

*Information for Organizations Interested in Joining the
World Bank/OECD/ING*

Partnership for Research on Private Pensions

The Purpose of the Partnership

The Partnership is established under the terms and conditions set forth in a Memorandum of Understanding (MOU) signed by three organizations, the World Bank, the Organisation for Economic Cooperation and Development (OECD) and the ING Group, that created it in May of 2005. The partnership is consistent with the framework and rules governing all Global Partnerships and Programs at the World Bank and OECD rules and procedures for cooperative agreements. It is designed to carry out activities resulting in timely and high-quality research and analysis of issues related to funded pension systems in developing countries and transition economies. This will include establishing a dialogue and working relationships with relevant public and private entities as regards funded pension systems in selected areas and countries of interest. It is intended to provide a means for interested organizations to work in an open, transparent and cooperative manner taking advantage of their respective experience, expertise and resources to advance the knowledge and support the development of public policy. The results will be widely disseminated and published in a manner to make it as accessible as possible. The Partnership is intended to be open for participation by all Public and Private organizations with an interest in the issues that are able to make a significant intellectual or resource contribution to the effort as is practical for its effective operation.

Governance and Operation

The partnership is governed by two Committees. A Steering Group comprised of a representative from the World Bank and the OECD provides overall policy direction and approval of projects to be undertaken by the partnership. A Coordinating Committee comprised of two designees from each of the partners identifies areas of interest, develops and oversees the implementation of research projects and their dissemination.

All partners will make a significant contribution to the work either through the time of their staff, in kind contributions or the allocation of financial resources to support the work. Public organizations such as the World Bank and the OECD are expected to primarily contribute staff resources. Private organizations will be required to make a commitment of financial resources at a commensurate level in addition to some staff time and in kind resources.

Each partner will maintain full control of all resources contributed, managing their own staff and purchasing any supporting goods and services pursuant to their own procurement policies and guidelines. There is a provision for the provision of grants to the OECD subject to their policies and guidelines when this is determined by the partner providing the financial resources to be an appropriate venue. Resources will be allocated and used in a collaborative manner within the framework established by the partnership. All materials and products resulting from the partnerships activities are intended to be made as widely and readily available as possible.

Current Opportunity for New Partners to Join

The MOU establishing the partnership requires all partners to make their best efforts to expand participation through the addition of new partners to the extent practicable. This will initially be done on the basis of participation and support for the first project to be undertaken, a study on “**Comparative Performance Analysis of Privately Managed Pension Fund Assets**” that is outlined below.

The Coordination Committee has determined that there is scope for four to five additional partners to join at this time and participate in the study. Private partners are expected to provide financial resources of at least \$100,000 to participate in this initial work. New public sector partners are expected to provide staff, in kind or financial resources at approximately the same level.

New partners will be solicited from the time of the public announcement of the partnership (September 26, 2005) through early November 2005. A decision on new partners will be made in early November and work on the project will commence at that time based on the decisions of the Coordination Committee regarding use of available resources and Terms of Reference developed for the project. New partners will be provided with opportunity to join the Coordination Committee at that time and participate in decisions regarding the project implementation.

Interested parties should contact Richard Hinz at the World Bank (rhinz@worldbank.org) for further information.

Outline of Comparative Performance Analysis of Privately Managed Pension Fund Assets Study

Despite the growing role of the private sector in retirement provision there have been few systematic comparisons of performance of these new private systems. The lack of research in this area is cause for concern, because policy-makers need to assess whether their new systems will be able to achieve their objectives, the conditions associated with the successful introduction and operation of funds and or whether changes in institutional and regulatory arrangements are called for. In the countries that are considering reform, policy-makers have an interest in knowing which institutional arrangements seem to be working better. Therefore, there is a great interest in many countries in international

studies that provide comparisons of the financial performance of existing pension and retirement savings funds.

Based on data and information developed by pension regulators and supervisors, other administrative sources, and with a view to improve the comparability of performance data at an international level, the general objectives of the study are:

- to gather detailed data and information on portfolio composition, asset allocation, investment practices, costs, and fees, in order to provide baseline data in a comparable form for selected countries that have a sufficient experience with private pension fund management to support analysis of the performance of the funds and evaluation of factors that are associated with variations in this performance.
- to match this data with information about the legal, institutional and macroeconomic environment in which the funds have operated.
- to undertake a comparative analysis time, including relevant sub-periods (respecting data limitation on some countries) of the financial performance (both gross and net of fees and expenses) of the funds on a nominal and risk adjusted basis. This will require the utilization of common performance attribution measures such as Sharpe ratios or measurement of portfolio alphas in addition to the more basic measures currently published by some funds. This will require a careful process of agreement on common methodologies and comparable measures and considerable data work.
- To undertake an analysis of any relationship between the factors that may have affected or determined the financial performance of the pension funds. Therefore, the study would not only gather information on performance indicators, but also assess the differences in outcomes, taking into consideration differences in institutional arrangements, degree of capital market development, maturity, and other possible factors that are potentially associated with, or lead to, differences in the financial performance of privately managed pension funds.

The research would examine financial performance of privately managed pension funds (both mandatory and voluntary) in Latin America and Central and Eastern Europe, as well as selected other countries (with a focus on high income OECD countries).

The study should cover the years 1990-2004 (where available), providing the relevant breakdown by quarterly sub-periods and classes of institutions.

The study will be designed to have three main components, (1) collecting and reviewing the potential sources of data, (2) formulating and methodological approaches to conducting the comparative analysis and reaching consensus on a common set of

approach through a research conference and peer review of proposal and (3) the development of the financial performance analysis culminating in a conference and publication of a volume of papers presenting the results of the research.

The study is expected to begin in December 2005 with the initial research conference in mid 2006 and a conference to review results held in late 2006. Publication of a volume of results from the effort is planned for early 2007.

Background Information on the Three Original Partners

The World Bank constitutes an international development institution of more than 180 member countries. Its mission is to reduce poverty, improve living conditions, and promote sustainable and comprehensive development in its developing member countries. It achieves these objectives by providing loans, concessional financing, technical assistance, and knowledge-sharing services to its developing member countries and through partnerships with other organizations. The Bank, through its Human and Financial Sector Development Networks, has an interest in establishing a dialogue and working with public and private entities involved in pension reform, as well as fostering research and analysis of key issues relating to market based pension systems and supplementary pension plans in developing and transition economies.

The OECD is an international organization comprised of 30 member nations, which works on economic and social issues from macroeconomics, to trade, education, development and science and innovation. The OECD established a Working Party on Private Pensions in 1999 to provide a forum to discuss, develop and refine economic and social policies in the private pensions field. The OECD engages in collaborative activities with member and non-member countries to undertake research and policy analysis, develop data and statistics and establish guidelines and standards to assist in coordination and policy formulation in these areas. The OECD's Directorate for Financial and Enterprise Affairs (DAF) is actively involved in research related to market-based pensions and retirement savings systems.

ING is a Dutch corporation operating globally and providing banking, insurance and asset management products and services to 60 million clients in 50 countries. Although ING is a for-profit corporation, it is mindful of its corporate social responsibility, seeking to balance the interests of its clients, shareholders, employees and society at large. As part of its corporate social responsibility, ING wishes to support research on the performance of market based pension systems.