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31 August 2022

COUNCIL**Council****REPORT ON THE IMPLEMENTATION OF THE OECD
RECOMMENDATION ON CORE PRINCIPLES OF PRIVATE PENSION
REGULATION****(Note by the Secretary-General)****JT03501630**

1. This document presents in its Annex a Report by the Insurance and Private Pensions Committee (IPPC), through its Working Party on Private Pensions (WPPP), on the implementation, dissemination and continued relevance of the OECD Recommendation on Core Principles of Private Pension Regulation [[OECD/LEGAL/0429](#)] (hereafter, the “Recommendation”) and its conclusions regarding whether the instrument requires updating. Following discussions and review by the WPPP, the IPPC approved at its 22-23 June 2022 meeting the Report and its transmission to Council to be noted and declassified [[DAF/AS/PEN/WD\(2021\)8/REV2](#)].

Background

2. The OECD has recognised for a long time the importance of private pension systems in retirement income provision and the need for appropriate regulation and supervision of these systems. The Council first adopted the Recommendation of the Council on Core Principles of Occupational Pension Regulation in 2004 [[OECD/LEGAL/0323](#)], recognising the specific nature of occupational pension arrangements and the role of employers as plan sponsors, as well as the desirability of establishing and maintaining a set of core principles and guidelines for occupational pension regulation. The 2004 Recommendation was then updated and replaced in 2009 [[OECD/LEGAL/0373](#)]. Given the changing nature of private pension provision, especially the rise in defined contribution and personal pension plans, it was decided to expand the 2009 Recommendation to include all funded pension arrangements, not just occupational ones. The Council therefore adopted the current Recommendation of the Council on Core Principles of Private Pension Regulation [[OECD/LEGAL/0429](#)] on 27 September 2016 to update and replace the Recommendation adopted in 2009.

3. The Recommendation serves to encourage a more efficient regulation and management of private pension systems, thereby helping Members and non-Members having adhered to it (hereafter, the “Adherents”) to strengthen private pension systems and improve their complementary role in ensuring that retirement income is adequate. It recommends Adherents to take due account of the Core Principles of Private Pension Regulation (hereafter, the “Core Principles”) when establishing, amending or reviewing their private pension regulations. The Core Principles and their Implementing Guidelines (IG) are set out in the Appendix of the Recommendation and form an integral part thereof. At present, all OECD Members are Adherents to the Recommendation, and there are no non-Member Adherents.

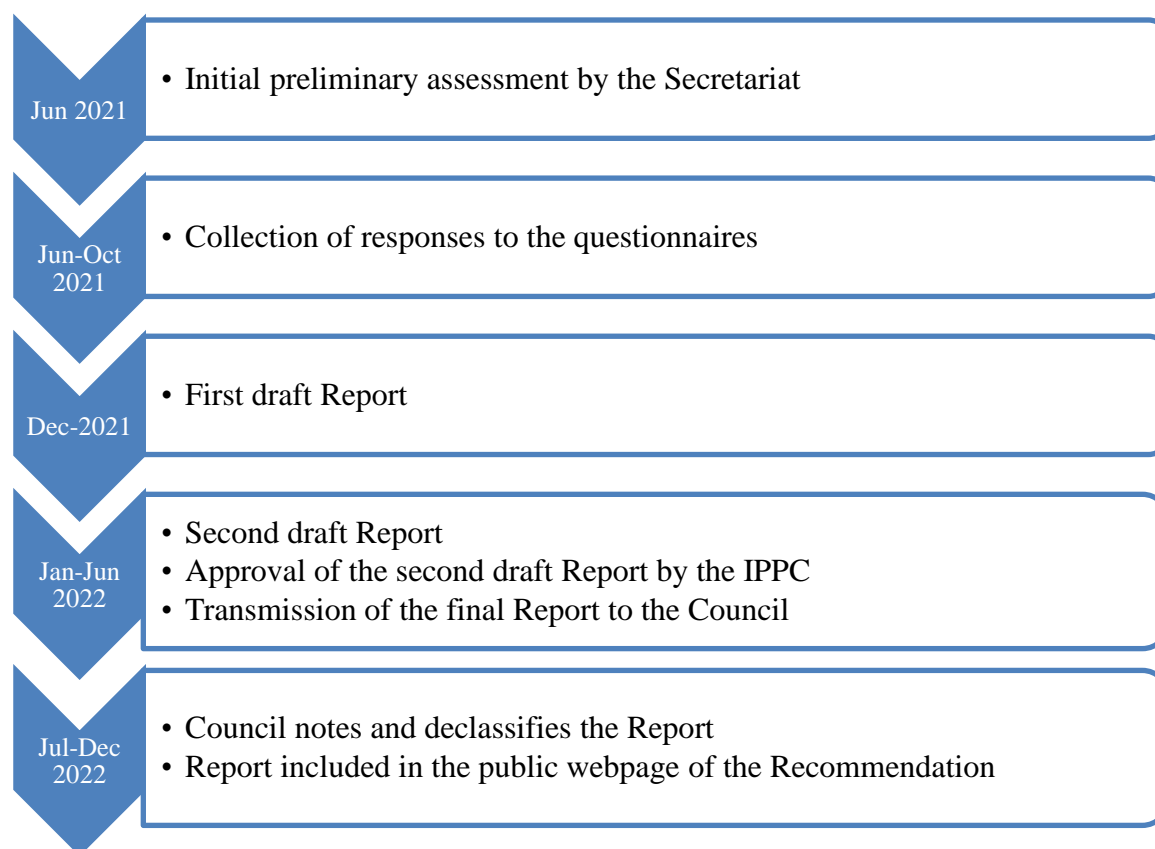
4. In the Recommendation, the Council instructed the IPPC, through the WPPP, to monitor the implementation of this Recommendation and report to the Council no later than five years following its adoption. In this context, this document presents in its Annex the Report to Council on the implementation, dissemination and continued relevance of the Recommendation, which assesses the continued relevance of the Recommendation and its implementation by Adherents, as well as describes the actions that the OECD Secretariat and the Adherents have taken to disseminate the Recommendation since its adoption.

Methodology and process

5. The collection of information on the implementation, dissemination and continued relevance of the Recommendation relies on several sources. The main one is a questionnaire sent in June 2021 to the Adherents, soliciting information on their implementation of the Recommendation, their efforts to disseminate it and their opinion on its continued relevance. This complements the OECD Secretariat’s initial preliminary assessment presented and discussed by the WPPP at its meeting in June 2021 [[DAF/AS/PEN/WD\(2021\)8](#)], which relied itself on freely available sources and past work conducted by the WPPP and the OECD Secretariat. Additional questionnaires were also sent to seek the views of organisations representing the interests of the industry and those of savers.

6. Figure 1 presents the process to prepare the Report.

Figure 1. Process to prepare the Report



7. The Report is based on [DAF/AS/PEN/WD\(2021\)8](#), which included the OECD Secretariat's **preliminary assessment** of the implementation, dissemination and continued relevance of the Recommendation. It was discussed during the meeting of the WPPP on 15 June 2021. Delegates were invited to provide comments on this initial preliminary assessment during the meeting and by written procedure following the meeting by 28 July 2021.

8. To complement this preliminary assessment, the OECD Secretariat sent a **questionnaire** to WPPP delegates in June 2021 for completion by 16 September 2021 (extended to 4 October 2021). This questionnaire (Adherent questionnaire) solicited information from WPPP delegates, in their capacity as Adherents to the Recommendation, on their implementation of the Recommendation, their efforts to disseminate it and their opinion on its continued relevance. It also sought the views of other national stakeholders, such as organisations representing the interests of the industry or those of savers. Similar questionnaires were also sent to large national or cross-national organisations representing the interests of pension providers and those of pension plan members and beneficiaries.

9. The WPPP discussed a **first draft Report** [[DAF/AS/PEN/WD\(2021\)8/REV1](#)] at its meeting on 6 December 2021. The WPPP discussed the document and agreed to transmit a revised version of the draft Report, incorporating the comments received at the meeting and in writing before 21 January 2022, to the IPPC, including with the next steps suggested in the Report [[DAF/AS/PEN/M\(2022\)1](#)].

10. The **second draft Report** [[DAF/AS/PEN/WD\(2021\)8/REV2](#)], which reflects the comments received from WPPP delegates, was discussed by the IPPC at its meeting on 23 June 2022. The IPPC approved the Report, which is now transmitted to the Council to be noted and declassified [[C\(2022\)156](#)].

11. Thereafter, a link to the approved Report will be included in the public webpage of the Recommendation on the [online Compendium of OECD Legal Instruments, and the OECD webpage on Funded Pensions](#).

Summary and conclusions

Dissemination

12. In the Recommendation, the Council invited the Secretary-General, as well as Adherents, to disseminate the Recommendation.

13. Since its adoption in 2016, the OECD Secretariat has taken steps to raise awareness of the Recommendation, in particular by using it to evaluate funded private pension systems and provide policy guidance to different OECD Members and interested non-Members. It also disseminated the Recommendation through presentations to different audiences. In particular, the [book version of the Core Principles](#) was released and distributed at the OECD/IOPS Global Forum on Private Pensions on 9 November 2016.

14. Adherents have been less active in disseminating the Recommendation at all levels of government and to relevant stakeholders. Most Adherents that responded to the questionnaire (hereafter the “Respondents”) have not taken specific steps to disseminate the Recommendation among relevant ministries and stakeholders. As a result, the level of awareness of the Recommendation among the authorities concerned with funded private pensions is “moderate” or “low” for more than half of the Respondents.

15. Adherents are invited to disseminate the Recommendation more actively. For example, Adherents could include a link to the Recommendation on the website of the pension supervisory and regulatory authorities. Adherents could also organise local seminars with relevant people at all levels of government to ensure a high level of awareness of the Recommendation and its content among all parties concerned with private pension regulation. The OECD Secretariat could participate in those seminars.

Implementation

16. Overall, the Recommendation is well implemented by Adherents. Most of the Respondents take due account of the Core Principles when establishing, amending or reviewing their private pension regulations, as recommended. While national and supranational regulations (e.g. the European Union Directives on Institutions for Occupational Retirement Provision, IORP, II and Solvency II) take priority when amending or reviewing regulations, the Recommendation is also one of the sources Adherents take into consideration.

17. Overall, the Core Principles that form an integral part of the Recommendation are well implemented by Adherents. One-third of the Respondents consider that all the Core Principles that are relevant in their country are fully implemented. Core Principle 3 (Governance), Core Principle 6 (Supervision) and Core Principle 9 (Funding of personal pension plans, wind-up and insolvency) are the Core Principles with the highest level of implementation, while Core Principle 5 (Plan design, pension benefits, disclosure and redress), Core Principle 7 (Occupational pension plan liabilities, funding rules, winding up and insurance) and Core Principle 8 (Access, vesting and portability of occupational pension plans) are the ones with the lowest level of implementation.

18. The Report identifies areas where some Adherents have weaker implementation of the Recommendation. In particular, further work may be needed to enhance implementation in areas related to the definition of policy objectives for the private pension system; the assessment of license applications; minimum capital requirements for pension funds and entities starting business; quantitative investment

limits; default investment strategies; disclosure and availability of information; mechanisms for complaint handling and redress; the measurement of occupational pension plans' liabilities; and rules regarding occupational pension plans' access, vesting and portability.

Continued relevance and areas of future work

19. Overall, the Respondents consider that the Recommendation continues to be relevant and useful.
20. There is however a need to revise the current Recommendation for two main reasons:
- Firstly, recent trends including digitalisation, demands on assets earmarked for retirement to support the post-COVID-19 recovery, and the need to incorporate Environmental, Social and Governance (ESG) risks and factors in the investment and risk management of pension funds, call for a substantive revision of the Recommendation. Moreover, almost 40% of the Respondents (39%) consider that these new developments do call for a revision.
 - Secondly, separating the Implementing Guidelines from the Recommendation and transforming them into a toolkit to support the implementation of the Recommendation would provide greater flexibility. This proposed restructuring of the Recommendation would allow updates of the Implementing Guidelines as the need arises in a timely manner, as the toolkit would be under the responsibility of the IPPC and its WPPP. While the Core Principles would continue to form an integral part of the Recommendation, the introduction to each Core Principle and the Implementing Guidelines could be extracted from the Recommendation and integrated into this separate implementation toolkit to provide a more practical and flexible tool tailored to the experts' needs. In addition, and to align with the new format of more recent OECD Recommendations, the Core Principles could be moved to the body of the Recommendation rather than having them embedded in an Appendix, to give them more visibility. As the Implementing Guidelines form an integral part of the Recommendation, separating the Implementing Guidelines from the Recommendation requires a revision of the Recommendation by the Council on the proposal of the IPPC.
21. The WPPP supported both substantive and restructuring revisions at its December 2021 meeting. When approving the Report, the IPPC also agreed with the proposal to revise the Recommendation. Accordingly, it is proposed that, when it reviews the Report, the Council invites the IPPC to prepare a draft revised Recommendation. The timeline for such revision to reach the Council for adoption would depend on the extent of the changes: a simple restructuring could be done during 2023 but a more substantive revision of the Core Principles would take more time and could span over the next biennium 2023-2024. The WPPP will start the discussion at its December 2022 meeting on the basis of a draft restructured Recommendation. It will be invited to consider whether substantive changes are necessary in the Core Principles (relocated in the body of the Recommendation and requiring Council's adoption) and/or the Implementing Guidelines (relocated in an implementation toolkit). The IPPC also agreed to continue promoting and supporting the implementation of the Recommendation with a report back to the Council. The date of the next reporting cycle will depend on the timeline for the revision of the Recommendation, in order to provide sufficient time for reporting if substantive changes are made.

