



Linking the accumulation and payout phases

Craig Thorburn
Lead Insurance Specialist
cthornburn@worldbank.org
+1 202 473 4932



Agenda

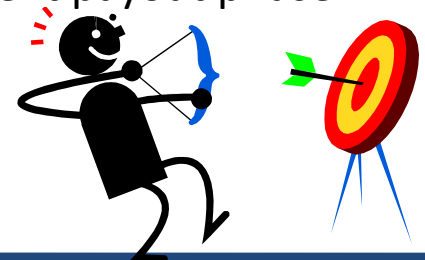
1. Stating the policy objective(s)
 2. Product and menu options
 3. Provider options
 4. Distribution issues and options
 5. Regulation and supervision
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Objectives

- Consistency of objectives between payout phase and accumulation phase is important but not always in place
 - Is it a pension scheme or a savings scheme?
- Usual trade offs and constraints lead to choices along a continuum

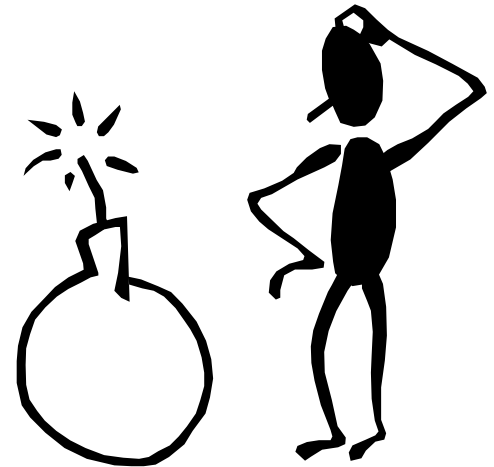
- Examples:
 - Is your objective to work toward the minimum number of people falling into poverty in extreme old age? Or that all members will have the opportunity for a stable, secure, adequate retirement income? Are you concerned about informality eroding coverage or a low density of contributions?
 - Depending on the decisions, you would have a different payout phase design?





Other objectives

- Some will be important expressions of the core objective:
 - Treatment of widows and orphans
- Some will be critical to the design
 - Deliver wage indexed outcomes in retirement
 - (for example, in several countries where the minimum pension is linked to the minimum wage, or in Australia where the social contract led to wage indexation of the basic pension)
- Some are useful, relevant but subsidiary.
- Examples:
 - Develop long term fixed interest markets
 - Reduce annuity rate risk for retirees.





Product Menu Options

Options	Jurisdiction
Lump sum only	HK India Philippines
Lump sum / PW	China, Indonesia, Malaysia
Lump sum/ PW/ annuity	Australia, Brazil, Denmark, Japan, Spore
Lump sum / Annuity	Greece, Spain, Belgium , Czech, S Africa, USA
Partial lump sum + annuity	Germany, Italy, Portugal, UK
Annuity/ PW	Canada, Chile., Costa Rica, Mexico, Norway Peru
Annuity only	Austria, Bulgaria, Colombia, Croatia, Netherlands, Poland, Russia, Sweden Uruguay

Annuities:

Many jurisdictions define more standard, aligned to objectives, and clear to potential buyers.

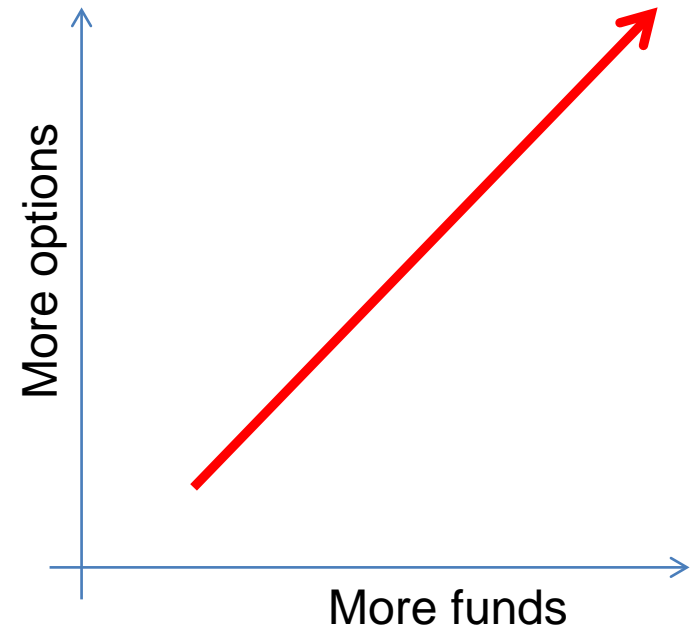
PW Products:

Several types depending on formula and how it is implemented including the basis that it is updated after the product is purchased.



