the impact on gender equality of long vesting rules and security – including issues relating to security of assets. For some plans there were adequacy issues relating to the lack of indexation. But overall the pension plans were relatively sustainable – and policy recommendations needed to take care not to jeopardize sustainability by recommending for example compulsory indexation or immediate vesting of Defined Benefit pensions. The diagnosis phase also highlighted that for some plans there was relatively strong governance and the employer based model with good trustees was appropriate. But for others, and for employers who wanted to set up a new plan, a new model was needed to ensure a very simple pension plan could be selected and run by private providers. This simple model could have safeguards on charges and investments and robust supervision of governance by the Supervisor. A results brief on the project is forthcoming. It shows, as in the Costa Rica case, the aim of OBA projects to continually enhance the evidence based and have strong proactive knowledge management.

### 3.5 Supervision

**As with regulation, supervision has a fairly obvious role in driving pensions system outcomes.** It is also the area most closely associated with international standards as discussed in Chapter 2. In a number of projects the supervisor is the direct client. The framework can be used to review all the factors affecting outcomes and then focus down specifically on those that are within the current control of the supervisor.

The framework also helps generate a more proactive and long-term debate for supervisors. Even where a supervisor does not have power to make regulations, it should at least have an informal role in dialogue with the Ministry of Finance or Social Affairs on changes to legislation and regulation that can improve the pension system. The OBA framework can help improve the quality and direction of this dialogue so that over time a supervisor can gain better tools and other parts of a system can be changed to allow resources to be shifted to areas where they can do more good. For example, supervisors may have to spend time on poor practice and complaints relating to sales agents. A move to an auction system would remove the costs and role of sales agents. Or a move to a centralized administration with choice between fund managers and the provision of default fund may reduce the need to intervene or to have costly and ineffective education campaigns.
Figure 3.3 Helping supervisors to develop a proactive dialogue on new legislation

The 4 main elements of a pension system

- Economic and political Environment
- Overall Framework – other pillars and key rules
- Market Structure, Entities and Governance
- Supervision

The ability of supervisors to impact legislation and regulation may vary – but the most effective solutions to a risk may well lie outside their control. Best practice would be to engage proactively with those who do control new regulation and legislation. But a central focus should always be on governance in the industry.

3.6 Putting all the elements together

Chapter 1 set out the development of the outcomes. Chapter 2 showed the development of the key features and the importance of a focus on implementation challenges. Chapter 3 shows how to map this to the major elements of a pension system. The figure below shows in a simple graphic how a country project would start with a diagnostic phase reviewing all the reasons for the current state of the outcomes. It would develop proposals for changes with a viable implementation plan that would lead to an updated pension system with improved outcomes going forward.

Figure 3.4 Putting all the elements together in a country project
Putting all these elements together shows an overall framework linking the four major areas of a pension system with the 5 main outcomes. The key features can be grouped according to outcome or according to the different elements of the pension system. This allows a targeted project just for a supervisor or for one particular outcome or a broad strategic project focusing on all parts of a pension system and all outcomes. The broad strategic project would be particularly appropriate for a Pension Commission developing major new reforms in the private pension system.