Proposed action

22. In light of the preceding, the Secretary-General invites the Council to adopt the following draft conclusions:

THE COUNCIL

- a) noted document [C\(2022\)156](#), in particular the Report set out in its Annex, and agreed to its declassification;

- b) encouraged Adherents to the Recommendation to:
 - i. address the main findings and challenges identified in the Summary and conclusions section of the Report, in particular by further aligning their regulations with the Recommendation in the areas where the level of implementation is low;
 - ii. further promote and raise awareness of the Recommendation nationally among relevant ministries and stakeholders;
- c) invited the Insurance and Private Pensions Committee, through the Working Party on Private Pensions, to:
 - i. support Adherents in addressing the findings and challenges identified in the Summary and conclusions section of the Report by providing technical assistance in the areas where the level of implementation is low;
 - ii. review and prepare an update of the Recommendation;
 - iii. continue promoting and supporting the implementation of the Recommendation and report back to the Council on its implementation, dissemination and continued relevance recognising that the reporting date will depend on the timeline for the revision of the Recommendation.

Annex. Report on the Implementation of the OECD Recommendation on Core Principles of Private Pension Regulation

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1 Background

1. The OECD Council adopted the Recommendation on Core Principles of Private Pension Regulation [[OECD/LEGAL/0429](#)] (hereafter, the “Recommendation”) on 27 September 2016 on the proposal of the Insurance and Private Pensions Committee (IPPC). It replaces the 2009 Recommendation on Core Principles of Occupational Pension Regulation [[OECD/LEGAL/0373](#)], updating and expanding it to include all funded pension arrangements, reflecting changes in the nature of private pension provision, especially the rise in defined contribution and personal pension plans. The 2009 Recommendation itself replaced an initial version adopted by the Council in 2004 [[OECD/LEGAL/0323](#)].

2. The Recommendation recommends that Members and non-Members having adhered to the Recommendation (hereafter, the “Adherents”¹) take due account of the Core Principles of Private Pension Regulation (hereafter, the “Core Principles”) when establishing, amending or reviewing their private pension regulations. The Core Principles and their Implementing Guidelines (IG) are set out in the Appendix of the Recommendation and form an integral part thereof. The Recommendation also encourages all institutions involved in the management of private pension systems as well as organisations that represent the interests of pension plan members and beneficiaries to follow this Recommendation. The Recommendation serves to encourage a more efficient regulation and management of private pension systems, thereby helping Adherents to strengthen private pension systems and improve their complementary role in ensuring that retirement income is adequate.

3. Since 2016, a number of developments took place in the area of private pensions. An increasing number of pension entities and pension supervisors are recognising the importance of the integration of Environmental, Social and Governance (ESG) factors into the investment and risk management of pension funds. In particular, the International Organisation of Pension Supervisors (IOPS) released in 2019 their *Supervisory Guidelines on the Integration of ESG Factors in the Investment and Risk management of Pension Funds*. Another important development relates to digitalisation and technology. For example, new digital tools are being used to communicate with plan members, such as mobile applications to make voluntary contributions (OECD, 2020^[1]). Finally, the COVID-19 crisis highlighted the lack of emergency savings for large parts of the population, while it accelerated the use of digital tools to operate pension funds and heightened the risk of cyber-attacks.

4. The OECD Council instructed the IPPC, through its Working Party on Private Pensions (WPPP), to monitor the implementation of this Recommendation and report to the Council no later than five years following its adoption. In this context, the WPPP and the IPPC should develop and approve a Report to Council on the implementation, dissemination and continued relevance of the Recommendation by 2022. This Report to Council assesses the continued relevance of the Recommendation and its implementation by Adherents, as well as describe the actions that the Secretariat and the Adherents have taken to disseminate the Recommendation since its adoption.

5. This document is structured as follows. Section 2 presents the methodology used for developing the Report to Council and the different steps in the process of developing it. Section 3 provides a summary of the actions that the Secretariat and Adherents have taken to disseminate the Recommendation since its

¹ To date, all 38 OECD Member are Adherents to the Recommendation. There are no non-Member Adherents.

adoption. Section 4 provides an assessment of the implementation of the Recommendation by Adherents and an analysis of its continued relevance. Section 5 concludes.

2 Methodology and process

Methodology

6. The collection of information on the implementation, dissemination and continued relevance of the Recommendation has been based on several sources.

7. The main source of information is a questionnaire prepared by the Secretariat and sent in June 2021 to WPPP delegates, in their capacity as Adherents to the Recommendation (hereafter, the “Adherent questionnaire”). This questionnaire solicited information on their implementation of the Recommendation, as well as their efforts to disseminate it and their opinion on its continued relevance.

8. The Adherent questionnaire is complemented by several other sources:

- A questionnaire to institutions involved in the management of private pension systems (hereafter, the “industry questionnaire”).² This questionnaire inquired about the extent to which they follow the Recommendation and their opinion on its continued relevance;
- A questionnaire to organisations that represent the interests of pension plan members and beneficiaries (hereafter, the “savers questionnaire”).³ This questionnaire only asked for their views regarding the continued relevance of the Recommendation;
- The ISSA/OECD/IOPS Complementary Database.⁴ This database includes country profiles with a concise description of complementary and private pension systems in over 80 countries;
- The OECD Annual Survey of Investment Regulation of Pension Funds and Other Pension Providers.⁵ This database describes the main quantitative investment regulations applied to pension funds and other pension providers in 80 economies;
- The OECD Global Pension Statistics (GPS) metadata. This database includes a description of pension plans in OECD Members and selected non-Members according to a set of criteria;
- Various country-specific and thematic reports produced by the Secretariat, including chapters in different editions of *Pensions at a Glance* and the *OECD Pensions Outlook*.

² The industry questionnaire was sent to the following organisations: PensionsEurope, InsuranceEurope, the European Fund and Asset Management Association (EFAMA), the International Federation of Pension Funds Administrators (FIAP), the Investment Company Institute (ICI), the World Pension Alliance, the International Actuarial Association (IAA) and USA Retirement.

³ The savers questionnaire was sent to the following organisations: Age Platform, Better Finance and the American Association of Retired Persons (AARP).

⁴ <https://ww1.issa.int/country-profiles>

⁵ <https://www.oecd.org/pensions/private-pensions/annualsurveyofinvestmentregulationofpensionfunds.htm>

9. For the Adherent and the industry questionnaires, respondents were required to assess the extent to which each Core Principle is implemented using the following scale:⁶

- **Fully Implemented** – The Core Principle is fully implemented in all material respects with respect to all of the applicable Implementing Guidelines. Where the Implementing Guidelines refer to standards (in this context the practices that should be required, encouraged or, conversely, prohibited or discouraged), all material aspects of the standards are present. Where the Implementing Guidelines refer to practices, the relevant practices are widespread. Where the Implementing Guidelines refer to enforcement mechanisms, there are adequate, effective enforcement mechanisms. Where the Implementing Guidelines refer to remedies, there are adequate, effective and accessible remedies.
- **Broadly Implemented** – A Broadly Implemented assessment is likely appropriate where one or more of the applicable Implementing Guidelines are less than fully implemented in all material respects, but, at a minimum:
 - All of the applicable Implementing Guidelines are implemented to some extent;
 - The core elements of the standards are present (e.g. general standards may be in place although some of the specific details may be missing); and
 - Incentives and/or disciplinary forces are operating with some effect to encourage at least a majority of market participants, including significant enterprises, to adopt the recommended practices.
- **Partly Implemented** – A Partly Implemented assessment is likely appropriate in the following situations:
 - One or more core elements of the standards described in a minority of the applicable Implementing Guidelines are missing, but the other applicable Implementing Guidelines are fully or broadly implemented in all material respects (including those aspects of the Implementing Guidelines relating to governance practices, enforcement mechanisms and remedies);
 - The core elements of the standards described in all of the applicable Implementing Guidelines are present, but incentives and/or disciplinary forces are not operating effectively to encourage at least a significant minority of market participants to adopt the recommended practices; or,
 - The core elements of the standards described in all of the applicable Implementing Guidelines are present, but implementation levels are low because some or all of the standards are new, it is too early to expect high levels of implementation and it appears that the reason for low implementation levels is the newness of the standards (rather than other factors, such as low incentives to adopt the standards).
- **Not Implemented** – A Not Implemented assessment is appropriate where there are major shortcomings, for instance, where:
 - The core elements of the standards described in a majority of the applicable Implementing Guidelines are not present; and/or,
 - Incentives and/or disciplinary forces are not operating effectively to encourage at least a significant minority of market participants to adopt the recommended practices.
- **Not Applicable** – This assessment is appropriate where a Core Principle (or one of the Implementing Guidelines) does not apply due to structural, legal or institutional features.

⁶ This follows the OECD methodology developed for assessing funded and private pension systems against the Core Principles of Occupational Pension Regulation (OECD, 2010_[17]).

Process

10. The preliminary draft of the Report [DAF/AS/PEN/WD\(2021\)8](#) included the OECD Secretariat's preliminary assessment of the implementation, dissemination and continued relevance of the Recommendation. This assessment was based on different freely available data sources and past work undertaken by the WPPP and the OECD Secretariat. It was discussed during the meeting of the WPPP on 15 June 2021. Delegates were invited to provide comments on this initial preliminary assessment during the meeting and by written procedure following the meeting by 28 July 2021.

11. The OECD Secretariat sent a questionnaire to WPPP delegates (Adherent questionnaire) in June 2021 for completion by 16 September 2021. The deadline was further extended to 4 October 2021 to allow more Adherents to send their replies.⁷ This questionnaire solicited information from WPPP delegates, in their capacity as Adherents to the Recommendation, on their implementation of the Recommendation, their efforts to disseminate it and their opinion on its continued relevance. It also sought the views of other national stakeholders, such as organisations representing the interests of the industry or those of savers.

12. Similar questionnaires were also sent to large national or cross-national organisations representing the interests of pension providers (industry questionnaire) and those of pension plan members and beneficiaries (savers questionnaire), with a deadline by 16 September 2021.

13. The Secretariat received 33 completed Adherent questionnaires (i.e. 87% of all the Adherents to the Recommendation participated).⁸ Hereafter, these Adherents are designated as the "Respondents". Four national organisations representing the interests of pension providers completed the industry questionnaire, while one cross-national organisation provided general comments.⁹ None of the cross-national organisations representing the interests of plan members and beneficiaries completed the savers questionnaire.

14. The first draft Report [[DAF/AS/PEN/WD\(2021\)8/REV1](#)] combined the analysis of the responses to the different questionnaires received, with the initial preliminary assessment enriched by comments from WPPP delegates. It was discussed during the meeting of the WPPP on 6 December 2021. The WPPP approved the document and agreed to transmit a revised version of the draft Report, taking into account comments received at the meeting and in writing before 21 January 2022, to the IPPC, including with the next steps suggested in the draft Report.¹⁰ The next steps are i) to separate the introduction to each Core Principle and the Implementing Guidelines from the Recommendation, transforming them into a separate toolkit for implementation under the responsibility of the WPPP and the IPPC; and ii) to move the Core Principles (boxes) from the Appendix to the main body of the Recommendation. The WPPP preferred to address the need to account for recent trends (e.g. digitalisation and ESG investments) at a later stage, once the implementation toolkit is separated from the Recommendation. This discussion will consider whether changes are necessary in the implementation toolkit, in the Recommendation, or in both. The IPPC was notified of the outcome of the discussions of the WPPP at its December 2021 meeting.

15. The second draft Report [[DAF/AS/PEN/WD\(2021\)8/REV2](#)] reflected all the comments received from the WPPP, as well as the responses from one additional Adherent that sent the completed

⁷ One Adherent sent the completed questionnaire on 21 January 2022.

⁸ The following Adherents replied to the questionnaire: Australia, Austria, Canada, Chile, Colombia, Costa Rica, the Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Latvia, Lithuania, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.

⁹ The following organisations replied to the industry questionnaire: PensioPlus (Belgium), Asofondos (Colombia), the German Insurance Association and República AFAP (Uruguay). InsuranceEurope provided general comments.

¹⁰ See the summary record of the December 2021 meeting of the WPPP, [DAF/AS/PEN/M\(2022\)1](#).

questionnaire on 21 January 2022. It was discussed and approved by the IPPC at its meeting on 23 June 2022. The final Report was transmitted by the IPPC to the Council to be noted and declassified at its September 2022 meeting [[C\(2022\)156](#)]. Thereafter, a link to the approved Report will be included in the public webpage of the Recommendation on the [online Compendium of OECD Legal Instruments](#).

3 Dissemination

16. The Recommendation invites the Secretary-General and the Adherents to disseminate this Recommendation, at all levels of government. This section describes the dissemination efforts by the Secretariat and the Adherents.

Dissemination by the Secretariat

17. Since the adoption of the Recommendation in 2016, the Secretariat has taken steps to raise awareness of its contents, in particular by using it to evaluate funded private pension systems and provide policy guidance to different OECD Members and interested non-Members.

18. During 2016 and 2017, the Secretariat and the WPPP conducted an assessment of the private pension systems in Costa Rica and Lithuania against the Recommendation (in particular the part referring to the Core Principles) as part of the accession process. These assessments led the WPPP to provide recommendations to both countries to better align their regulation with the Recommendation.