Product Menu Options

- Many countries adopt a “minimum pension” objective.
- Those that accumulate sufficient funds to be able to guarantee themselves a minimum pension by taking an annuity can do so
- The additional risk associated with investments in PWs means that the guarantee of a minimum pension might be more difficult – so can require an uplift factor.
- Those with more funds can consider more options.
- Note the role of any first pillar or voluntary approach is also relevant
- Can combine these rules into the early retirement conditions
- What to do with those that never accumulate enough?
- What about the pre retirement beneficiaries?





Who should provide products?

- Lump sum/ PW can be paid out by pension funds or life insurance companies
- Insurance company standards needed for providers of annuities
 - Longevity risk calculations
 - Solvency guarantees behind promised (more guaranteed) benefit
- Others
 - Social Security or Government Operated Pension Fund
 - Some other central provider
- Dedicated retirement license, separate accounting and assets, or comingled with other business?

Insurance Company	Pension Fund	Insurance Company or Pension Fund	State Provider
Chile Italy Mexico South Africa UK	Brazil Bulgaria Czech Republic Switzerland	Hungary USA Australia Denmark	Bolivia Singapore Sweden



Distribution questions

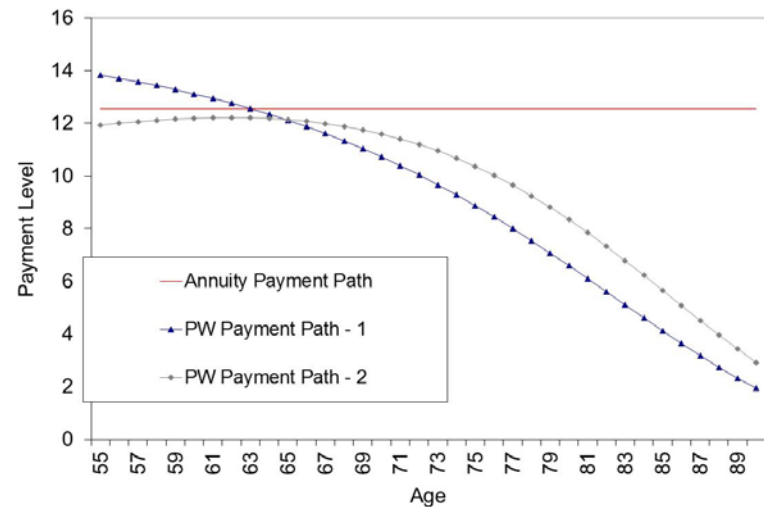
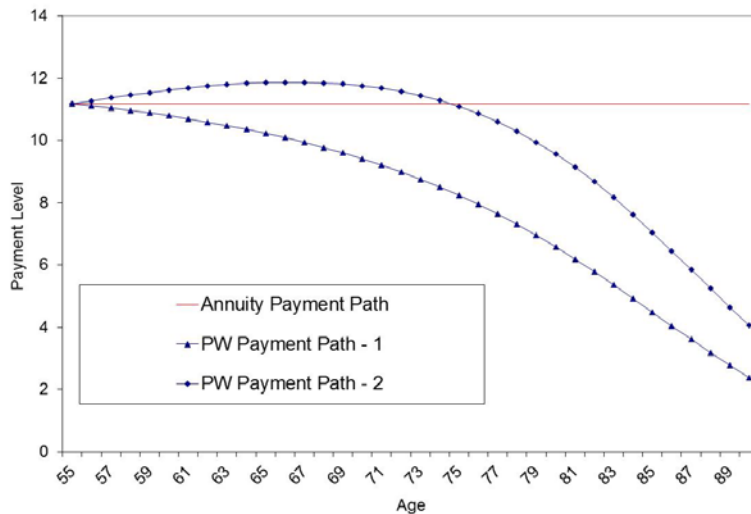
- Who can distribute products?
 - Clients will need advice about choices
- What information will be provided to clients?
 - Clients need to be provided with information that
 - Clearly highlights key differences between products (risks, expectations for income, coverage of contingent payments)
 - facilitates fair comparison
 - Does not artificially bias one product over another
- Note: The less choice people have, the less complex this area of regulation can be





Illustrations Benefits

- Challenge to get an illustration to show real differences but not false virtues. Customers often focus on first year. PW illustrations rely on assumptions. Examples show ease of manipulation
- Challenge, even with good regulation, is how to get the same initial payment when that is the situation





Regulation and Supervision Issues (depend on choices made)

- Capital and solvency, including ALM matching, liquidity, concentration and reinvestment risk requirements
 - Investments
 - Data collection and providing it to the market
 - Individual level data to facilitate analysis requires analysts as well as data
 - Developing statistical information for pricing and provisioning *and* also for PW parameters
 - Yield curves, investment valuation and risk assessment capacity
 - Mortality and longevity, and mortality improvement
 - Distribution and Illustration rules
 - Treatment of products in case of provider failure
 - For PWs, transfer between providers post purchase
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