An example of the type of interventions in summary form is given in Figure 3.6

**Figure 3.6 Types of interventions that improve outcomes**

<table>
<thead>
<tr>
<th>Features</th>
<th>Advice on law, financing, markets, supervision or operations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic and political Environment</strong></td>
<td>• Sustainable fiscal financing inc use of non-labor taxes to minimize tax-wedge</td>
</tr>
<tr>
<td></td>
<td>• Support strategic reform and ways to develop political consensus for reform</td>
</tr>
<tr>
<td></td>
<td>• Ensuring a funded system viable by developing data availability/integrity</td>
</tr>
<tr>
<td></td>
<td>• Capital market development so that investments can generate real returns</td>
</tr>
<tr>
<td><strong>Overall Framework</strong></td>
<td>• Advice on strategy and objectives for private pensions</td>
</tr>
<tr>
<td></td>
<td>• Implementing mandatory, quasi mandatory and voluntary private pensions</td>
</tr>
<tr>
<td></td>
<td>• Advice on benefit design - DB, DC or risk sharing.</td>
</tr>
<tr>
<td></td>
<td>• Methods to expand coverage and enforcement of contributions</td>
</tr>
<tr>
<td></td>
<td>• Developing annuities or phased withdrawals to ensure income from assets</td>
</tr>
<tr>
<td><strong>Market Structure, Entities Governance</strong></td>
<td>• Creating systems with scale, on demand &amp; supply side</td>
</tr>
<tr>
<td></td>
<td>• Legal and supervisory tools to ensure member-focused governance on demand and supply side to reduce costs and raise returns</td>
</tr>
<tr>
<td></td>
<td>• Developing investment strategy and monitoring focused on long term</td>
</tr>
<tr>
<td></td>
<td>• Advice on market structure and market value chain to reduce costs/nc returns</td>
</tr>
<tr>
<td><strong>Supervision</strong></td>
<td>• Creating or improving Independence, funding and objectives of supervisor</td>
</tr>
<tr>
<td></td>
<td>• Developing supervision style most appropriate to country context</td>
</tr>
<tr>
<td></td>
<td>• Legal and supervisory processes for fit and proper checks/licensing regime/governance</td>
</tr>
<tr>
<td></td>
<td>• Powers and process for enforcement of regulatory framework</td>
</tr>
</tbody>
</table>
The OBA framework then allows the policy suggestions to be shown as a grid showing the area of the pension system affected and the outcomes to which the change will be principally targeted. This can help to make the case for broad based changes – since each outcome often will require changes across the pension system. Or it can highlight the limits to action by one part of the system – a supervisor for example. This can help during a targeted review to identify what is causing the problem with an outcome and then focus on those changes that are within the control of the supervisor to ensure there are realistic expectations for what reform will achieve. The decisions on the most important changes need to take into account the world of the ‘second best’ and tailor general insights to practical changes that will work in the country context\(^\text{103}\).

Figure 3.5: How different parts of a pension system can affect the ultimate outcomes

<table>
<thead>
<tr>
<th>Ultimate Outcomes System Feature</th>
<th>Efficiency</th>
<th>Sustainability</th>
<th>Coverage</th>
<th>Adequacy</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country and Financial System Environment</td>
<td>e.g. political direction of investment allocation</td>
<td>e.g. govt. contribution debt or tax financed</td>
<td>e.g. level and trends in labor market informality</td>
<td>e.g. wage &amp; employment growth</td>
<td>e.g. political consensus for pension system</td>
</tr>
<tr>
<td>Framework and Regulation</td>
<td>e.g. controls on fees, default investment fund (inc rules on invest domestic v foreign)</td>
<td>e.g. auto-adjusting retirement age</td>
<td>e.g. auto-enrolment to increase coverage, or mandatory</td>
<td>e.g. size of other pillars &amp; level of contribution</td>
<td>e.g. rules for annuity v lump sum</td>
</tr>
<tr>
<td>Market Structure and Conduct</td>
<td>e.g. strength of demand side + scale providers</td>
<td>e.g. quality long term governance including disclosure</td>
<td>e.g. whether firms provide accounts to small/medium customers</td>
<td>e.g. ‘churning’ of customers accounts</td>
<td>e.g. public disclosure and quality internal controls</td>
</tr>
<tr>
<td>Supervision</td>
<td>e.g. focus on investment governance</td>
<td>e.g. risk based controls on solvency</td>
<td>e.g. check employers enrol staff</td>
<td>e.g. checks on record keeping and payment of contributions</td>
<td>e.g. fit and proper and ultimate beneficiary checks</td>
</tr>
</tbody>
</table>

\(^{103}\) Rodrik (2007)
Box 3.3: Country case study – Costa Rica
The OBA was undertaken as part of the diagnosis phase of a World Bank FIRST financed project to enhance risk based pensions supervision and regulation. The system is a mixture of mandatory and voluntary DC funds provided by fund administrators and occupational and basic DB funds. The OBA showed that efficiency suffers from sub-optimal asset allocation, and coverage and adequacy are seriously impaired by avoidance arising in part from labor market distortions. The sustainability and security of some DB funds is a big issue. The analysis is enabling a focus on re-prioritizing resources to the serious issues identified through the project. It also involved recommendations to reduce the focus on daily collection and monitoring of investment data as this led to a regulatory cost with little benefit. Indeed there was an additional cost as it enhanced the focus on short-run returns when the supervisor was keen to develop a long-run investment focus to improve ultimate retirement income.