19. Since 2016, the Secretariat has also conducted five country reviews providing an in-depth analysis of the different components of countries' pension systems, for the Czech Republic (2020), Latvia (2018), Peru (2019), Portugal (2019) and Slovenia (2022). The analysis in these country reviews is based on the Recommendation, the two OECD flagship pension publications (*Pensions at a Glance* and the *OECD Pensions Outlook*), the *OECD Roadmap for the Good Design of Defined Contribution Pension Plans*,¹¹ various other OECD work in the area of pensions, and country-specific sources and research. Some of the policy options proposed by the Secretariat to improve the design of the funded pension systems in the reviewed countries make a direct reference to the Recommendation (e.g. for Peru, see (OECD, 2019_[2])).¹²

20. The Secretariat has also published several chapters in both OECD flagship pension publications using the Recommendation to provide policy guidance. Chapter 4 of the *OECD Pensions Outlook 2018* examines the governance framework and investment policies of several nationally significant investment institutions, and maps them against Core Principles 3 and 4 to distil good practices on how to implement the Recommendation (OECD, 2018_[3]). Chapter 3 of *Pensions at a Glance 2019* analyses whether the design of funded pension arrangements is well adapted to the situation of workers in non-standard forms of work and recommends countries to align it further with the Recommendation in order to offer these workers the possibility of saving in complementary pension plans (OECD, 2019_[4]). Finally, Chapter 1 of the *OECD Pensions Outlook 2020* considers the safeguards that need to be in place so that pension providers can invest in projects that can support the economy, while ensuring that they act in the best interest of plan members. It uses Core Principles 3 and 4 to highlight the characteristics and behaviours

¹¹ The OECD Recommendation for the Good Design of Defined Contribution Pension Plans was adopted by the OECD Council on 23 February 2022. It incorporates the revised OECD Roadmap for the Good Design of Defined Contribution Pension Plans.

¹² Although Peru is not an Adherent to the Recommendation, the Recommendation provided a useful benchmark to assess the Peruvian pension system and provide policy guidance.

that regulators should encourage in the governance frameworks and investment policies of pension providers (OECD, 2020_[5]).¹³

21. Furthermore, the Secretariat has provided technical assistance to several Adherents. Between 2019 and 2021, the Secretariat assisted the Lithuanian authorities to set up a centralised public annuity provider for their statutory funded defined contribution pension scheme. The discussion and advice on the legal framework for the centralised annuity provider, as well as of its governance and investment frameworks, drew on the Recommendation together with international best practices. Similarly, in 2019, the Secretariat assessed the different aspects of a reform proposal in Chile in light of international practice and against the Recommendation and the *OECD Roadmap for the Good Design of Defined Contribution Pension Plans*.

22. Finally, the Secretariat has disseminated the Recommendation through presentations to different audiences. The Recommendation was presented at the OECD/IOPS Global Forum on Private Pensions in Hong Kong, People's Republic of China (China) on 9 November 2016.¹⁴ At this occasion, the book version of the Recommendation was released and distributed to all participants, which included high-level officials from regulatory and supervisory authorities, as well as leading experts from the pension fund industry and research institutes from both OECD and IOPS Member countries. The Recommendation was also presented at the IOPS supervisory training workshop in Morocco on 5 December 2018. The audience was composed of supervisory staff of the Supervisory Authority of Insurance and Social Security of Morocco, as well as selected IOPS Members.

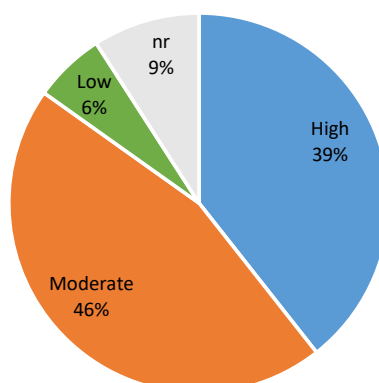
Dissemination by Adherents to the Recommendation

23. The dissemination efforts by the Adherents were collected through the Adherent questionnaire.

24. Overall, for 85% of the Adherents that responded to the questionnaire (hereafter, the "Respondents"), the authorities concerned with funded private pensions have a *high* or *moderate* level of awareness of the Recommendation (Figure 2). A moderate level of awareness is observed for 46% of the Adherents. The main reason is that the primary focus is on national or supranational regulations (e.g. the IORP II and Solvency II Directives in the European Union), while the Recommendation has a secondary role. The level of awareness of the Recommendation is *high* for 39% of the Respondents, while only two Respondents (6%) qualify the level of awareness of concerned authorities as *low*. Some of the Respondents also point to the fact that, in some cases, concerned authorities are well aware of the content of the Recommendation, even though they may not know the document itself.

¹³ See also [DAF/AS/PEN/WD\(2021\)2](#) for further details on this issue.

¹⁴ See <https://www.oecd.org/fr/finances/2016-oecd-iops-global-forum-on-private-pensions.htm>.

Figure 2. Level of awareness of the Recommendation of concerned authorities

Note: “nr” means “no response” to this question.

Source: Adherent questionnaire.

25. Most of the Respondents have not taken specific steps to disseminate the Recommendation among relevant ministries and different levels of government. For some Adherents, this is because all the relevant authorities either directly participate in the meetings of the WPPP or cooperate closely with those who attend the meetings. In Ireland, for example, relevant colleagues share OECD resources informally but there has not been a formal process to disseminate the Recommendation within government. In Colombia, Korea and Poland, specific offices are responsible for disseminating OECD documents to ministries and other entities. Spain organised seminars to disseminate the Recommendation.

26. Similarly, most of the Respondents have not disseminated actively the Recommendation to relevant stakeholders, in particular entities representing the interests of the industry and those of savers. This is sometimes due to the fact that legislation is broadly in line with the Recommendation, and relevant stakeholders know legislation and have to follow it. By contrast, some of the Respondents mention that constant and close communication between the pensions industry and the regulatory or supervisory authority allows the dissemination of the Recommendation. Australia, Iceland, Japan, New Zealand, the Slovak Republic, Spain and the United States report that they disseminated the Recommendation to relevant stakeholders. Hungary discussed the draft Recommendation with stakeholders ahead of its publication. Chile and Italy published the Recommendation on the website of the supervisory authority. In Germany, certain representatives of the pensions industry are usually part of the delegation to the WPPP and are therefore aware of the Recommendation. Italy translated the previous version of the Recommendation [[OECD/LEGAL/0373](#)] in Italian, but it was no longer deemed necessary for this Recommendation as English language is not a barrier. Korea translated the main contents of the Recommendation for dissemination to the relevant persons in the Ministry of Employment and Labour.

27. Further efforts could be made to enhance the dissemination of the Recommendation. For example, Adherents could include a link to the Recommendation on the website of the pension supervisory and regulatory authorities. Adherents could also organise local seminars with relevant people at all levels of government to ensure a high level of awareness of the Recommendation and its content among all parties concerned with private pension regulation. The OECD Secretariat could participate in those seminars.

4 Implementation

28. This section assesses the implementation of the Recommendation by the Adherents and discusses its continued relevance. It recalls the main provision of the Recommendation according to which Adherents should take due account of the Core Principles (Box 1), before going in details in the implementation of each of the ten Core Principles and their Implementing Guidelines, which form an integral part of the Recommendation.

Box 1. Main provision of the Recommendation

THE COUNCIL, on the proposal of the Insurance and Private Pensions Committee:

I. RECOMMENDS that Members and non-Members adhering to this Recommendation (hereafter the “Adherents”) take due account of the Core Principles of Private Pension Regulation, which are set out in the Appendix to this Recommendation and which form an integral part thereof, when establishing, amending or reviewing their private pension regulations; [...]

29. Most of the Respondents to the Adherent questionnaire take due account of the Core Principles when establishing, amending or reviewing their private pension regulations, as recommended. However, the Recommendation may not be the primary element. In particular, in Adherents that are European Union (EU) Member States, private pension regulation is determined to a large extent by EU legislation such as the IORP, II and the Solvency II Directives. Against this background, the Recommendation is taken into consideration where there is flexibility to do so. It is also considered as a useful reference framework to confirm that appropriate regulations are being implemented. Around a third of the Respondents do not explicitly refer to the Recommendation when reviewing their private pension regulations, but they implement the Core Principles it contains.

30. For some of the Respondents, the flexibility provided by the Recommendation with respect to its scope of application is highly valued. Although the Recommendation applies to all funded private pension plans, the introductory paragraph of the Appendix that includes the ten Core Principles states that Adherents can decide to apply it only to occupational pension plans. In addition, Adherents that are EU Member States may choose not to apply the Recommendation to those occupational private pension plans, pension funds and pension entities that fall outside the scope of the Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORP Directive). These include institutions that operate on a pay-as-you-go basis, institutions where employees of the sponsoring undertakings have no legal rights to benefits and companies using book-reserve schemes with a view to paying out retirement benefits to their employees. In line with this, Germany for example decided not to apply the Recommendation to personal pension plans and to book-reserve schemes.

31. All of the Respondents consider that the Recommendation is relevant and useful. They consider it as an important source, a useful anchor or reference framework, a checkpoint for good practice on pension regulation, or a helpful tool to drive consistency and quality in the standard of private pensions across Adherents. Several of the Respondents also mention that it is particularly useful to set up or develop less

mature pension systems. However, Germany has a concern related to the fact that the scope of the Recommendation includes personal pension plans.¹⁵ These plans do not share some of the specificities of occupational pension plans, such as the role of the sponsoring undertaking and of pension protection schemes. In addition, personal pension plans may be provided by entities that already fall under the scope of Principles of other international organisations, such as the Insurance Core Principles of the International Association of Insurance Supervisors (IAIS).

32. Overall, almost 40% of the Respondents consider that the Recommendation needs to be updated. For 24% of the Respondents, recent trends related to digitalisation, sustainable investments/ESG, early withdrawals and the shift of risks towards individuals would warrant an update of the Recommendation. Additionally, 33% of the Respondents, including some of the previous 24%, made concrete suggestions to update the Core Principles or their Implementing Guidelines, as presented in the following sub-sections. Overall, this means that 39% of the Respondents consider that the Recommendation needs an update.

33. The view of stakeholders (i.e. the institutions involved in the management of private pension systems as well as organisations that represent the interests of pension plan members and beneficiaries) regarding the relevance of the Recommendation is broadly positive. Most of the Respondents state that stakeholders in their country support the Recommendation and view it as relevant and useful. While stakeholders may not always be familiar with the Recommendation itself, there is generally broad acceptance of the content of the Recommendation. This is also the view of the organisations who directly replied to the industry questionnaire, and none of them believes that the Recommendation should be updated. Stakeholders follow the Recommendation to the extent that it is aligned with national regulation.

34. The ten Core Principles and their Implementing Guidelines form an integral part of the Recommendation. They are broken down into three parts. Core Principles 1 to 6 in Part I form the general principles applicable to all types of private pension plans. Core Principles 7 and 8 in Part II are specific to occupational pension plans, while Core Principles 9 and 10 in Part III relate to personal pension plans. The rest of the section looks at the implementation by Adherents of each of the Core Principles.

Part I: General principles

Core Principle 1: Conditions for effective regulation

Box 2. Core Principle 1: Conditions for effective regulation

Private pension systems should have clear and well-defined objectives regarding coverage, adequacy, security, efficiency and sustainability. The achievement of these objectives should be regularly monitored. An effective legal framework, a robust institutional and financial market infrastructure, and a sound regulatory and supervisory system for pensions should be in place to support these objectives.

Well-functioning capital markets and financial institutions should be in place to ensure productive and diversified investment of retirement savings and the efficient management of risks. The development of funded pension systems should go hand-in-hand with the strengthening of the financial markets, based on a sound and integrated regulatory framework for the financial sector and a stable macroeconomic environment conducive to longer-term investment.

¹⁵ The previous Recommendation on Core Principles of Occupational Pension Regulation [[OECD/LEGAL/0373](#)] only applied to occupational pension plans.

Regulation should encourage the development of efficient private pensions. It should ensure appropriate and transparent treatment of different types of operators, and support the provision of cost-efficient pension arrangements.

Regulatory provisions for private pensions should be applied in a comprehensive and dynamic manner. They should take into account the complexity of pension plans, the environment in which the pension system operates and the stability of the economy as a whole in order to ensure that the rights of pension plan members and beneficiaries are protected, and that pension plans and pension funds are sound. This framework should not, however, impose excessive burden on pensions markets, institutions, or employers. Reliable data should be available to facilitate the design and implementation of private pension systems.

35. Most of the Respondents consider that Core Principle 1 is fully implemented in their country (67%), while the others consider that it is broadly implemented and only one Respondent considers that it is partly implemented. Among the eight Implementing Guidelines (IG) of Core Principle 1, the following are not fully implemented in some of the Respondents:

- IG 1.1, which states that clear and well-defined policy objectives should be established regarding coverage, adequacy, security, efficiency and sustainability of private pension systems, and their role in overall retirement income provision (8 Respondents);
- IG 1.5, which states that the development of well-functioning and transparent capital markets and financial institutions should be promoted (2 Respondents and 1 respondent from the industry);
- IG 1.6, which states that the legal system should enable the enforcement of contracts pertaining to private pensions (1 Respondent);
- IG 1.8, which states that legal provisions should promote the availability of data through appropriate reporting and disclosure mechanisms (1 Respondent).

36. Regarding IG 1.1, the main issue relates to the fact that legal provisions fail to explicitly define the targets and monitoring process for coverage, adequacy, security, efficiency and sustainability of private pension systems. In many Adherents, the laws establishing the private pension system define the objective of the system in terms of its role in retirement income provision. For example, in Chile, the objectives for the whole system (public and private arrangements) are to ensure that individuals maintain a similar standard of living during their active work and retirement stages, and to eliminate poverty among the elderly and disabled. In Australia, the objective of the superannuation system is not included in legislation but the “sole purpose test” requires all activities of superannuation funds to be for the sole purpose of providing retirement benefits to their plan members.¹⁶ Therefore, some Adherents fail to have clear objectives regarding coverage, adequacy, security, efficiency and sustainability of the private pension system in the legal provisions.

