Global Trends in Retirement Systems and Opportunities for Regulated Funds (Asia)
Webinar Overview

» Presentation by Anna Driggs (ICI Global)
  » Introduction of basic concepts and retirement terms
  » Overview of trends in global pension reform

» Presentation by Yoon Ng and Manuelita Contreras (Cerulli)
  » Asia ex-Japan retirement landscape: addressable opportunities for fund managers

» Q & A, moderated by Dennis Simmons (Vanguard)
About the Presenters

» Anna Driggs
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» Yoon Ng
  » Director for Asia, Cerulli Associates

» Manuelita Contreras
  » Senior analyst, Cerulli Associates

» Dennis Simmons
  » Principal, Vanguard’s international team
Presentation by Anna Driggs: Agenda

» Introduction of basic concepts and retirement terms
» Overview of global pension reforms
  » Introduction of basic concepts and retirement terms
  » Overview of global pension reform trends
What Are Retirement Systems?

» Public pensions provided by the government
» Occupational/employer-based systems
  » e.g., defined benefit and defined contribution plans or schemes
» Personal pension plans
» Other savings
  » e.g., housing
Commonly Used Retirement Terms

» PAYGO system
» Occupational or employer-based system
» Defined benefit (DB) plan
» Defined contribution (DC) plan
» Tax concessions/tax deferrals/preferences
» Plan or scheme (terms vary by country)

» Pension fund
» Participant or member
» Participant-directed investments
» Default investments
» Lifecycle and target date funds
» Payout phase
Word Bank Pillars (1994)

» Zero pillar: non-contributory, poverty alleviation programs
» First pillar: mandatory contributions, PAYGO, publicly managed
» Second pillar: mandatory contributions, privately managed, DB or DC
» Third pillar: voluntary contributions, privately managed, DB or DC
» Fourth pillar: housing, family support, other savings

Evolution in Terminology

» Zero pillar: poverty alleviation programs
» First pillar: public PAYGO systems
» Second pillar: occupational/employer-based systems
» Third pillar: personal pension products
» Fourth pillar: housing, family support, other savings
Pillars and Pyramids: Visual of Retirement Systems

- **Zero pillar**: poverty alleviation
- **First pillar**: public PAYGO
- **Second pillar**: occupational/employer based
- **Third pillar**: personal pension products
- **Fourth pillar**: housing, family support, etc.
Factors Driving Pension Reforms

» Demographic challenges
  » Increasing life expectancies and declining birth rates
» Governments’ strained finances, particularly exacerbated by the recent financial crisis
» Low interest rate environment
» Realization that individuals will have to save for their own retirement
Reforms and Trends: By Pillars

» Pillar 1: concerns about sustainability
  » Increasing retirement ages
  » Changing investment strategies
  » Outsourcing asset management, including to foreign managers

» Pillar 2: concerns about coverage and adequacy
  » Shift from DB to DC
  » DC: Use of automation for enrolment, investments, contributions, etc.
  » DC: Debates about creating predictable income stream at retirement

» Pillar 3: supplementary to pillars 1 and 2; use varies by country
Reforms and Trends: Observations by Regions

» Europe
  » slower to accept DC systems
  » strong preference for public pensions and DB plans

» Asia, United States, and Latin America
  » more open to DC, including allowing participants to choose their investments

» Global trends and tensions in DC plans
  » diversified default strategies (e.g., target date funds)
  » desire for predictable retirement income (e.g., pros/cons of annuities and guarantees)
Which Trends Present Opportunities for Regulated Funds?

- Growing role of private pension provision through pillars 2 and 3
- Shift from DB to DC
- DC systems that allow participant investments
- Use of regulated funds as permitted investments