The project then showed the importance of integrating the outcomes focus into the Risk Based Supervision elements of a supervisors work. Without a clear long term objective it will be difficult to ensure the most important risks are systematically targeted and addressed. The picture shows visually the overall RBS framework that is in the process of being developed.

3.7 International Standards and the Outcome Based Assessments
As highlighted throughout the document the co-operation and partnership with the OECD and IOPS is an important part of the work on the Pensions OBA framework. The framework was importantly influenced by the work of both organizations. In turn the framework helps the World Bank to provide more structured and meaningful feedback on the interaction between its work and that of the international pension standard setters. The project built on the frameworks they have developed where that makes sense and integrated things such as data collection questions to build on the efforts of both organizations in this field. There is a key issue in relation to the formal list of international standards and the role of the OECD/IOPS discussed in the box.
The Financial Sector Assessment Program (FSAP) gives an in-depth examination of a country’s financial sectors. FSAPs are done jointly by the IMF and World Bank in developing and emerging market economies. There are potentially 3 products relevant for pensions in an FSAP.

1) **The Stability Assessment:** This sets out the key financial stability risks. Pension issues will be included if they provide a threat to: near-term macro-financial stability; the countries’ financial stability policy framework; and the ability of the authorities to manage and resolve a financial crisis. Given their long term nature pension systems tend not to form a key part of the stability assessment. The formal document for the Stability Assessment is the Financial Sector Stability Assessment. They are mandatory for 25 key countries. Otherwise, like the FSAP process in general, they are voluntary;

2) **The Development Assessment:** This focuses on the medium to long term needs for deepening and strengthening the financial sector and its contribution to long-term growth and social development. The areas to be covered will be developed in consultation with the country. Specific technical notes will be commissioned. These can cover pensions and/or insurance for example. Pensions are not always covered in any detail, particularly not in terms of the production of Technical notes. For each area the relevant World Bank team will be responsible for the methodology or approach used.

3) **Reports on the Observance of Standards and Codes (ROSCs):** These report on the compliance of a country with the standards and codes in different parts of the financial system. An FSAP can be conducted without ROSCs, which are optional. The standards on banking (BCPs), securities markets (IOSCO) and insurance (IAIS) are most frequently assessed in the context of FSAPs.

The Financial Stability Board (FSB) has a list of 12 ‘core’ standards that has been synchronized with the list used by the IMF and World Bank for ROSCs. Standards on pensions are not in the core list, but the relevant international standards produced by the OECD&IOPS are highlighted in the FSB’s ‘Compendium’ of Standards’. This “provides a one-stop, easy-to-understand reference for the various economic and financial standards that are accepted by the international community as important for sound financial systems” (Updates to the FSB Compendium of Standards, FSB Secretariat, 25 November 2013 SCSI/2013/88). The FSB have a set procedure to determine whether new standards should be added to the compendium which is triggered by a proposal from a standard setting body on which the FSB secretariat prepare a note for the Standing Committee on Standards Implementation (SCSI) who must agree inclusion along with the FSB plenary session.

A review carried out in 2011 made a series of changes to the FSB core or key standards (Review of the FSB Compendium of Standards, FSB Secretariat, Basel, 2011). A set of 12 policy areas were determined but with some previous key areas merged (e.g. accounting and auditing – but keeping the distinct standards) as well as adding a new area ‘Crisis Resolution and Deposit Insurance’ and renaming the ‘Payment and Settlement’ policy area ‘Payment, Clearing and Settlement’. As part of the 2011 Review the FSB asked the International Organization of Pension Supervisors (IOPS) to submit their standards for inclusion in the Compendium (which IOPS did). The OECD principles on occupational pensions were already in the compendium (and the OECD standards on corporate governance are one of the 12 key policy areas).

The OBA methodology can be used in the Development Assessment part of an FSAP and associated Technical Notes in the same way the Insurance team of the World Bank have their own approach for the Development Assessment of Insurance. The OECD/IOPS standards could be recognised as the relevant international standards for producing a ROSC on pensions – again in the same way that the IAIS standards are used for the ROSC on insurance. This decision is for the FSB in close consultation with the IMF and World Bank as part of any future review of the FSAP and ROSCs. The OBA has been designed to show direct links to the OECD/IOPS standards so that there is good integration between the approaches which mirrors the close cooperation among the three organizations. The OBA is deliberately much broader in scope because many areas that are important for pension outcomes e.g. increasing the scale of pension funds, are not well-suited to a standard. But where the standards or parts of them can be used to explain a key feature the OBA incorporates the standard to ensure there is no duplication of effort, recognizing the lead role of OECD/IOPS as pension standard setters and the broader scope of the World Bank focus in its client countries.
Chapter 4: Practical tools for reviewers