37. With respect to IG 1.5, some Adherents have capital markets that are incomplete or lack depth, limiting their capacity to create good investment opportunities and to have well-functioning annuity markets. Some Adherents addressed this risk by imposing quantitative investment restrictions in the early years of the system, with a view to relaxing them over time, while developing or deepening domestic financial markets [DAF/AS/PEN/WD(2020)10]. An alternative approach is to encourage higher foreign investment, as long as pension providers have the skills to make informed decisions about investing abroad. There is a Bill on capital markets currently in progress in the Congress in Colombia to address the lack of annuity market.

¹⁶ Satisfying this test is necessary for superannuation funds to be eligible to receive the tax concessions available under Australian superannuation legislation. This test provides a clear, legally enforceable requirement in relation to the purpose of superannuation in Australia.

38. According to the association of pension providers in Colombia, the country is not fully in line with IG 1.2. This Core Principle states that different actors should play a supportive and complementary role in achieving the overall objectives for the system. However, in Colombia, workers can switch between the public pay-as-you-go system and the private funded system several times during their career, putting both systems in competition. In all the other Adherents, pay-as-you-go and funded systems are complementary, in line with one of the main OECD recommendations on pensions (OECD, 2016^[6]).

39. It is worth noting that favouring the provision of cost-efficient pension arrangements is high in the agenda of all Adherents (IG 1.4). In an efficient market, competitive pressures should contain both the costs incurred by providers and the charges they apply to plan members and other parties (e.g. employers). However, private pension markets may fail to work, leading to a lack of competitive pressures and a misalignment of costs and charges. The primary policy response across Adherents has been to bolster market forces by creating greater transparency around costs and charges. This has been complemented in some Adherents by pricing regulations (e.g. fee structures and fee caps) and structural solutions (e.g. auction mechanisms) (OECD, 2018^[7]).

40. Most of the Respondents believe that Core Principle 1 continues to be relevant and useful, but five of them (15%) consider that recent developments call for an update. Two Respondents mention political pressures that affect the private pension system's capacity to fulfil its objectives and potentially reduce trust in the system. They suggest that Core Principle 1 could address this issue. Another Respondent suggests to add that a healthy tax environment is necessary for pension providers, both domestically and at the EU and global level. Additionally, while Core Principle 1 considers well-functioning capital markets as a prerequisite for a productive and diversified investment of retirement savings, only a quick mention is made regarding the role of the openness of a country's financial markets and the possibility for pension funds to invest abroad as a strong tool for improving investment allocation. Foreign investments by pension funds contribute to the development of financial markets in the countries where they invest, with positive feedbacks at home as well. One Respondent suggests that these aspects could be highlighted more in Core Principle 1. Finally, one Respondent makes the remark that IG 1.5 states that the development of well-functioning and transparent capital markets and financial institutions is necessary to promote the development of retirement annuity markets. However, in the current low interest rate environment this condition may not be sufficient.

Core Principle 2: Establishment of pension plans, pension funds, and pension entities

Box 3. Core Principle 2: Establishment of pension plans, pension funds, and pension entities

Pension plans, pension funds, and pension entities, jointly or separately, should be subject to an adequate, transparent and coherent set of legal, accounting, technical, financial, managerial and governance requirements, without imposing an excessive administrative burden. Pension fund assets should be legally separate from the assets of any other legal entity, including those involved in managing the pension plan assets. In the case of occupational pension plans, the pension fund or pension entity should be legally separate from the sponsor (or at least such separation should be irrevocably guaranteed through appropriate mechanisms). The ownership of any financial institution or other entity managing pension plans or plan assets should be clear and transparent.

41. Most of the Respondents consider that Core Principle 2 is fully implemented in their country (70%), while most of the others consider that it is broadly implemented and two Respondents consider that it is partly implemented. Core Principle 2 comprises 34 Implementing Guidelines (IG), grouped under 15 sections. The Implementing Guidelines that are not fully implemented in some of the Respondents are included in the following sections:

- *Legal provisions for the establishment of pension plans, pension funds and pension entities*, in particular IG 2.1 on the requirement for establishing independent legal entities (2 Respondents);
- *Risk control, reporting and auditing mechanisms*, in particular IG 2.6 on the need to have adequate risk control mechanisms in place at the point of registration of pension funds and entities (1 Respondent);
- *Capital requirements*, IG 2.13 (1 Respondent);
- *Funding policy*, IG 2.8 to IG 2.10 (1 Respondent);
- *Governance*, in particular IG 2.15 requiring members of the governing body of the pension fund or entity to be subject to minimum suitability requirements (1 Respondent);
- *Business plan*, IG 2.17 (2 Respondents);
- *Registration and license withdrawal*, IG 2.18 and IG 2.19 (2 Respondent);
- *Clarity of the registration and/or licensing application procedure*, in particular IG 2.22 on the role of the licensing authority (1 Respondent);
- *Assessment of the license application*, IG 2.24 to IG 2.28 (5 Respondents).

42. Related to the text of Core Principle 2 itself (Box 3), the Belgian association of pension providers PensioPlus considers that the rules and regulation become too burdensome and are imposing an excessive administrative burden without providing any added value to the plan members and beneficiaries. These rules drive the reduction in the number of pension funds in Belgium.

43. It is worth mentioning that several Adherents allow pension plans implemented through book reserves. These are sums entered in the balance sheet of the plan sponsor as reserves or provisions for occupational pension plan benefits. There is no separate legal entity (not in line with IG 2.1), nor separation of assets (not in line with IG 2.2). Twelve Adherents allow such plans according to the GPS metadata. They usually require these plans to be insured against bankruptcy of the plan sponsor through an insolvency guaranty arrangement. Besides, the Recommendation specifies that Adherents can decide to consider that certain types of pension arrangements, including book-reserve schemes, are out of scope. Having book-reserve schemes, therefore, does not constitute a weaker implementation of Core Principle 2.

44. Adherents have legal provisions in place regarding the permissible legal forms of pension entities (IG 2.3). According to the ISSA/OECD/IOPS Complementary Pension Database, some allow different legal forms, while others allow one legal form only. For example, Adherents with statutory funded retirement savings arrangements tend to allow only one type of pension entity with a specific legal form (e.g. public limited companies for pension fund administrators in Chile and Costa Rica, or joint-stock companies for pension management companies in the Czech Republic, Israel, Poland and the Slovak Republic). In Anglo-Saxon Adherents, pension entities are trust-based (Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States). Adherents may also allow pension plans to be implemented through a contract with a life insurance company (e.g. Canada, Japan, Norway, Portugal, Slovenia, Spain, Sweden, the United Kingdom and the United States).

45. In line with IG 2.4, most Adherents have legal provisions in place requiring the registration and/or licensing of pension funds and pension entities. The relevant authority is usually the supervisor, as reported by most Adherents in the ISSA/OECD/IOPS Complementary Pension Database. Registration with the tax authorities may also be required for pension funds to benefit from favourable tax treatment (e.g. Canada, Ireland, Slovenia and the United Kingdom).

46. Most Adherents require pension funds and pension entities to hold a minimum capital when starting business (IG 2.13). This is confirmed by the responses to the Adherent questionnaire, as only Ireland reported that capital requirements are not a feature of their registration process. Additionally, only Hungary reports not having minimum capital requirements for pension funds in the ISSA/OECD/IOPS Complementary Pension Database. In Finland, there are no explicit capital requirements for industry-wide

pension funds, but the supervisor may require some initial capital. IG 2.13 also recommends that the amount of minimum capital varies according to the risks to be covered by the newly established pension fund or entity. In line with this, in Chile, the minimum capital requirement increases with the number of plan members, while in Spain, it increases with the volume of assets under management. In Finland, the supervisor determines the level of initial capital for industry-wide pension funds depending on the extent and nature of the fund's operations.

47. Most of the Respondents believe that Core Principle 2 continues to be relevant and useful. However, a few of them consider that recent developments call for an update. One suggestion is to include a section related to investments in unprotected defined contribution plans, which would be the equivalent of the “funding policy” section (IG 2.8 to IG 2.10) that applies to defined benefit and protected defined contribution plans. The second suggestion refers to occupational pension plans and the fact that no mention is made of industry-wide plans, or of master trusts that are open to many employers. Given the increased complexity of the management of pension plans and the need for economies of scale in achieving cost efficiency, an explicit mention in the text of Core Principle 2 (Box 3) of the possibility of establishing occupational plans that go beyond a single employer could be useful.¹⁷

48. An illustration of the relevance of Core Principle 2, is the support provided by the OECD Secretariat related to the needed legal framework for the establishment of a centralised public annuity provider in Lithuania. In particular, the OECD Secretariat emphasised to the Lithuanian authorities the importance for the centralised annuity provider to be established as an independent legal entity (IG 2.1), and to have legally separate assets (IG 2.2). Nevertheless, due to various constraints, the annuity provider has not been established as an independent legal entity, but rather included within the State Social Insurance Fund Board (SoDra). However, legislation provides for a separation of funds between the annuity provider and SoDra, in line with IG 2.2, and the establishment of an independent entity remains a long-term objective.

Core Principle 3: Governance

Box 4. Core Principle 3: Governance

Regulations on private pension governance should be guided by the overriding purpose of serving the best interests of plan members and beneficiaries and ensuring the soundness of pension plans, pension funds and pension entities. The governance structure of pension funds and pension entities should ensure an appropriate division of operational and oversight responsibilities, and the accountability and suitability of those with such responsibilities. Pension funds and pension entities should have appropriate control, communication and structures that encourage good decision-making, proper and timely execution, transparency, and regular review and assessment. The governing body of a pension fund or pension entity should ensure that the investment strategy follows a prudent approach and, where applicable, takes into account the profile and duration of its liabilities.

49. A large majority of the Respondents consider that Core Principle 3 is fully implemented in their country (82%), while four of them consider that it is broadly implemented and one that it is partly implemented. Among the 13 Implementing Guidelines (IG) of Core Principle 3, the following are not fully implemented in some of the Respondents:

¹⁷ Moreover, the association of pension providers in Colombia suggests that Core Principle 2 could address labour market issues brought by COVID-19, such as job losses, reduced wages and business closures. However, it is not clear how these issues directly affect the establishment of pension plans, pension funds, and pension entities.

- IG 3.1, which states that there should be a clear identification and separation of operational and oversight responsibilities in the governance of pension funds (1 Respondent);
- IG 3.2, which states that every pension fund and entity should have a governing body vested with the power to administer the pension fund (1 Respondent);
- IG 3.6, which relates to the suitability of the members of the governing body (2 Respondents);
- IG 3.11, which relates to the need for adequate internal controls (2 Respondents).

50. Ireland is one of the Adherents with a “broadly implemented” assessment for Core Principle 3. This is due to the introduction of new governance requirements following the recent transposition of the IORP II Directive into national law. It is still too early to expect high levels of implementation, in particular for IG 3.1, and parts of IG 3.6 and IG 3.11. To assist pension providers in the change, the Pensions Authority intends to issue a new code of practice covering many of the new governance requirements.

51. Most Adherents require pension funds and entities to clearly identify and separate operational and oversight responsibilities in the governance of pension funds (IG 3.1), and to establish a governing body responsible for administering the pension fund (IG 3.2). There is usually a board of trustees (e.g. Ireland, the United Kingdom), a supervisory board (e.g. Austria, Estonia, Hungary, Italy, Lithuania), or a control commission (e.g. Spain) entrusted with oversight, while the executive team (board of directors, administrator or asset manager) runs the day-to-day operations of the institution.¹⁸ In Korea, there is no basis for the establishment of a special committee to manage defined benefit pension funds, but a law taking effect on 14 April 2022 will oblige employers with 300 employees or more to establish a pension fund management committee to operate the fund. In Slovenia, mutual pension funds do not have governing boards.

52. According to IG 3.3, the governing body should set the key goals or mission of the pension fund. However, in some Adherents, it is the government that is responsible for this, in particular for public and centralised institutions. OECD (2018_[3]) examines the governance frameworks and investment policies of ten nationally significant investment institutions, including pension funds, against Core Principles 3 and 4. Because these institutions are public or centralised, their mission is established by the government, based on their role in the domestic pension system. The mission statement may be specified in legislation or publicly stated. The role of the governing body is then to interpret the mission, instead of defining it, and transform it into a set of operating and investment strategies.

53. Many Adherents promote the accountability of the governing body to plan sponsors, members and beneficiaries (IG 3.5), by making sure these groups of individuals can appoint some of the members of the governing body. The part of the governing bodies with oversight responsibilities have to include employee and employer representatives in Austria, Hungary, Italy, Japan, Luxembourg, the Netherlands, Norway, Spain, Portugal, and Switzerland, for example, as reported in the ISSA/OECD/IOPS Complementary Pension Database.

54. When determining the minimum fit and proper standards for members of governing bodies (IG 3.6), Adherents tend to consider two aspects. The first aspect is the competence and experience of the individuals, while the second one is their integrity and lack of conflicts of interest. For example, members of the board of directors in Austria must have been in a management position for at least three years and must prove professional experience in the area of pension management, banking or insurance. In Finland, on top of having good knowledge of the pension insurance business and of asset management, members of the board of directors must have good reputation, and cannot be legally incompetent, bankrupt, or

¹⁸ Source: ISSA/OECD/IOPS Complementary Pension Database.

prohibited from undertaking business activities. In addition, managing directors must not have any relationship with other institutions that may influence their independent decision-making.¹⁹

55. Most Adherents are also compliant with IG 3.8 to IG 3.10, which deal with the appointment of an independent auditor, an actuary and a custodian, respectively. Thirty Adherents report the nomination of one or several auditors, usually independent external auditors, in the ISSA/OECD/IOPS Complementary Pension Database. In Adherents where pension funds have liabilities, the governing bodies must also appoint an actuary to carry out technical calculations and actuarial assessments. Finally, Adherents with statutory personal retirement savings arrangements usually require pension assets to be held by an independent custodian (e.g. Chile, Colombia, Costa Rica, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Mexico, Poland, the Slovak Republic and Türkiye).

