INSIGHTS FROM THE 2013

Global Retirement Savings Conference

THE ROLE OF INVESTMENT FUNDS

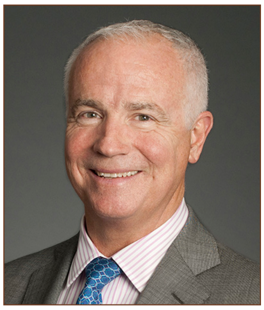
Executive Summary

HONG KONG

26–27 JUNE 2013

ICI Global

Letter from Dan Waters
ICI Global, Managing Director



As systems for building retirement resources come under increasing pressure, countries of every size and economic situation are facing long-term savings challenges. To meet these challenges, it is critical that pension industry experts, policymakers, and fund industry representatives come together to learn from one another and to share solutions that put the needs of savers first.

That is why ICI Global hosted the *Global Retirement Savings Conference: The Role of Investment Funds* on 26–27 June 2013 in Hong Kong.

We approached the conference with three goals:

1. Foster an international dialogue about the long-term retirement savings issues facing jurisdictions worldwide
2. Examine the rise and evolution of defined contribution (DC) systems in response to those issues
3. Discuss how investment funds are uniquely positioned to serve investors in such systems

More than 100 people representing 13 countries attended the event, which featured speakers, panellists, and participants from around the world, including fund industry representatives, world-renowned industry experts, and key government officials and regulators.

The ideas and insights that emerged from these different panels and discussions are documented in this executive summary of the report, *Insights from the 2013 Global Retirement Savings Conference*. During the event, participants talked about many issues, but three overarching themes resounded throughout the conference.

First, attendees firmly believed that an international dialogue about the long-term retirement savings issues facing countries worldwide was timely and needed. Second, many countries are looking towards DC systems to help address retirement savings challenges. DC systems have become a popular alternative or supplement to government-provided retirement schemes—perhaps because they can be adapted to fit the different needs of different nations. And third, current DC systems vary from country to country because each country has its own unique history, institutions, characteristics, and needs.

Thus, it is important to keep in mind that the ways in which governments, companies, and individuals respond to long-term retirement savings challenges do not necessarily represent universal truths. It is equally important to understand that this summary is not offering prescriptions for global policy; instead, it is simply offering insights into how different countries are responding to retirement savings challenges.

I hope you enjoy reading about the conference. ICI Global is committed to advancing the dialogue about how to improve retirement security worldwide.

INSIGHTS FROM THE 2013

Global Retirement Savings Conference

THE ROLE OF INVESTMENT FUNDS

HONG KONG, 26–27 JUNE 2013

Executive Summary

Overarching Issues

To help stimulate a dialogue about the long-term retirement savings challenges facing countries worldwide, ICI Global sponsored its first Global Retirement Savings Conference, a two-day event that featured three keynote speakers and four panels. Throughout the event, speakers and panellists discussed the issues facing governments, companies, and individuals around the world as they try to meet those long-term retirement savings challenges. In considering how countries should approach retirement planning, they examined five basic issues:

- *Coverage*
- *Sustainability*
- *Adequacy*
- *System design*
- *Role of funds*

Retirement systems—especially defined contribution (DC) systems—vary from country to country because of each country's unique history, institutions, characteristics, and needs. Nonetheless, the speakers and panellists agreed that these fundamental issues are at the heart of what it takes to create long-term retirement savings systems that can help people around the world build retirement resources.