4.1 Introduction
A key aspect of the project was the development of practical tools for reviewers to use on projects. The tools include:

- A data request sheet for countries, with various indicators mapped to ultimate outcomes. Responses will provide the base data and allow for the future measurement of success. They will also identify data gaps that need to be filled.
- A list of the key features to review in a system, which provides the areas of focus for questions. These are mapped to outcomes and a selection can be used in the preparation of country-specific pre-visit questionnaires.
- An OBA Background Sheet for reviewers, which provides a detailed description of the key features that impact the ultimate outcomes. It also indicates the international standards and guidance, if any, which have been mapped to the key features; and
- An OBA Review Sheet, which allows a reviewer to record issues and recommendations and prioritize them based on the size of the problem and the importance of the issue. This can then be the source material for the final report.

4.2 Data and Indicators
Each outcome has detailed data and indicators to aid analysis or evaluation. The data and indicators are listed and described in an Excel worksheet, in which the authorities of the country being reviewed can enter the available data. The indicators are aligned where possible with the OECD's data collection for Pension Markets in Focus and Pensions at a Glance and the World Bank’s International Patterns of Pension Provision II and Global Financial Statistics Database. But additional elements have been added to ensure full coverage of all elements identified from the analysis of what drives outcomes. Some additional granularity has been added, for example on costs to ensure more robust evidence collection or identification of data gaps. In addition there are more distributional questions, for example by income and gender, given their central importance.

Reviewers can use all or a subset of the indicators for data requests to countries. If the review will be targeted rather than comprehensive, the data requests can be tailored to the part of the system or the outcome on which the review will focus. In many countries, it is unlikely that the data needed for the complete set of indicators will be available. However, an important part of a review and reform process will be to identify gaps in the data and develop plans to fill them.

The indicators will assist the assessor in understanding the situation in the jurisdiction. But individual indicators cannot be viewed in isolation. For example, eight pension fund managers might be good if there is enough of a market to provide adequate scale, but bad if it is a very small market.

Over time, as more and more of the gaps are filled, it will also be possible to develop increasingly-useful benchmarks and to more objectively evaluate the effectiveness of reforms. This will also support the refinement of the OBA framework, by contributing evidence of which key features have the greatest effects on the outcomes.

Efficiency indicators include those related to the size of the market and its distribution among providers. They also include investment returns and factors that affect them, such as investment fees, transaction costs, supervisory costs and asset allocation. The labor supply can affect efficiency, so indicators include retirement ages and the wedge between gross and net wages.
Sustainability indicators measure the burden of contributions and government spending on pensions. They also show both the current and future balance between various pillars or tiers of the broader retirement income system. Political support and adjustment mechanisms contribute to sustainability. Therefore, indicators also include the results of surveys, the existence of automatic adjustment mechanisms, and whether political mechanisms are in place to review the operation of the system and respond to changing circumstances.

Coverage indicators include the current numbers of contributors and pension recipients and their shares of the relevant segments of the workforce and population. The data sought also includes projections of these indicators, which would show how the coverage under the current system is expected to evolve over time.

Adequacy indicators consider both the adequacy of input and the adequacy of the resulting pensions. Input indicators relate to the level and density of contributions made to and (by considering pre-retirement withdrawals) retained in the system, as well as the employment rates of those between ages 60 and 70. Output indicators include replacement rates, the levels of pension wealth at retirement and the relative poverty of pensioners. Several adequacy indicators go beyond the private pensions pillar to identify other potential sources of retirement income, such as home ownership, savings and other financial or insurance products.

Security indicators cover a wide variety of factors. They include the funding ratios of defined benefit schemes and others that provide guarantees, as well as the extent to which pension assets are held...
separately from other assets. Data on assets lost to insolvency, fraud or theft is relevant, as are the potential losses that were avoided through coverage by compensation schemes. The existence of mortality data and the availability of projections of improvements support the secure funding of pensions. The extent of compliance with the IOPS principles provides an indicator of the contribution of supervision to security.

4.3 Key Features

Each outcome has key features to investigate, which have been developed through considering available evidence, past reviews and international standards. A listing of the key features under each outcome has been prepared, which can be used in a variety of ways.