56. Most of the Respondents believe that Core Principle 3 continues to be relevant and useful, however a few of them consider that recent developments call for an update. One suggestion is to include a section on conflicts of interest, which could be particularly useful for countries with a high concentration of capital in some financial conglomerates. The second suggestion is to acknowledge the role of ESG factors. In this respect, it is interesting to note that a new regulation, in force since May 2021 in Chile, explicitly incorporates ESG and climate change risk in the investment regulation of pension funds, requesting pension fund managers to integrate those factors in their investment policy and investment risk management, as well as in risk-based supervision activities. Risk-based supervision guidelines have also been updated to incorporate explicitly ESG and climate change risk.

57. Core Principle 3 proved useful in many instances to guide countries to set up good governance frameworks for pension funds and pension entities. For example, as part of the accession process, the WPPP recommended to Costa Rica to better align its regulatory framework with Core Principle 3, in order to make sure that the 2016 corporate governance regulation setting out fit and proper standards for members of the board of directors applies to all pension funds, taking precedence over other regulations when in conflict [[DAF/AS/PEN/ACS\(2016\)2/REV1](#)]. An assessment of ten nationally significant investment institutions against Core Principle 3 provided lessons for the governance framework of private pension entities, in particular with respect to the establishment of an oversight board that is accountable to the competent authorities as well as to plan members, the clarity of the missions of the institutions, the operation at arm's length from government, fit and proper standards, and whistle-blower mechanisms (OECD, 2018_[3]). Core Principle 3 also provided useful guidelines to ensure that pension providers still act in the best interest of plan members when they invest in projects that can support the economy in the aftermath of the COVID-19 crisis, in particular by ensuring the accountability and suitability of their governing body (OECD, 2020_[5]). Finally, the OECD Secretariat made extensive use of Core Principle 3 to advise countries considering setting up a public pension fund option (e.g. Chile and Peru).

58. The OECD Secretariat's experience with the establishment of the centralised annuity provider in Lithuania revealed that further guidance could be added in Core Principle 3. In particular, guidance is missing regarding situations where members of the governing body no longer meet fit and proper standards. OECD (2018_[3]) provides examples of procedures for removing board members, for instance. Also, IG 3.13 may be more beneficial to policy makers if it included examples of minimum disclosures to all relevant parties. Broad principles related to the appointment of members of the governing body of pension entities (procedure, size, structure, terms and remuneration) could also be considered.

¹⁹ Source: ISSA/OECD/IOPS Complementary Pension Database.

Core Principle 4: Investment and risk management**Box 5. Core Principle 4: Investment and risk management**

Investment by pension funds and pension entities should be adequately regulated. Investments should be aligned with the specific attributes and liabilities of the pension plan and the institutional and market environment in which it operates. Investment regulations should take into consideration principles related to risk diversification and dispersion and asset-liability management. Pension funds and pension entities should be required to act in line with the investment horizon and risk-return objectives of the plan, and take into account the long-term nature of saving for retirement and of eventual liabilities.¹

Quantitative requirements and prudent-person principles for investment should be carefully assessed, having regard to the security, liquidity and profitability objectives of the pension fund or pension entity. Self-investment should be strictly controlled or prohibited in cases where there are no appropriate safeguards in place to ensure diversification or otherwise avoid undue risks or costs to members. Self-dealing should also be strictly controlled in order to ensure that transactions are made in the best interest of members. Investment abroad by pension funds and pension entities should be permitted, subject to prudent management principles.

Increased reliance on modern and effective risk management techniques and industry-wide risk management standards for pension funds and pension entities should be promoted. The development of asset liability management techniques should be given proper consideration.

Note: 1. See also the G20/OECD High-Level Principles of Long-Term Investment Financing by Institutional Investors.

59. Most of the Respondents consider that Core Principle 4 is fully implemented in their country (64%), while most of the others consider that it is broadly implemented and two Respondents consider that it is partly implemented. Core Principle 4 comprises 29 Implementing Guidelines (IG), grouped under 6 sections. The Implementing Guidelines that are not fully implemented in some of the Respondents are included in the following sections:

- *Prudent person standard*, in particular IG 4.4 on the requirement for the governing body to establish a rigorous investment process (1 Respondent);
- *Investment policy*, in particular IG 4.6 on the need for the investment policy to establish clear investment objectives for the pension fund consistent with its retirement income objective and specific attributes; IG 4.7 on the identification of the asset allocation strategy, the overall performance objective and the means of monitoring performance; IG 4.8 on the need to address more complex and less transparent classes of asset; IG 4.9 on the need for a sound investment risk management process; IG 4.10 on the need to provide plan members making investment decisions an appropriate array of investment options, including a default option; and IG 4.11 on the use of internal or external investment managers (6 Respondents);
- *Portfolio limits and other quantitative requirements*, in particular IG 4.13 on investment ceilings and floors; IG 4.14 on adequate diversification; IG 4.16 on self-investment limits; IG 4.17 on investments in assets issued by a single issuer; and IG 4.21 on the need for a regular assessment of quantitative portfolio limits (6 Respondents and 1 respondent from the industry);
- *Performance assessment*, in particular IG 4.29 on the need to assess pension funds' performance against benchmarks that are clear and objective and reflect their investment policy (2 Respondents).

60. Most Adherents report in the ISSA/OECD/IOPS Complementary Database that the prudent person principle governs the investment decisions of pension funds and entities (IG 4.2). In Europe, Institutions

of Retirement Provision (IORPs) are subject to the IORP II Directive, which sets out the “prudent person rule” as the underlying principle for investment. This principle is also embedded in Solvency II, which applies to pension entities regulated as insurance companies, such as pension insurance companies in Denmark.

61. With respect to the provision of appropriate investment options and a default option when plan members have to make investment decisions (IG 4.10), the reason for not fully complying varies across Adherents. In some cases, it is because the system does not provide investment choice to plan members (e.g. Finland). In others, it is because plan members are required to make investment decisions, making a default option not necessary (e.g. Germany). Other Adherents without default investment strategies in defined contribution plans include the Czech Republic, Estonia, Korea and the Slovak Republic (OECD, 2021^[8]).

62. Most Adherents have quantitative investment limits that pension entities have to comply with (IG 4.13). According to the OECD Annual Survey of Investment Regulation of Pension Funds and Other Pension Providers, at the end of 2020, nine Adherents did not impose any specific ceiling, while the others had investment ceilings at least for certain asset classes.²⁰ However, some Adherents also prescribe a minimum level of investment for certain categories of investments (e.g. Chile, Colombia, Costa Rica, Israel, and New Zealand), even though investment floors are not consistent with IG 4.13.²¹

63. Investment restrictions are in line with IG 4.16 to IG 4.20 for most Adherents.²² Self-investment is usually strictly controlled (IG 4.16), with nine Adherents prohibiting investment in the assets of the plan sponsor or of the pension management company, while most of the other countries limit it to 5%, or 10% when the entity belongs to a group. There are, however, no quantitative limits for self-investment in Sweden (for life insurance undertakings), while in Colombia, Estonia, and the United States, limits are higher than those suggested in IG 4.16. In addition, Adherents not imposing quantitative limits for assets issued by the same issuer (IG 4.17) make clear that the prudent person rule applies to avoid excessive concentration risk (e.g. Australia, Austria, Belgium). Moreover, all Adherents allow pension funds and entities to invest abroad (IG 4.18). Investment abroad may only be allowed in selected geographical areas, such as the OECD, regulated markets in the European Union, or the European Economic Area. Finally, many Adherents impose limits or completely forbid investment in more complex and less transparent classes of assets or instruments, such as real estate, private investment funds, loans, or derivatives (IG 4.20). For example, direct investment in real estate is not allowed in Colombia, Costa Rica, the Czech Republic, Italy, Japan, Lithuania, Mexico, Poland and Türkiye. Such a ban on more complex investments may, however, reduce diversification.

64. Most of the Respondents believe that Core Principle 4 continues to be relevant and useful. However, for two Respondents, it comes with a caveat. Germany is of the view that IG 4.10 related to the default option should be adjusted, to reflect the fact that, in some countries, it is considered important that plan members make an investment decision, and therefore having a default option is not necessary. Additionally, Colombia considers that care should be exercised when giving permission to pension funds and pension entities to lend and borrow money (IG 4.27), because lending and borrowing activities are associated with a great amount of risk that is not related to the management of investments.

65. Core Principle 4 has provided useful guidance to assess the investment and risk framework of pension funds and entities in different countries. For instance, it allowed the WPPP to recommend

²⁰ Source: <https://www.oecd.org/daf/fin/private-pensions/2021-Survey-Investment-Regulation-Pension-Funds-and-Other-Pension-Providers.pdf>.

²¹ In the case of New Zealand, the investment floor only applies to default KiwiSaver funds, which must invest between 15% and 25% of the portfolio in growth assets.

²² Source: Annual Survey of Investment Regulation of Pension Funds and Other Pension Providers.

initiatives to the Lithuanian and Costa Rican authorities related to their investment regulations and quantitative investment restrictions [[DAF/AS/PEN/ACS\(2016\)1/REV1](#) and [DAF/AS/PEN/ACS\(2016\)2/REV1](#)]. Assessing the investment and risk management framework of ten nationally significant investment institutions along Core Principle 4 also revealed that most of the investment institutions analysed integrate ESG factors and risks in their investment policies. Core Principle 4 also provided useful guidelines to ensure that pension providers act in the best interest of plan members when they invest in projects that can support the economy in the aftermath of the COVID-19 crisis. In particular, policy makers should ensure that the governing body of pension entities defines an appropriate investment policy and a sound risk management strategy, and establish appropriate investment regulations (OECD, 2020^[5]).

66. Seven Respondents (21%) consider that Core Principle 4 could be updated to account for new developments. Six of them suggest that Core Principle 4 should include guidelines related to the integration of ESG risks and factors into the investment strategies of pension funds and entities. This would be in line with the *IOPS Supervisory Guidelines on the Integration of ESG Factors in the Investment and Risk management of Pension Funds*, released in 2019. In particular, these guidelines recommend pension supervisory authorities to require that a governing body and the asset managers involved in the development and implementation of the pension fund's investment policy integrate ESG factors, along with all substantial financial factors, into their investment strategies. The other suggestion is to include risk budgets in the section "Portfolio limits and other quantitative requirements".

Core Principle 5: Plan design, pension benefits, disclosure, and redress

Box 6. Core Principle 5: Plan design, pension benefits, disclosure, and redress

Proper design of private pension plans should be promoted, especially when these schemes play a public role, through substitution of or substantial complementarity to public schemes, when they are mandatory, and when members face choices between plans or within the pension plan (for instance, the level of the contribution rate or the choice of investment option). Factors to be taken into consideration include member choice, degree of risk sharing, protection of the value of benefits, entitlements, accruals, contributions, coverage, and financial and market risks. Overall benefit adequacy should be evaluated taking into account the various sources of retirement income (tax-and-transfer systems, advance-funded systems, private savings and earnings).¹

Appropriate disclosure and education should be promoted regarding benefits and members' rights and responsibilities, especially when individual choice is offered.² Plan members and beneficiaries should be informed on the impact of plan participation and contributions on overall retirement income and the potential misuse of retirement benefits (in particular in cases associated with lump sum payments and early withdrawal of benefits and accumulations). In the case of pension plans with individual accounts, disclosure of the fee structure and level, investment options and their associated performance, and benefit modalities should be promoted.³

Pension plan members should have access to appropriate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient.

Note: 1. See also The OECD Roadmap for the Good Design of Defined Contribution Plans. 2. In adherence to the OECD Recommendation of the Council on Good Practices for Financial Education Relating to Private Pensions. 3. Individual accounts comprise the assets of a single member according to Private Pensions: OECD Classification and Glossary, 2005.

67. Just above half of the Respondents consider that Core Principle 5 is fully implemented in their country (52%). This is the lowest proportion of all the Core Principles. The other Respondents consider it is broadly implemented and only one Respondent considers it is partly implemented. Core Principle 5

comprises 24 Implementing Guidelines (IG), grouped under 4 sections. The Implementing Guidelines that are not fully implemented in some of the Respondents are included in the following sections:

- *Plan design*, in particular IG 5.1 on the need to review plan design to determine the suitability of the plan's parameters for fulfilling its role in retirement income provision (4 Respondents and 1 respondent from the industry);
- *Member choice*, in particular IG 5.5 on the need to provide plan members who direct their own investments in a plan with a sufficient number and diversity of investment choices; IG 5.6 on providing relevant information that is standardised, readily comparable, and sufficient to permit plan members to make appropriate choices between different investment options; IG 5.8 on appropriately designed default options for plan members who do not make an active investment choice or benefit pay-out choice; and IG 5.9 on providing relevant information that is standardised, readily comparable, and sufficient to permit plan members to make appropriate choices between different benefit pay-out options (5 Respondents and 1 respondent from the industry);
- *Disclosure and availability of information*, in particular IG 5.10 on ready access to basic information about the pension plan; IG 5.12 on timely notification if required contributions have not been made to the pension plan; IG 5.14 on information to provide plan members about the portability of their vested benefit accruals and accumulations; IG 5.15 on benefit projections; IG 5.16 on information to spouses and dependents; and IG 5.18 on adequate forms of delivery of disclosure material (7 Respondents and 1 respondent from the industry);
- *Entitlement process and rights of redress*, in particular IG 5.21 on mechanisms for complaint handling and redress (1 Respondent).