KEYNOTE SPEAKERS

Paul Schott Stevens
President and CEO,
Investment Company
Institute

Olivia S. Mitchell
Professor, The Wharton
School of the University
of Pennsylvania; Executive
Director, Pension Research
Council

The Honourable
Anna Wu Hung-yuk
Chairman, Hong Kong
Mandatory Provident Fund
Schemes Authority

PANELS

Panel 1: The State of Pension Provision Around the Globe

Panel 2: Characteristics, Opportunities, and Challenges of Defined Contribution Retirement Systems

Panel 3: The Role of Investment Funds in Retirement Savings

Panel 4: Governance of Retirement Systems and Investment Fund Regulatory Oversight

KEYNOTE REMARKS

'Let the Old People Live Good Lives': Global Trends in Retirement

PAUL SCHOTT STEVENS

ICI President and CEO Paul Schott Stevens opened the conference with his remarks, pointing out that governments, businesses, and individuals around the world are working to improve the programmes needed to provide retirement security to growing populations of the elderly. Outlining the history of retirement and the evolution of DC systems, Stevens explained why such systems take different forms, are in different stages, and perform different roles in countries around the world. Each country's history, institutional framework, and economic situation influence how it designs its DC system and what role that system plays, he said.

Stevens also discussed the advantages of DC plans. For example, for governments or employers, the costs of funding DC plans are transparent and predictable. For workers, DC plans provide ownership and the potential to generate significant income in retirement. DC plans also offer portability of retirement resources—DC account assets can grow throughout a career as a worker moves from job to job, whether the account is in a centralised system, left in previous employers' plans, or rolled over to new retirement accounts. This portability fosters a flexible labour market, Stevens explained.

He concluded his remarks by talking about the role that investment funds can play as part of DC plans in improving retirement security worldwide. Funds are designed to serve retirement savers well, he explained, pointing out that investment funds are professionally managed, well regulated, transparent, diversified, and cost-effective. Fund companies also have a long history of interacting with investors and can provide valuable insights into how to reach, educate, and serve retirement savers.

Restructuring Retirement Systems for Resiliency in an Aging World

OLIVIA S. MITCHELL

Olivia S. Mitchell, professor at the Wharton School at the University of Pennsylvania, focused her remarks on the pressures faced by long-term retirement savings systems worldwide, the advantages of and challenges facing funded pension systems, the growth of individual accounts, and the need for better financial literacy.

Economic and demographic stresses have changed the design of retirement systems around the world, Mitchell explained. Aging populations have put pressure on pay-as-you-go systems, which rely on younger workers' contributions to finance benefits for current retirees. This has spurred a 50-year trend towards funded pensions, which can take two forms: defined benefit (DB) or DC plans. One advantage of such plans is that the assets set aside for retirement must protect the promises made, which helps protect against political risk because no one political party can easily change the promises. In addition, she explained, funded pensions can help provide diversification because individuals are not forced to rely on a single firm for future benefits.

Funded pensions, however, face several challenges, such as administrative and investment costs. Moreover, many funded pensions systems are either run or heavily influenced by governments. As a result, their investments are often biased towards the home country, which reduces the benefits that diversification can bring.

In response to some of these challenges, she said, policymakers have promoted individual accounts. This trend has highlighted the need for greater financial literacy, because managing an individual account requires that households know how to save enough, invest with financial forethought, and manage money during retirement. Mitchell suggested some ideas for improving financial literacy, and explained that there are many parties involved in enhancing financial literacy, including families, governments, employers, and the financial services industry.

Changes Necessary for the Second Pillar of Hong Kong's Retirement Savings Structure

THE HONOURABLE ANNA WU HUNG-YUK

As chairman of the Hong Kong Mandatory Provident Fund Schemes Authority (MPFA), Anna Wu Hung-yuk concentrated her remarks on Hong Kong's Mandatory Provident Fund (MPF)—a mandatory, privately managed, and fully funded DC system that launched in December 2000. Wu acknowledged the system's accomplishments while explaining that the MPF must evolve if it is to play an important role in providing retirement security for Hong Kong's population. She examined three issues in particular: the adequacy of retirement protection, fees and investment returns, and administrative complexity.

Wu pointed to the system's level of coverage as one of the measures of the MPF's success. Before the system launched, she explained, only about 30 percent of employed persons had any form of pension coverage. Now, 84 percent of employed persons have some form of formal coverage. Despite this success, Wu acknowledged that the contribution limits set by law are low.