Early in the review process, key features that are expected to be particularly relevant to the review can be identified. This selection can provide the basis for the development of a pre-visit questionnaire. Responses to such a questionnaire, together with the various indicators, help the reviewer to gain an initial understanding of the pension system and to identify issues that might require special attention while in the country. A well-prepared reviewer can work more effectively and efficiently. Credibility will be strengthened, contributing both to the ability to obtain information during meetings with stakeholders and their receptiveness to the eventual recommendations.

The list of key features can also be used when preparing the agendas for meetings with supervisors, other government authorities, industry representatives and other stakeholders. Clear and well-focused agendas are not only a courtesy to those with whom meetings will be sought, but also can contribute significantly to the quality of the review. They help to ensure that the appropriate people will attend the meetings and help those who attend to come prepared with relevant information.

Even reviews that are targeted on a part of the system or a particular outcome need to cover a wide variety of issues. The challenge is even greater for those reviews that are comprehensive in nature. It would be easy for even an experienced reviewer to overlook one or more important issues in the course of the review. The key features can help to minimize this risk by serving as a high-level checklist for the reviewer. They identify important issues at a similar level of granularity as the principles included in the international standards.

Whether a review is targeted or comprehensive, the entire list of key features warrants some consideration by the reviewer. Each key feature was assigned to the outcome to which it most strongly contributes, based on available evidence and our informed judgment. But many key features can help to drive more than one outcome. For example, tax and financial incentives might primarily drive coverage, but taxation can also affect efficiency (tax treatment of the transition to the payout phase), sustainability (affordability of the incentives), adequacy (incentives to increase contributions or tax-related limits on contributions or benefits), and security (tax incentives to maintain surpluses).
Figure 4.2: Extract for Review Sheet: Descriptions and Mapping
(Note that the extract shows the efficiency outcome. In practice much of the mapping of principles and standards focuses on the security outcome)

<table>
<thead>
<tr>
<th>EFFICIENCY</th>
<th>Description of Key Feature to Investigate</th>
<th>Guidance/Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency - Scale</td>
<td>Do the demand and supply side entities have the scale to deliver the best outcomes given significant economies of scale in provision and problems with individuals having sufficient expertise or buying power to act as an effective demand side? Includes consideration of design of the pension system, for instance through ensuring scale entity on demand side; centralisation of administration; licensing or minimum capital requirements; or enforcing tough minimum standards on trustees so as to discourage small pension entities or more pension entities than would be consistent with sufficient of scale, and promoting or facilitating pension entity consolidation. Also includes measures to enable scale economies to be achieved across pension plans through common funds, etc. Linked to investment recommendations for small markets such as ensuring much greater foreign investment Relevant to decumulation, where size of the market and critical mass of business can be relevant, as well as accumulation.</td>
<td>DCMap-4</td>
</tr>
<tr>
<td>Efficiency - Member-focused governance</td>
<td>Covers the requirements placed by law (whether pensions, tax, company or trust) or supervision on the governing bodies of pension entities to encourage governance that is effective and in the best long-term interests of plan participants. Will include focus on whether objectives are clearly member-focused such as achieving adequate pensions through maximizing efficiency with good investment returns net of costs as well as ensuring sustainability, security and good coverage. Includes board structures, fiduciary duties, accountability mechanisms, oversight arrangements (within pension entities), participant representation, appropriate legal liabilities and indemnities, board member codes of conduct and controls over conflicts of interest. Also includes requirements to avoid inappropriate interference by outsiders, such as sponsoring employers and related companies. Interference by regulatory investment limits comes under Efficiency 6 or Security 12. Relevant to the governance of decumulation product provision as well.</td>
<td>OECD 4.01, 4.03, 4.06, 4.26, 5.32 6.01, 6.02, 6.03, 6.11 7.03, 7.09, 1923, RMI01-1.04, 208-08, 6.05, 7.01-03, 8.01</td>
</tr>
</tbody>
</table>

4.4 Descriptions of key features and mapping to standards and guidance

In naming the key features, a balance was needed between conciseness – for ease of reference – and descriptiveness – for clarity of meaning. Assuming this balance has been achieved, the names are suitable for use as a checklist and to facilitate discussion among reviewers and between reviewers and stakeholders who have at least a general knowledge of the OBA framework. This situation parallels the international standards, where the principles (whose names are often even shorter than those of the key features) provide a useful basis for communication. However, as with the international standards, simply knowing the name of a key feature is insufficient to understand its meaning or to support an assessment.