68. Not all Adherents regularly review the parameters of the private pension system to check it still achieves its objectives (IG 5.1). For example, OECD (2020^[9]) shows that some Adherents conduct regular assessments of the adequacy of their retirement income system, while others conduct ad-hoc in-depth studies to assess the adequacy of their system. Several of the Respondents acknowledge that they do not have a formal assessment or review of the design of private pension plans.

69. Most Adherents with defined contribution arrangements offer investment choice to plan members and have a default investment strategy (IG 4.10 and IG 5.5 to IG 5.8). In most Adherents, the default investment strategy is a life-cycle strategy, while others use conservative funds or diversified funds. Only four Adherents with defined contribution arrangements do not have a default option (OECD, 2021^[8]). Additionally, several Adherents provide standardised and readily comparable information to permit appropriate choices to plan members (IG 5.6). For example, Australia recently introduced the “YourSuper” comparison tool, which will enable individuals to view default superannuation products ranked on fees and performance on a website.

70. Some Adherents have mechanisms in place to facilitate plan members' choice between different retirement benefit options (IG 5.9). In most defined contribution retirement savings arrangements, annuities (life and fixed-term) are provided by dedicated annuity providers, usually life insurance companies. The selection of the annuity provider is usually left entirely to the plan member. In some Adherents, the selection process is simplified for plan members. For example, in Mexico and Portugal, pension funds have to request quotes from all or a selection of insurance companies and provide them to plan members. In Chile and the Slovak Republic (statutory personal pension scheme), plan members have to consult a centralised information system to compare the retirement benefit offers from pension funds and insurance companies. It ensures transparency in the intermediation of retirement benefit offers and reduces the administrative burden on plan members who receive all offers in one place at the same time [[DAF/AS/PEN/WD\(2021\)4](#)].

71. Most Adherents report that plan members, beneficiaries and prospective members have access to general information about the pension plan and its rules, as well as about their current benefit accruals or

account balances (IG 5.10 to IG 5.20).²³ Basic information about the pension plan and its rules is usually available through the website of the pension funds and entities, or can be sent to plan members upon request. Pension benefit statements usually have to be sent by pension funds and entities at least once a year, but some countries request more frequent statements (e.g. quarterly in Colombia and Israel, every four months in Chile, twice a year in Costa Rica).

72. In some Adherents, the provision of pension projections is set up in law or regulation (IG 5.15). According to a survey conducted by the IOPS, in most jurisdictions, the regulatory framework directly addresses, at least partially, the issue of pension projections. Mandatory provision of pension projections exists in Austria, Chile, Colombia, Iceland, Ireland, Italy, Mexico, the Netherlands, New Zealand, the Slovak Republic and Türkiye (Stanko, 2019_[10]).

73. Not all Adherents require pension funds and entities to have mechanisms in place for complaint handling and redress (IG 5.21 to IG 5.24). According to the ISSA/OECD/IOPS Complementary Pension Database, there is no legal provisions for resolving complaints or disputes between plan members and pension entities in Belgium, Canada, Chile and Japan. In these countries, plan members must go to court. In a number of Adherents, the supervisory authority and/or the ombudsman has a role and/or is responsible for settling disputes (e.g. Australia, Belgium, Costa Rica, Germany, Denmark and Estonia). Alternatively, pension funds or entities must set up an internal system for resolving complaints, such as in Colombia, the Czech Republic, Iceland and Mexico.

74. Most of the Respondents believe that Core Principle 5 continues to be relevant and useful, however five of them (15%) consider that recent developments call for an update. One suggestion is to include a section on the consideration to take into account the needs and preferences of plan members when designing pension plans. Another suggestion is to further discuss life-cycle investment strategies and risk-mitigation techniques. For defined contribution plans, the role of default options in nudging plan members towards appropriate choices could be mentioned in the text of Core Principle 5 (Box 6) and not only in the annotations. Besides, taking stock of recent work on annuities developed in the WPPP, Core Principle 5 could make some reference to the types of annuities that may be offered to plan members, including innovative options such as deferred annuities and tontines. Similarly, additional guidelines could be provided regarding the way plan members should be informed about their choices at the time of retirement. Another suggestion is to include guidance regarding pension projections, in line with the recently published *IOPS Good Practices for designing, presenting and supervising pension projections* (e.g. making the methodology and assumptions of pension projections available to users). Finally, two respondents from the industry pointed that, instead of referring to historical performance in IG 5.6, reference should be made to adequate measurements suitable for the plan member's need, as past performance is no guarantee of future returns.

75. The analysis of the private pension system in Lithuania and Costa Rica against Core Principle 5 allowed the WPPP to make several recommendations to the authorities of both countries as part of the accession process [[DAF/AS/PEN/ACS\(2016\)1/REV1](#) and [DAF/AS/PEN/ACS\(2016\)2/REV1](#)]. For example, they were both advised to establish a life-cycle investment strategy as the default option and to strengthen the provision of annuity products. Costa Rica was also invited to improve the timely distribution of contributions to the funds selected by plan members, and to provide clarity in the regulation with respect to the supervisor's handling of complaints. Similarly, the Secretariat advised Latvia to introduce a default life-cycle investment strategy, as part of the review of its pension system (OECD, 2018_[11]).

²³ Source: ISSA/OECD/IOPS Complementary Pension Database.

Core Principle 6: Supervision

Box 7. Core Principle 6: Supervision

Private pension supervision should promote the stability, security and good governance of pension funds, pension entities and/or pension plans with the aim of protecting the interests of plan members and beneficiaries. Effective supervision of pension funds and plans must be set up and focus on legal compliance, financial control, actuarial examination and supervision of those with the responsibility of operating or managing the plan. Appropriate supervisory bodies, properly staffed and funded, should be established in order to conduct when relevant off and on site supervision, in particular when problems are reported or identified. Supervisory bodies should be endowed with appropriate regulatory and supervisory powers over private pension plans, pension funds and pension entities, including powers over the functions that are outsourced.

76. A large majority of the Respondents consider that Core Principle 6 is fully implemented in their country (79%), while five of them consider that it is broadly implemented and only one of them considers that it is partly implemented. Among the ten Principles of Core Principle 6, the following are not fully implemented in some of the Respondents:

- Principle 1, which refers to the objectives of pension supervisory authorities (2 Respondents);
- Principle 2, which refers to the independence of pension supervisory authorities (2 Respondents);
- Principle 3, which refers to adequate resources for pension supervisory authorities (4 Respondents);
- Principle 4, which refers to adequate powers for pension supervisory authorities (1 Respondent);
- Principle 5, which refers to risk-based supervision (2 Respondents);
- Principle 6, which refers to proportionality and consistency (1 Respondent);
- Principle 9, which refers to transparency (2 Respondents).

77. In most Adherents, the pension supervisory authority is financed mainly through levies imposed on the supervised entities (Principle 3).²⁴ Other types of funding may not fully ensure the operational independence of pension supervisory authorities (Principle 2), for example when they are financed through the budget of the government or the Central Bank (e.g. Chile, Costa Rica and Estonia), or when a ministry decides their budget (e.g. Sweden). In Korea, the department dedicated to the supervision of retirement pension plans is not part of the supervisory authority.

78. In the case of Ireland, the “broadly implemented” assessment for Core Principle 6 is due to the recent transposition of the IORP II Directive into national law. In particular, the implementation of risk-based supervision is in its initial stages (Principle 5). The Pensions Authority is taking a gradual approach towards risk-based forward-looking supervision, with the intention to combine rule-based supervision with risk-based forward-looking supervisory engagements to allow for the development of expertise and staff training. During the transition period, the Pensions Authority is engaging with the pensions industry to communicate its expectations and provide guidelines for achieving compliance with the requirements of the new supervisory regime. To this end, the Pensions Authority has published for consultation a draft code of practice for trustees, which sets out what the Pensions Authority expects from trustees to meet their obligations under the transposing legislation. The Pensions Authority is also currently working on developing an appropriate and robust methodology required to supervise pension schemes on a forward-looking and risk-based approach, including quantitative and qualitative risk assessment tools and risk scoring models. Finally, the Pensions Authority is working on developing a framework for monitoring and

²⁴ Source: ISSA/OECD/IOPS Complementary Pension Database.

collecting relevant data from pension schemes, focusing on obtaining information on the main risks that pension schemes are, or could be, exposed to.

79. Most of the Respondents believe that Core Principle 6 continues to be relevant and useful, and only one of them suggested an update. The suggestion is to refer to on-site visits as one possible supervisory measure. Such visits differ from usual on-site inspections, as they are shorter, their subjects are specific and narrow, and their objective is to gather information about market participants and assess their operation to help improve it. For example, the Bank of Lithuania recently analysed the investment procedures and processes of the pension fund managers.²⁵

80. Assessing the supervisory framework of Lithuania and Costa Rica against Core Principle 6 allowed the WPPP to make useful recommendations to both countries as part of the accession process. For example, Lithuania was invited to establish a strong continuous dialogue between the pension supervisory authority and the pension entities ahead of the major reform that was expected to be adopted later on.²⁶ The WPPP also recommended Costa Rica to protect the independence of the pension supervisory authority by adjusting the terms of senior officials and increasing the share of the budget of the pension supervisory authority coming from fees levied on supervised entities.

81. More generally, the *IOPS Principles of Private Pension Supervision*, which form Core Principle 6, remain of high relevance to IOPS Members. Thirteen IOPS Members have conducted self-assessments since the adoption of the IOPS Principles in 2010.²⁷ In view of their high-level character, they capture well all key areas and principles of private pension supervision. IOPS Members use them regularly, assisted by the IOPS Methodology, to assess the compliance of their pension supervisory authority.²⁸ In addition, the IOPS Principles have been used by the IMF and the World Bank in the Financial Sector Assessment Programmes (FSAP), and were adopted by the International Association of Entities Supervising Pension Funds (AIOS).

Part II: Principles specific to occupational pension plans

Core Principle 7: Occupational pension plan liabilities, funding rules, winding up, and insurance

Box 8. Core Principle 7: Occupational pension plan liabilities, funding rules, winding up, and insurance

Occupational pension plans should be adequately funded, in accordance with the relevant regulation applicable to the pension fund or pension entity. The adequacy of funding should be protected through funding rules, winding-up provisions, insurance or other types of accepted guarantees.

While full funding exists in principle for occupational defined contribution plans, other types of occupational plans should be subject to minimum funding rules or other mechanisms to ensure adequate funding of pension

²⁵ For more information, see <https://www.lb.lt/en/news/bank-of-lithuania-expert-visits-what-do-they-mean-to-market-participants>.

²⁶ The 2019 reform introduced life-cycle funds and asset preservation funds, reduced fees to be charged by pension entities to members, changed the contribution rates into the plans, introduced automatic enrolment for workers under 40 years of age, and introduced new retirement benefit options.

²⁷ Source: IOPS Secretariat.

²⁸ See “Methodology for Review of Supervisory Systems using IOPS Principles”: <http://www.iopsworld.org/principlesguidelines/44502991.pdf>.

liabilities. Rules for minimum funding levels may be based on accrued and vested benefits (termination approach) or on projected liabilities (ongoing approach) depending on the funding objectives. The termination approach should be promoted as a minimum level and should be complemented with the ongoing approach. Flexibility can be allowed for temporary limited underfunding under restricted circumstances. Consideration should be given to the development of prudent but flexible requirements for minimum capital, reserves or other forms of guarantees in pension funds, taking account of the long term nature of their liabilities. Tax and prudential regulations should encourage a prudent level of funding. Private unfunded pay-as-you-go plans at the individual company level should generally be prohibited.

Appropriate calculation methods for asset and liabilities valuations, including actuarial techniques and amortisation rules, should be set up and based on transparent and comparable standards.

Proper winding-up mechanisms should be in place and these should ensure the protection of the entitlements and accruals of members and beneficiaries. Legal provisions should ensure that contributions owed to the plan by the employer are paid in the event of the employer's insolvency, in accordance with national laws. Where necessary, the legal provisions should set out priority creditors' rights for members, sponsors, and pension funds and/or pension entities.

The need for insolvency insurance and/or other guarantee schemes for occupational pension plans has to be properly evaluated. These mechanisms may be recommended in some cases but within an adequate framework. Recourse to insurance mechanisms (group and reinsurance) may be promoted.

82. Most of the Respondents consider that Core Principle 7 is fully implemented in their country (58%). For five Respondents, it is broadly implemented and for one, it is partly implemented. For 21% of the Respondents, this Core Principle is not applicable because they do not have occupational pension plans, or in the case of Finland, because the system is partly funded with joint liability between private pension institutions in case of insolvency. Core Principle 7 comprises 25 Implementing Guidelines (IG), grouped under 4 sections. The Implementing Guidelines that are not fully implemented in some of the Respondents are included in the following sections:

- *Funding of occupational pension plans*, in particular IG 7.1 on the requirement for occupational plans to be adequately funded; and IG 7.3 on the recognition of creditor rights against the plan sponsor (2 Respondents);
- *Measurement of occupational pension plan liabilities*, in particular IG 7.11 on the use of prudent funding methods and appropriate demographic, behavioural and economic assumptions for the calculation of the pension plan's liabilities; and IG 7.12 on the use of prudent discount rates for determining liabilities (2 Respondents);
- *Funding requirements for occupational plans and the treatment of any surplus or deficits*, in particular IG 7.15 on the requirement for the target funding ratio to take account of the plan sponsor's ability and commitment to increase contributions to the pension plan in situations of underfunding, and the possibility of adjusting benefits or plan obligations, or retirement ages in response to underfunding; and IG 7.17 on amortisation periods for supplemental costs (1 Respondent);
- *Winding up of occupational pension plans*, in particular IG 7.23 on the rules when an occupational pension plan is terminated or when the plan's obligation to pay benefits to plan members and beneficiaries is extinguished; and IG 7.24 on creditor rights of pension plan members and beneficiaries (2 Respondents).