Another issue Wu discussed was fees. Though the average fund expense ratio has declined over the past five years from 2.1 percent to 1.72 percent of assets, the general sentiment is that fees are still too high. She highlighted some of the ways that the MPFA is addressing this issue, including requiring trustees to provide at least one low-fee fund under each MPF scheme. On the issue of investment control and returns, she explained that the MPFA's goal is to give employees full investment control over all of their benefits, but said this will take some time. Currently (and as a result of a recent change), employees can transfer the MPF balances derived from their mandatory contributions from the employer-chosen scheme to a scheme of their choice at least once per calendar year.

Finally, Wu discussed the administrative complexity of the system and how the MPFA is working to streamline and simplify it to benefit members, help operators, and reduce costs. Overall, she said, the MPF has achieved its objectives of providing greater retirement protection for Hong Kong's working population, but longer-term changes are needed to truly make a difference in the lives of its workers.

PANELS

Panel 1: The State of Pension Provision Around the Globe

PANELLISTS

Stephen P. Utkus, *Moderator,* Principal, Vanguard Center for Retirement Research

Ángel Melguizo, Lead Specialist, Labor Markets and Social Security Unit, Inter-American Development Bank

Brigitte Miksa, Head of International Pensions, Allianz Asset Management AG

Yoon Ng, Associate Director, Cerulli Associates

This session started with discussion about the fundamental question of how economies transfer goods and services produced by workers to retirees (non-workers). Panellists representing different regions shared challenges facing pension systems worldwide, including sustainability, coverage, and country-specific dynamics, as well as some of the reforms being implemented to address those challenges.

The session revealed three issues that countries need to consider to improve sustainability: the dynamics of population aging, pension reforms already in place and the shift to funded pensions, as well as the fiscal burden of established social security systems. Countries can be ranked under these dimensions to assess the likelihood that further reform will be needed. Sustainability, however, is only part of the story; the issue of adequacy also is significant.

Some countries have pension systems that rank high for sustainability but low for retirement income-replacement rates, while other countries rank high in replacement rates but low in sustainability. This is partly a reflection of country-specific dynamics, which play a part in other challenges facing DC systems worldwide, such as coverage.

For example, coverage is a persistent challenge in Latin America, which suffers both from a low percentage of retirees receiving pension income and low pension coverage among current workers. Because most pension schemes are targeted at the formal sector, those in informal work arrangements (who often make up a majority of the workforce) are left out. To address this issue, some governments are focusing on offering matching contributions to workers, based on voluntary worker contributions into individual pension accounts.

The session covered the challenges facing asset managers who wish to service markets where DC plans are offered, identifying that it can be difficult for asset managers to enter DC systems in certain countries because of government or regulatory constraints. In some cases, a panellist noted, it is necessary to partner with a certain type of firm within the country—for example, an insurance company—to get a foothold into the DC business there.

Panel 2: Characteristics, Opportunities, and Challenges of Defined Contribution Retirement Systems

PANELLISTS

Peter Brady, *Moderator*, Senior Economist, Investment Company Institute

Ross Jones, Deputy Chairman, Australian Prudential Regulation Authority

Bo Könberg, Chairman of the Board, Swedish Pensions Agency

Akiko Nomura, Senior Analyst, Nomura Institute of Capital Markets Research

Will Sandbrook, Director of Strategy, Research, and Analysis, National Employment Savings Trust

Although the role they play differs from country to country, DC pension plans are now an important component of retirement systems around the globe. Focusing on the experiences of Australia, Japan, Sweden, the United Kingdom, and the United States, panellists outlined the different characteristics of and roles played by DC systems in each country.

In all five countries, DC pensions supplanted older DB pension plans. In some, such as Sweden, DC plans represent the primary contributory pension plan and are compulsory; in others, such as the United States, they supplement Social Security and are voluntarily provided by employers. Countries with voluntary employer systems typically rely on competition between financial services firms to keep costs low. In those countries, regulation has focused primarily on disclosure, to ensure that market participants have access to the information needed to make informed decisions. In countries with compulsory systems, employers and employees lack market power, inhibiting the normal market mechanisms that would control costs. In those countries, regulators have focused more directly on protecting consumers from high fees.