A document was prepared to enable reviewers to obtain a more complete understanding of the key features and to make use of them in assessing a pension system. The document includes detailed descriptions of each of the key features. While still fairly brief, the descriptions are intended to be sufficiently detailed to enable reviewers to obtain a consistent – particularly among different reviewers – understanding of the meaning and scope of each key feature. In some cases, the descriptions also discuss the importance of the key feature and include guidance as to its scope, for example, whether a particular issue falls under one key feature or another.

The following example illustrates the nature of the descriptions. It relates to one of the key features that drives the efficiency outcome – efficient operational, recordkeeping and data management. The description states: “Includes measures by pension entities, regulatory and supervisory bodies intended to ensure that the operations of pension providers are efficient while delivering adequate quality of
service, notably the processes around the outsourcing of pension entity functions and any particular provisions relating to IT and service quality standards. In particular, covers measures taken by regulators, supervisors and pension entities to ensure that their records are accurate and stay accurate, and that data integrity and confidentiality are not compromised – data issues are often overlooked. Excludes controls over the security of operations.”

The description guides reviewers to consider measures taken not only by pension entities but also by regulatory and supervisory bodies. It draws attention to issues related to outsourcing, IT, service quality standards, data integrity and confidentiality. It also notes that controls over the security of operations are outside the scope of this key feature; they would fall within the risk management and internal controls key feature, a driver of the security outcome.

This document also makes it easy for a reviewer to learn what, if anything, the international standards and guidance have to say about a key feature. For each key feature, references are provided to the standards or guidance that has been mapped to it. The reviewer can consult these documents to identify the expectations of standard setters and obtain guidance on best practices. Continuing the above example, the document indicates that efficient operational, recordkeeping and data management are dealt with in the OECD standards (1.03, 6.10), the IAIS standards (7.09, 8.03, 8.07), and the OECD/IOPS “Good Practices for Pension Funds’ Risk Management Systems” (5.02-03, 5.05-06, 8.06). The next phase of the project could add links to key articles and case studies.

4.5 Review Sheet for documenting findings and recommendation

A Review Sheet has been developed, which will probably form the most important part of the working papers of a review. It provides a structured way for reviewers to record issues identified, rate the scale of the problems and the importance of the issues, and document and prioritize recommendations. Different outcomes and features will be more important in some projects than others. Whether a full record needs to be kept will depend on the nature and size of the project and related requirements.

The review sheet is a Word document, most of which is a table. Each key feature has a row in the table. For each key feature within the scope of the review, the reviewer would complete several columns. The first column is used to highlight the issues identified and record supporting evidence.

The next column is used to document the recommendations for solving the problems and to indicate to whom the recommendations are directed. For example, problems might require action by the Finance Ministry, regulator, supervisor, industry or other stakeholders.

The final column is used to record ratings of importance and size of the gap. It asks the question “is the issue important in this country for ultimate outcomes and how big a gap is there from best practice (or international standards where they exist)? If a key feature is directly related to an international standard then the usual 4 point rating scale specified by the standard setter will be used. In the case of the OECD/IOPS standards, the rating scale is: fully implemented, broadly implemented, partly implemented, not implemented and not applicable. If a key feature is not directly related to an international standard then a similar 4 point scale of the problem is used from will be rated from small, medium, medium-high and high. For importance a similar four point scale can be used that will run from small, medium, medium-high and high. These categories allow a risk matrix to be created simply. Moreover, the four point scale is preferred by some to force a ranking so that reviewers do not default to the middle of a 5 point scale.
The review sheet includes a section-heading row for each of the outcomes. In these rows, the reviewer will record overall summaries of the most significant issues and key recommendations related to the outcome, along with overall ratings of scale and importance. In formulating these summaries, the reviewer might find it useful to display the more detailed ratings visually, in a risk matrix. The outcome-level summaries can be put directly into final Technical Note.

In addition to a focus on the pension-specific features that drive outcomes, the review sheet includes questions on implementation. These questions have been added to ensure that reviewers go beyond technical matters to consider the ‘science of delivery’ when developing their recommendations. Technically-sound recommendations are unlikely to lead to the desired outcomes if the conditions supporting successful implementation cannot be achieved.