83. Several Adherents have insolvency guarantee schemes to protect pension benefits and obligations in case of insolvency of the plan sponsor (IG 7.3 to IG 7.5). Such schemes can be found, for example, in Germany, Ireland, Japan, Sweden, Switzerland, the United Kingdom and the United States. In Luxembourg and Germany, employers who establish book reserves in order to secure the pension liabilities

must insure the insolvency risk with an insurance company. However, among the other Adherents with book reserve schemes, several do not report having an insolvency guarantee scheme in the ISSA/OECD/IOPS Complementary Pension Database.

84. In most Adherents, standard mortality tables include assumptions regarding expected future mortality improvements to account for future increases in life expectancy (IG 7.11). However, 6 Adherents do not require that those tables account for future mortality improvements, while 11 Adherents have not produced standard mortality improvement assumptions for either pensioners or annuitants ([DAF/AS/PEN/WD\(2021\)3](#)).

85. In line with IG 7.13, several Adherents require that the calculation of liabilities for occupational defined benefit plans takes place at least once every three years. More frequent assessments may be required when the plan is in deficit, such as in Canada (annually). Annual assessments are required in Iceland, Luxembourg and the United States. Japan only requires an actuarial valuation of employees' pension funds once every five years.²⁹

86. Several Adherents also set out recovery periods for correcting situations of underfunding (IG 7.19). Recovery periods range from 1 year in Norway, to 3 years in Korea, 6 years in Ireland, 10 years in Germany for *Pensionsfonds* under certain conditions, and 20 years in Japan [[DAF/AS/PEN/WD\(2019\)2](#)]. Adherents where pension plans rely on capital buffers to protect guaranteed retirement income benefits do not necessarily need to set out recovery periods.

87. Most of the Respondents believe that Core Principle 7 continues to be relevant and useful, with a caveat for only one of them. In the Netherlands, retirement plans offered by employers have to comply with the same norms and standards as other pension plans. Hence, the content of this Core Principle may be moved to Part I with general principles. Additionally, two respondents from the industry suggest that Core Principle 7 should clearly differentiate between liabilities (that arise from risk sharing in pool and in time) and costs (such as administrative costs). Moreover, it should state that the rules on portability between providers should be consistent with a provider's long-term liabilities.³⁰

88. Core Principle 7 does not mention capital buffers as a security mechanism to protect guaranteed retirement income benefits. IG 7.3 states that protection may be provided through the recognition of creditor rights against the plan sponsor, while insolvency guarantee schemes can also be used to protect pension benefits and obligations in case of insolvency of the plan sponsor. In some Adherents, however, the security mechanism relies on capital buffers (OECD, 2020_[12]).³¹ All three mechanisms are valid, but the value of the protection they offer and their ability to protect promised retirement income benefits depend on different underlying factors. Core Principle 7 could be complemented with guidance with respect to this third security mechanism.

Core Principle 8: Access, vesting, and portability of occupational pension plans

Box 9. Core Principle 8: Access, vesting, and portability of occupational pension plans

Non-discriminatory access should be granted to occupational pension plans. Regulation should aim to prevent exclusions based on age, salary, gender and civil status. Agreement between labour and management might be considered in regard to period of service, terms of employment and part-time employment. Regulation should also

²⁹ Source: ISSA/OECD/IOPS Complementary Pension Database.

³⁰ See [GFIA - Global Federation of Insurance Associations \(gfainsurance.org\)](#)

³¹ Some Adherents may even have all three mechanisms in place for pension funds.

promote the protection of vested rights and proper entitlement process, as regard to contributions from both employees and employers. Policies for indexation should be encouraged.

Portability of pension accruals and the possibility to consolidate accumulations from different plans should be facilitated within each jurisdiction with the aim of enabling job mobility. The decision to offer portability rights to members should avoid imposing excessive costs. The protection of members' rights in case of early departure should be respected.

89. Regarding Core Principle 8, 61% of the Respondents consider that it is fully implemented in their country, 9% that it is broadly implemented, 6% that it is partly implemented and 21% that it is not applicable. Core Principle 8 comprises 13 Implementing Guidelines (IG), grouped under 3 sections. The Implementing Guidelines that are not fully implemented in some of the Respondents are included in the following sections:

- *Access to plan participation, equal treatment and entitlements under occupational pension plans*, in particular IG 8.2 on the equal treatment of employees under plan rules (1 Respondent);
- *Benefit accrual and vesting rights in occupational plans*, in particular IG 8.6 on the vested rights of individuals who terminated their employment (1 Respondent);
- *Pension portability and rights of early leavers*, in particular IG 8.7 on the portability of the vested account balance for individuals changing jobs; IG 8.10 on the preservation of accrued and vested entitlements of deferred members; IG 8.12 on the requirement not to have unreasonable charges or fees applied to portability rights; and IG 8.13 on the right for plan members to leave their vested benefits in the plan of their former employer (3 Respondents).

90. Regulation in all Adherents prevents exclusions from occupational plan participation that are based on non-economic criteria, such as gender, marital status or nationality (IG 8.1). Some Adherents, however, allow occupational plans to establish age limits. For example, a minimum age of 25 can apply in Luxembourg, the Netherlands and Sweden, a maximum age of 70 applies for employee capital plans in Poland, while some countries use lower and upper age limits (e.g. Japan and the United Kingdom).

91. In a number of Adherents, plan sponsors can use economic criteria to restrict plan membership (IG 8.1). Occupational plans can exclude employees from participation based on salary in 9 Adherents, based on the number of working hours or type of contract (full-time versus part-time) in 6 Adherents, and based on the length of employment (waiting period) in 12 Adherents (OECD, 2019^[4]). In Norway, it is currently optional for employers to include in mandatory occupational pension plans employees under the age of 20 and part-time employees who work less than 20% of full employment. A bill with a proposal to abolish the age and part-time criteria for membership was submitted to the Parliament in June 2021 and is currently under consideration by the Parliament.

92. In most Adherents, women are treated equally compared to men when it comes to vesting and waiting periods (IG 8.2). In particular, periods of maternity and parental leave usually do not delay women's eligibility to join retirement savings plans, because they are included in the years of employment as normal working periods. Therefore, maternity and parental leaves do not delay enrolment nor prevent the acquisition of pension contributions (OECD, 2021^[8]).

93. While employee contributions into occupational plans vest immediately in all Adherents, it is not always the case for employer contributions (IG 8.4 and IG 8.5). In a majority of Adherents, employer contributions to occupational pension plans vest immediately to the employee. With the exception of Norway, immediate vesting is the rule for mandatory and quasi-mandatory occupational pension plans. In 11 Adherents, vesting periods of one year or more apply for employer contributions (OECD, 2019^[4]).

94. Portability rules are in line with Core Principle 8 for most Adherents. The vast majority of Adherents allow individuals who are changing jobs to move the value of their assets in an occupational

defined contribution plan from their former employer’s pension plan to the plan of their current employer or to a similar alternative financial instrument or institution (IG 8.7) (OECD, 2019_[4]). Portability is even automatic when the occupational pension system is structured through collective agreements, such that an employee moving to an employer covered by the same agreement can stay in the same pension fund (e.g. Finland, Iceland and Sweden). Australia recently introduced “stapling”, where employees will take their existing superannuation account with them when they change employment, instead of being defaulted into an employer’s nominated fund. This stops the creation of multiple accounts. In addition, plan members are permitted to leave their vested benefits in the pension plan of their former employer (IG 8.13) in all Adherents except in Chile, Japan, Korea and Türkiye (OECD, 2019_[4]).

95. Most of the Respondents believe that Core Principle 8 continues to be relevant and useful. There is no suggestion to update or modify it.

96. Core Principle 8 has provided useful guidance to Adherents related to occupational plan access, and equal treatment and entitlements. For example, as part of the accession process of Costa Rica, the WPPP recommended the pension supervisory authority to review vesting and portability rules in the special occupational defined benefit schemes and in the alternative regime schemes, as they were considered unclear and vague.³² Core Principle 8 was also used to help Adherents enhance or develop the role of the funded pension system for underserved populations, such as women and workers in non-standard form of work, especially with respect to occupational plans’ access, vesting and portability rules (OECD, 2019_[4]; OECD, 2021_[13]).

Part III: Principles specific to personal pension plans

Core Principle 9: Funding of personal pension plans, wind-up and insolvency

Box 10. Core Principle 9: Funding of personal pension plans, wind-up and insolvency

Personal pension plans should be adequately funded at all times, in accordance with the relevant regulation applicable to the pension fund or pension entity. Adequate funding rules and arrangements should apply where the pension plan, pension fund or pension entity assumes any financial or biometric risks.

The merger of pension funds or pension entities and their withdrawal from the pension market should be subject to specific requirements that ensure the security and full protection of existing personal pension plan contracts. Legal provisions should clearly set out the procedures for dealing with the insolvency of pension funds and pension entities. Priority should be given to the protection of members’ entitlements or accumulated savings. Insolvency proceedings should minimise disruption to the timely provision of benefits to members. Consideration should be given to the establishment of guarantee arrangements to protect pension entitlements and accruals in case of insolvency of the pension plan or entity.

97. A large majority of the Respondents consider that Core Principle 9 is fully implemented in their country (82%), and only two of them consider that it is broadly implemented. Two Respondents consider that this principle is not applicable in their country and for one Respondent, the entity that replied to the questionnaire is not in charge of personal plans. Among the eight Implementing Guidelines (IG) of Core Principle 9, the following are not fully implemented in some of the Respondents:

³² Nevertheless, Costa Rica still lacks regulations as to the vesting and portability of special occupational schemes.

- IG 9.6, which requires that the procedures for the winding-up and exit of a pension entity from the market are clearly set out in legislation (1 Respondent);
- IG 9.8, which requires that the bodies responsible for dealing with the winding-up of the pension entity and the insolvency proceedings of a pension entity are clearly set out in legislation (1 Respondent).

98. Some Adherents require pension entities to maintain a reserve, in particular when they are subject to a minimum return guarantee (IG 9.2). Such special reserves are required for example in Colombia, Costa Rica, Estonia and Mexico, according to the ISSA/OECD/IOPS Complementary Pension Database. The reserve corresponds to a certain percentage of the assets under management and is financed from the own funds of the pension entity.

99. In Adherents with statutory personal pension arrangements, regulations tend to ensure that plan members are transferred to another fund in case of mergers, liquidation or acquisitions of pension funds and entities (IG 9.5 to IG 9.8). The pension supervisory authority may be involved in such transfers, such as in Estonia, Lithuania or the Slovak Republic.³³

100. Most of the Respondents believe that Core Principle 9 continues to be relevant and useful. One Respondent believes that the scope of IG 9.1 to IG 9.4 is not entirely clear when applied to defined contribution systems. Talking about funding for personal pension plans could be confusing and relate people to defined benefit systems. Colombia, for example, is unclear about whether pension funds with relative minimum guarantees are in the scope of Core Principle 9. This type of guarantee prevents a plan from having extreme losses relative to the rest of the market, but does not prevent absolute losses for plan members.

Core Principle 10: Equal treatment, business conduct, competition and portability of personal pension plans

Box 11. Core Principle 10: Equal treatment, business conduct, competition and portability of personal pension plans

Access to personal private pension plans should be non-discriminatory. Regulation should ensure that individuals are treated equally and fairly, both before a contract is entered into with a private pension entity and through to the point at which all obligations under a contract have been satisfied.

Pension funds and pension entities, their external service providers and authorised agents, and other intermediaries operating in the personal pensions market should work in the best interest of plan members and be responsible and be held accountable for upholding financial consumer protection. In general, members of personal pension plans should have the right to full portability.

Competitive markets should be promoted in personal pension provision in order to provide a greater choice amongst financial services and promote cost-efficient provision of pension services. Individuals should be able to search, compare and, where appropriate, switch between products and providers easily and at reasonable and disclosed costs.

101. Most of the Respondents consider that Core Principle 10 is fully implemented in their country (73%), while it is broadly implemented for four Respondents, partly implemented for one and not

³³ Source: ISSA/OECD/IOPS Complementary Pension Database.

applicable for two.³⁴ Among the nine Implementing Guidelines (IG) of Core Principle 10, the following are not fully implemented in some of the Respondents:

- IG 10.1, which states that any individual should be able to join a personal pension plan (1 Respondent);
- IG 10.9, which refers to the full portability of personal pension plans between providers (3 Respondents).

102. Regulation in all Adherents prevents exclusions from personal plan participation that are based on non-economic criteria, such as gender, marital status or nationality (IG 10.1). Age limits are quite common, however, although they tend to cover the working-age population (e.g. individuals aged at least 18 in Estonia, or at least 21 in the United States, individuals under age 75 in Australia and Ireland, or under age 62 in Austria, individuals aged 18 to 64 in Belgium). Economic conditions for plan membership are rare (i.e. based on income, number of working hours or length of employment) (OECD, 2019_[4]). In New Zealand, only contributing employees aged 18-64 are entitled to employer co-contributions in a KiwiSaver plan, creating a difference of treatment between employees and non-employees.

103. Contributions from employees and employers vest immediately and fully in personal plans (IG 10.2) in all Adherents, except for group personal plans in Türkiye (OECD, 2019_[4]).

104. Providers may be able to charge exit fees to limit the ability of plan members to switch between providers, but most Adherents restrict their usage (IG 10.9). For example, some Adherents impose caps on how much can be charged (e.g. Colombia, the Czech Republic, Hungary, Italy, Slovenia, Türkiye), while others impose certain conditions for exit fees to be charged (e.g. the Czech Republic, Denmark, Estonia, Poland, the Slovak Republic, Spain). Some Adherents have banned exit fees altogether (e.g. Australia, Costa Rica, Ireland for Personal Retirement Savings Accounts, Latvia) (OECD, 2020_[14]). In Lithuania, individuals can switch between pension fund providers in the third pillar, but not in the case of an insurance contract. In that case, the individual needs to cancel the contract with the first provider and arrange a new contract with the second provider. Information to plan members about the rules associated with the portability of vested benefit accruals and accumulations is limited in Costa Rica.