Panellists agreed that financial literacy and the engagement of individual investors are important to the success of self-directed accounts. In both the United States and Japan, countries with voluntary employer systems, employers play an important role in educating employees about their savings and investment options. The concern was raised, however, that when saving is mandatory, both employers and employees may not be as actively engaged, which often means governments are required to play a larger role in countries with these compulsory systems.

Panel 3: The Role of Investment Funds in Retirement Savings

PANELLISTS

Philip Lin, *Moderator,* Vice President and Director of North Asia Region, T. Rowe Price International

Michael Falcon, Managing Director and Head of Retirement, J.P. Morgan Asset Management

Andy Lin, CEO, China Universal Asset Management Co., Ltd.

Pauline Vamos, CEO, Association of Superannuation Funds of Australia

In this session, panellists discussed how investment funds, such as mutual funds, are playing a significant and expanding role in helping retirement savers prepare for the future. They explained how this role springs from the key advantages that investment funds broadly offer investors: diversification, transparency, professional management, cost efficiencies, and a wide range of investor protections that are embedded into a robust regulatory framework.

The panellists also noted that the role of investment funds in retirement saving is not identical in every country, due to varying approaches to retirement policies. For example, the needs arising in a public, compulsory DC system like that of Australia or Hong Kong may differ considerably from those in a private, voluntary arrangement, such as the 401(k) system in the United States.

Panellists also talked about how investors benefit from innovative investment options, such as target date funds. In addition, funds can provide choice and flexibility for investors, often through investment solutions that are tailored to their needs. For instance, in Australia, DC system participants can choose from a variety of portfolio types—balanced, high-growth, or other options—as well as portfolios concentrated in a single asset class, such as cash or equities.

Finally, panellists discussed how funds will be an important tool for policymakers worldwide as they contend with massive demographic shifts and other challenges in the coming decades.

Panel 4: Governance of Retirement Systems and Investment Fund Regulatory Oversight

PANELLISTS

Susan Gordon, *Moderator,* Partner, Deacons

Michel Canta, Deputy Superintendent of Private Administrators of Pension Funds and Insurance, Superintendency of Banking and Insurance, Peru

George Ding, CEO, HuaAn Funds, HuaAn Asset Management Ltd.

Darren McShane, Executive Director, Regulatory and Policy, Mandatory Provident Fund Schemes Authority, Hong Kong

In this last session of the conference, panellists discussed the need for fund companies to be aware of the regulatory environment, oversight issues, and potential roadblocks that funds might face in the countries where these companies seek to offer their products. In particular, fund companies need to appreciate that the regulatory constraints imposed on investment products largely stem from the political and socioeconomic pressures that regulators face when structuring or making changes to national pension systems.

Against this backdrop, panellists discussed investment-choice considerations, as well as pension reform and coverage. For example, in Hong Kong, where there are 469 funds available through the MPF system, the MPFA is worried that investors have too much choice, causing confusion and results-chasing. Consequently, regulators are exploring ideas about default arrangements that reduce the complexity and range of choice while lowering fees.

At the same time, regulators in Latin America are looking at broadening the range of investment asset classes available to investors—a new approach for a region where investment choice had been relatively limited.

In addition, pension systems in Latin America are going through a number of reforms. As panellists explained, major restructuring in the Chilean system and significant reforms in Mexico and Peru have included efforts to expand system coverage, reduce fees, increase competition, broaden investments, examine the impact of gender on benefits, and focus on the importance of financial education.

Conclusion

Countries, governments, employers, and individuals worldwide are facing long-term retirement savings challenges. In response, many countries are reforming their retirement systems and implementing DC systems that fit the unique history, culture, and needs of their regions. ICI Global believes that funds—as part of DC systems—can be an important part of these reforms and ultimately play a significant role in these countries to ensure a more secure retirement for their populations.

35 New Broad Street
London EC2M 1NH, UK
+44 203 009 3100

Suite 1606-08, Chater House
8 Connaught Road
Central Hong Kong
+852 2910 9224

www.iciglobal.org