4.6 The role and skills of the reviewer – a selective not mass market product

To obtain a high-quality review of a country’s private pension system, the reviewer must be well-qualified. The OBA framework helps to structure a review and to guide the reviewer, but reviews require the examination of a wide range of issues, which are often qualitative and interrelated. This requires reviewers who have broad and deep knowledge, relevant practical experience and sound judgment.

Reviewers should have broad expertise that enables them to cope with this diversity of issues commonly encountered during a review. Issues may well relate to laws and regulations, market structure, the economic and political situation, accounting and actuarial standards and investments – among other things. Ideally, a comprehensive review of all elements of a pension system should be carried out by a team of at least two reviewers, with complementary areas of expertise – particularly on projects with a long duration and multiple deliverables. Shorter-term or more tailored reviews need a reviewer with broad expertise and should use strong peer reviewers.

Reviewers need to consider not only the characteristics of the current pension system of a country but also how effective and efficient it is in terms of achieving desirable outcomes. The review should examine whether requirements are put into practice and, if so, whether they are working as intended. If problems are identified, the reviewer should be capable of formulating practical recommendations for dealing with them. Reviewers who have first-hand familiarity with the pension systems of many countries are best suited to make such assessments and recommendations. Reviewers or review teams collectively should have broad international experience.

The necessary expertise and international experience must be combined with the capacity to achieve a clear understanding of the specific circumstances in the country being reviewed. Reviews should include in-depth consultations with individuals and organizations that have first-hand experience related to the pension system of the country. In addition to relevant authorities, those consulted will often include auditors, trustees, employers, actuaries, researchers and industry associations. Reviewers must be capable of dealing with a wide range of stakeholders from diverse cultures and exploring with them issues that can be complex and sometimes sensitive. The bar for reviewers should therefore be set quite high. Accordingly, comprehensive OBA reviews will be a selective service rather than a mass market product.
4.7 Improving comparability and comprehensiveness using the framework

Even with skilled reviewers, a common framework is important to ensure reviews of various countries are both comprehensive and readily comparable. A critical part of the OBA project is to ensure that reviewers focus on any and all features that drive the ultimate outcomes. This will not be constrained by whether or not an international standard exists. The lists of indicators that might be analyzed and key features to be reviewed help to ensure that the OBA framework will be considered in its entirety. The exercise of mapping the international standards and selected guidance during the development process was, in part, intended to ensure that the OBA framework itself is comprehensive.

The OBA framework contributes to comparability by providing a common structure for the consideration of issues. Descriptions of the key features should promote common interpretation of their meaning by reviewers and consistent classification of issues. The mapping of key features to relevant international standards and guidance should contribute to comparability in the rating of concerns and the nature of recommendations. Experience in using the framework will enable the development of guidance, if necessary, on assigning ratings. However, ratings are perhaps most important in determining priorities for a particular country and only secondarily for comparing one country to another.

The use of a standard review sheet to document the findings, ratings and recommendations should further reinforce comprehensiveness and contribute to the production of Technical Notes that are structured in a comparable way. The OBA framework itself, together with the review sheets completed by reviewers, will facilitate the work of peer reviewers, who can provide a final check not only of quality but also of comprehensiveness and comparability.

4.8 Ensuring the OBA framework leaves discretion to the reviewer

There is no one-size-fits-all approach to reviews. In the preparatory phase of a review, discretion is left to the reviewer regarding which data and indicators will be most relevant to the review, what questions to include in the pre-assessment questionnaire, which stakeholders to meet with, and what will be on the meeting agendas.

During the review, the reviewer will need to decide which key features are most relevant to the situation. Judgment will be needed in assigning ratings, particularly for key features that are outside the scope of the international standards. Discretion is left to the reviewer in determining the relative importance of the problems identified by the review and in crafting recommendations that are suitable for dealing with the problems in the context of the particular country. Some features may not be applicable to the situation being reviewed, but the process of determining that this is the case itself provides a good discipline.