105. Most of the Respondents believe that Core Principle 10 continues to be relevant and useful, and only one of them suggests an update. The suggestion is to discuss the issue of cost efficiency, considering the need for price regulation where the actual functioning of competition does not ensure sufficient pressure on pension providers and distributors, and costs stay too high.

³⁴ Additionally, for one Respondent, the entity that replied to the questionnaire is not in charge of personal plans.

5 Summary and conclusions

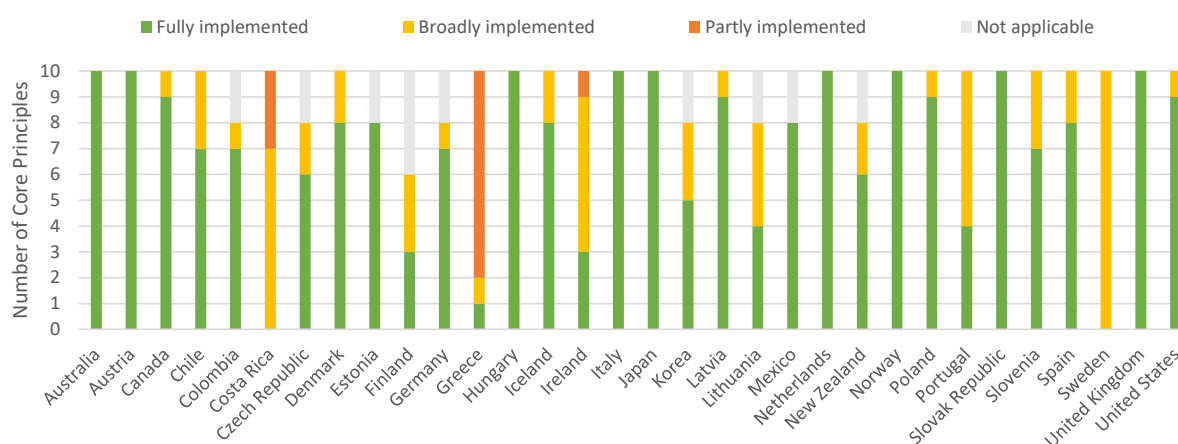
106. This section concludes and summarises the state-of-play regarding the implementation of the Recommendation. It presents the main results and conclusions from the exercise and suggests next steps.

Implementation

107. Most of the Respondents to the Adherent questionnaire take due account of the Core Principles when establishing, amending or reviewing their private pension regulations, as recommended. While national and supranational regulations, such as the IORP II and Solvency II Directives in the European Union, are binding and thus take priority when amending or reviewing regulations, the Recommendation is also one of the sources that Adherents take into consideration where there is flexibility to do so.

108. Overall, the Core Principles that form an integral part of the Recommendation are well implemented by Adherents. Eleven Respondents consider that all the Core Principles that are relevant in their country are fully implemented (Figure 3). For six Respondents, only one of the relevant Core Principles is not fully implemented. At the other extreme, for two Respondents, none of the Core Principles are fully implemented.

Figure 3. Overall implementation of the ten Core Principles, by Adherents



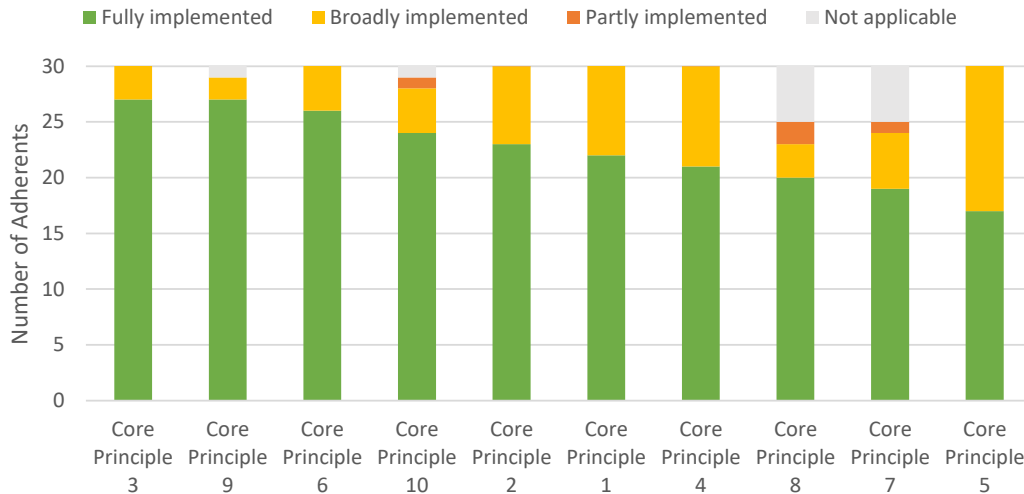
Note: Switzerland did not assess the extent to which the country implements the Core Principles and is therefore not represented in this chart.

Source: Adherent questionnaire.

109. Core Principle 3 (Governance) and Core Principle 9 (Funding of personal pension plans, wind-up and insolvency) are the Core Principle with the highest number of the Respondents considering that they are fully implemented in their country (27 out of 32) (Figure 4). They are closely followed by Core Principle 6 (Supervision). At the other extreme, Core Principle 5 (Plan design, pension benefits, disclosure

and redress) has the least number of the Respondents considering that it is fully implemented (17 out of 32).

Figure 4. Overall implementation of the ten Core Principles, by Core Principles



Note: Switzerland did not assess the extent to which the country implements the Core Principles and is therefore not included in this chart.

Source: Adherent questionnaire.

110. Slightly weaker implementation is observed for some Adherents in the following areas:

- Clear and well-defined policy objectives regarding coverage, adequacy, security, efficiency and sustainability of the private pension system (Core Principle 1);
- Complementarity between the different parts of the pension system (Core Principle 1);
- Well-functioning and transparent capital markets (Core Principle 1);
- Assessment of license applications (Core Principle 2);
- Minimum capital requirement for pension funds and entities starting business (Core Principle 2);
- Quantitative investment limits (Core Principle 4);
- Default investment strategies (Core Principle 4 and Core Principle 5);
- Disclosure and availability of information (Core Principle 5);
- Mechanisms for complaint handling and redress (Core Principle 5);
- Measurement of occupational pension plans' liabilities, in particular the use of appropriate discount rates and mortality tables (Core Principle 7);
- Occupational pension plans' access to participation, vesting and portability (Core Principle 8).

Dissemination

111. Since the adoption of the Recommendation in 2016, the OECD Secretariat has taken steps to raise awareness of its contents. It used the Recommendation to evaluate funded private pension systems and provide policy guidance to different OECD Members and interested non-Members. In particular, the Secretariat used the Recommendation in the following contexts:

- The OECD accession process;

- The assessment of countries' pension systems in the *OECD Reviews of Pension Systems*;
- Analytical work published in various editions of the *OECD Pensions Outlook* and *Pensions at a Glance*;
- Technical assistance to Adherents.

112. The Secretariat has also disseminated the Recommendation through presentations to different audiences, in particular at the OECD/IOPS Global Forum on Private Pensions in Hong Kong, China on 9 November 2016, and in Morocco in 2018.

113. Adherents have been less active in disseminating the Recommendation. Most of the Respondents have not taken specific steps to disseminate the Recommendation among relevant ministries and different levels of government. For some Adherents, this is because all the relevant authorities either directly participate in the meetings of the WPPP or cooperate closely with those who attend the meetings. Similarly, most of the Respondents have not disseminated actively the Recommendation to relevant stakeholders, in particular entities representing the interests of the industry and those of savers. This is sometimes due to the fact that the Recommendation is broadly in line with legislation, which relevant stakeholders know about and have to follow. However, some of the Respondents mention that constant and close communication between the pensions industry and the regulatory or supervisory authority allows the dissemination of relevant international regulations and recommendations, including OECD ones.

114. The level of awareness of the Recommendation among the authorities concerned with funded private pensions is moderate or high for 85% of the Respondents. The main reason for a low or moderate level of awareness is that the primary focus is on national or supranational regulations (e.g. the IORP II and Solvency II Directives in the European Union), while the Recommendation has a secondary role. In some cases, however, concerned authorities are well aware of the content of the Recommendation, even though they may not know the document itself.

115. Adherents could disseminate the Recommendation more actively. For example, they could include a link to the Recommendation on the website of the pension supervisory and regulatory authorities. They could also organise local seminars with relevant people at all levels of government to ensure a high level of awareness of the Recommendation and its content among all parties concerned with private pension regulation. The OECD Secretariat could participate in those seminars.

Continued relevance

116. All of the Respondents consider that the Recommendation continues to be relevant and useful. The Respondents consider the Recommendation as an important source, a useful anchor or reference framework, a checkpoint for good practice on pension regulation, or a helpful tool to drive consistency and quality in the standard of private pensions across OECD Members. Several of the Respondents also mention that it is particularly useful to set up or develop less mature pension systems.

117. Overall, almost 40% of the Respondents (39%) consider that new developments call for a revision of the Recommendation. Indeed, 24% of the Respondents mention that general trends such as digitalisation, sustainable investments/ESG, early withdrawals and the shift of risks towards individuals would warrant an update of the Recommendation. Additionally, 33% of the Respondents, including some of the previous 24%, provided the following suggestions to update the Core Principles or their Implementing Guidelines:

- Core Principle 1: Address issues related to political pressure, the tax environment, the role of foreign investment to improve investment allocation, and the impact of the low interest rate environment on the development of annuity markets;
- Core Principle 2: Include the possibility to establish occupational pension plans for multiple employers;

- Core Principle 3: Reflect the growing requirements to integrate ESG factors in the investment and risk management of pension funds/entities in their governance framework;
- Core Principle 4: Include guidelines related to the integration of ESG risks and factors into the investment strategies of pension funds and entities, in line with the *IOPS Supervisory Guidelines on the Integration of ESG Factors in the Investment and Risk Management of Pension Funds*³⁵;
- Core Principle 5: Include more guidance related to information that should be provided to plan members about pay-out options; Include good practices regarding pension projections, in line with the *IOPS Good practices for designing, presenting and supervising pension projections*³⁶;
- Core Principle 9: Clarify whether pension funds with relative minimum guarantees are in the scope of Implementing Guidelines related to the funding of personal pension plans;
- Core Principle 10: Address the issue of cost efficiency in personal pension plans.

118. Moreover, past work of the WPPP and the OECD Secretariat suggests that further guidance may be needed with respect to the following issues:

- Core Principle 3: Acknowledge that the mission of the pension entity may sometimes be set out by the government, with the governing body then responsible for interpreting the mission statement and translating it into concrete operational and investment strategies; Include additional guidance regarding situations where members of the governing body no longer meet fit and proper standards, minimum disclosures, and the appointment of members of the governing body;
- Core Principle 7: Include guidance with respect to capital buffers as an additional security mechanism to protect guaranteed retirement income benefits in occupational pension plans.

Next steps

119. Overall, the Recommendation is well implemented by Adherents. There remain certain areas, as identified above, where further work could be done to improve implementation. Certain Adherents could amend their regulations to further align them with the Recommendation, in particular in areas where the level of implementation is low. The OECD Secretariat could support Adherents by providing technical assistance. In addition, Adherents could further promote and raise awareness of the Recommendation nationally, among relevant ministries and stakeholders. For example, they could include a link to the Recommendation on the website of the pension supervisory and regulatory authorities and organise local seminars, to which the OECD Secretariat could participate.

120. Overall, the Respondents consider that the Recommendation continues to be relevant and useful.

121. There is however a need to revise the current Recommendation for two main reasons.

- Firstly, recent trends including digitalisation, demands on assets earmarked for retirement to support the post-COVID-19 recovery, and the need to incorporate ESG risks and factors in the investment and risk management of pension funds, call for a substantive revision of the Recommendation. Moreover, almost 40% of the Respondents (39%) consider that these new developments do call for a revision.
- Secondly, separating the Implementing Guidelines from the Recommendation and transforming them into a toolkit to support the implementation of the Recommendation would provide flexibility. The separation would allow updates of the Implementing Guidelines as the need arises in a timely manner, as the toolkit would be under the responsibility of the IPPC. While the Core

³⁵ See <http://www.iopsweb.org/IOPS-Supervisory-guidelines-integration-ESG-factors.pdf>.

³⁶ See <http://www.iopsweb.org/IOPS-Good-practices-for-designing-presenting-and-supervising-pension-projections-2022.pdf>.

Principles would continue to form an integral part of the Recommendation, the introduction to each Core Principle and the Implementing Guidelines could be extracted from the Recommendation and integrated into this separate implementation toolkit to provide a more practical and flexible tool tailored to the experts' needs. In addition, and to align with more recent OECD Recommendations, the Core Principles could be moved to the body of the Recommendation rather than having them embedded in an Appendix, to give them more visibility. As the Implementing Guidelines form an integral part of the Recommendation, separating the Implementing Guidelines from the Recommendation requires a revision of the Recommendation by the Council on the proposal of the IPPC.

122. With respect to the first proposal of substantive revisions, the WPPP agreed at its December 2021 meeting to discuss this issue at a later stage, once the implementation toolkit is separated from the Recommendation. Thus, if the creation of a separate implementation toolkit is approved, there will be a need to discuss where to reflect the recent trends and developments, i.e. in the implementation toolkit, in the Core Principles, or in both. Revisions to the implementation toolkit would be under the responsibility of the IPPC and its WPPP, while revisions to the Core Principles themselves would continue to require involvement of the Council.

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