Experience in applying the OBA framework will lead to its continual improvement, as has been the case with the international standards. Both the evolution of the OBA framework, and the accumulated experience of reviewers in applying it, are likely to lead to increasing consistency of ratings and recommendations. Nevertheless, as experience with the Financial Sector Assessment Program has demonstrated, the assessment of a financial sector will always require the exercise of discretion, judgment, and the willingness to consider and debate alternative points of view with the country authorities. The OBA framework might also be useful in communicating supervisory expectations to industry and in supporting dialogue with the authorities of other countries about pension policy and supervision issues.
Chapter 5: Conclusion and Next Steps

5.1 Conclusions
The Outcomes Based Assessment framework for Pensions sets out 5 key ultimate outcomes of a pension system. These are efficiency, sustainability, coverage, adequacy and security. These build on and deepen existing frameworks including those linked to improving data collection. For each ultimate outcome a set of ‘key features’ were developed that impact the ultimate outcome. They range from factors on which international standards exist – for example, on governance of pension funds – through to the many factors where no standards exist – for example, the scale of the institutions delivering pensions. Reviewer judgment is key – particularly in determining trade-offs between outcomes.

The Pensions OBA framework provides a reviewer with an integrated assessment methodology that is flexible and adaptable. It can be easily updated as the evidence on what works develops. The assessment methodology starts with data request sheets that map directly into the framework and facilitates assessment of current outcomes. It then provides a set of reviewer sheets for each outcome broken down by the key features that cause the outcomes. The key features were derived from a range of evidence sources to ensure their robustness – from academics and the private sector to working papers and practical experience through to the work of international standard setters.

The key features that drive the ultimate outcomes have been mapped against international standards on pensions (from the OECD/IOPS), on insurance (IAIS) and on securities (IOSCO). As far as the authors know this is the first side-by-side comparison of international standards in a common outcome based evaluation. It shows that the OECD/IOPS standards have a broader coverage of factors affecting ultimate pension outcomes but that the IAIS and IOSCO standards have a deeper treatment of some issues, particularly relating to the security of the (pension) system. This mapping can be easily updated as standards evolve. It can also show the reviewer or client countries when a particular area under discussion is linked to an international standard or not. Most of the key features do not have a direct equivalent in a standard, but where there is the standard is chosen to improve the integration of global pension policy work and avoid duplication.

The Pensions OBA framework is designed to be used in a wide range of country diagnostic work. This can be in Financial Sector Assessment Programs (FSAPs), bespoke technical assistance or projects such as those from the FIRST Initiative to strength financial sector outcomes. For pension FSAPs the framework provides the potential to link the broad based development assessment part of an FSAP led by the World Bank with the separate Report on Observance of Standards and Codes (ROSC) which follows the methodology of the standard setter. The reviews can be broad and strategic, involving a whole pension system and many players, or targeted and specific – perhaps on a single outcome or with a single institution such as a supervisor.

The Pension Outcomes Based Assessment Framework has an explicit element on implementation challenges. This ensures the ‘Science of Delivery’ is integrated into the design of policies to improve outcomes. It greatly assists the development of practical programs tailored to country specific implementation capacity and level of ‘initial conditions’ necessary for a successful pension program.
5.2 Next steps
The OBA for Pensions has already been piloted on a number of countries – large and small and at different levels of development. It is proving a very useful tool for country focused diagnostic work. The approach will be used in more countries in the coming period of time, increasing the set of comparable and rigorous projects. These country projects will continue to range in size, complexity and income level.

The OBA is designed to be easy to update. As colleagues find new evidence of features that need to be reviewed because they are important to drive pension outcomes then these will be added to the framework. The project embodies a strong commitment to knowledge management and projects have already produced, or are producing Case Studies, Results Briefs or published reports. This will continue – expanding the evidence base and showing the World Bank’s commitment to generating and publishing knowledge developed during its work with client countries.

The approach has been piloted in FSAPs already and the intention is to use it as the World Bank’s methodology for the development assessment part of the FSAP when pensions are part of the process. There is a related question of whether the OECD/IOPS standards should become a formal part of the ROSCs that can be in FSAPs, or requested separately. This is not a decision for the pension team but could be considered as part of the next review of the FSAPs and ROSCs by the IMF and World Bank. The FSB have a clear process, initiated by the standard setting bodies, for considering inclusion of principles and standards in its core standards and wider compendium.

A (shorter) Working Paper will be published in the financial year starting July 2014 setting out the OBA for pensions – building on the series of external presentations already made during the project. In addition the team will continue the strong co-operation with key global and country partners on all elements in the OBA framework – from data collection through to diagnosis, developing better solutions and ensuring a stronger focus on implementation and monitoring and evaluation.
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