Stephanie Ortbals-Tibbs, ICI Director, Media Relations: Welcome to Focus on Funds, the Investment Company Institute’s weekly roundup of industry news, ICI activities, and research findings.

This week we’re reporting again from Paris, and the special event that ICI Global organized with the Organisation for Economic Co-operation and Development [OECD]. The head of their private pensions division, one of the world’s foremost experts on retirement savings, was kind enough to stop by and share with me his key insights and takeaways from the dialogue.

Pablo, as a global expert on private pension provision, I’m curious what you heard in today’s dialogue that was particularly interesting and important.

Pablo Antolín-Nicolás, Head of Private Pensions Unit, OECD: Well, what I heard today and I was very happy to hear from experts from different countries that we sometimes all believe have different systems, but at the end of the day the message is the same, is that first, we have pay-as-you-go public systems and funded private pensions that complement each other very well and when we look at the whole retirement system, we need to look at both of them together. The interesting thing was to see that in countries like the U.S. or in countries like Chile or the Netherlands or Denmark and Canada, or other countries, you have both interacting and complimenting each other; so for high-income people normally you can see in most countries
that it is the private pension, the fund that provides them the main source to finance their retirement, and it’s the public system that tries to make the law to the middle income to have enough to finance retirement. And that interaction of how both, kind of, buffers and help each other is the same in every country. The difference is the degree between them. About whether you are talking about the U.S., or Chile, or Australia, or Denmark, or Sweden—it’s the same idea. So that, I think, was quite interesting. The second aspect that I think was important to highlight is that then you need to design these funded private pensions, which was the second part of the session, according to this and take into account the overall picture that I just described. And then you set up contribution rates, contribution periods, the default investment—where you’re going to have the default payout, whether you have annuities—take into account this overall picture. This is essential because we need to have efficient systems that at the end of the day do what they should do, which is to deliver good retirement income for individuals.

Ortbals-Tibbs: What was also really interesting to hear from so many different countries was that they continue to be really fluid, flexible, responsive about their global retirement savings provision, adjusting their plans to respond to what they see working or not working.

Antolín-Nicolás: Yes, that’s an interesting thing because we have been working at the OECD in the Committee of Private Pensions and Insurance, and also in the Working Party on Private Pensions and together with International Organisation of Pension Supervisors, so basically what we have there is regulators and policymakers from pensions and insurance systems in different countries and supervisors, we have been discussing what works, and what doesn’t work in different countries, but also take into account the context because it’s not only what
works, it’s under which conditions it works. And during the years we have been developing some kind of roadmap of the kind of issues that we all agree is important to look at and how it should be designed. Obviously, with some flexibility because the conditions are different in different countries, and seeing, as you say, in this conference that it’s still in flux, that they are still analyzing the system, and getting into the roadmap, and getting into the improvements that we have discussed, it’s something that makes us very proud because at the end of the day, what the OECD does is to put together in a room people from different countries with different experiences to share them and learn from that experience.

**Ortbals-Tibbs:** So OECD in its role as a dialogue informer, an information provider, has also put out a new report that a lot of asset managers are probably going to want to pick up. What’s out from OECD?

**Antolín-Nicolás:** Well, the OECD is releasing today a new report on business and finance, and obviously the main theme going through this report, well the report tries to bring together the real economy and the financial economy and one of the things that we have learned over the last tough seven years is that you cannot look at both things separately. They really interact and affect each other. So, the report what it does is to bring these two together but it focuses on the current environment of low growth, low interest rates, and what impacts it has. As a person who has been participating in the launch and the preparation of this outlook, there is one issue related to the Working Party on Private Pensions that is clear to us, which is what is the impact of this low growth, low interest rates on pension funds, and life insurance. And what we argue in one of the chapters is that the impact is quite important. For example, if we are talking about promises that life insurance provides in the world of pensions like annuities, or promises that
define contribution pension plan promises, well, there is a problem there because those promises might not be able to be fulfilled in the current environment. And to discuss whether the current environment should be changed at the pension policies of the central bank, I argue at the end of the day well, if you look at interest rates and low growth, it has been going on for a long time. It is true that the central bank has been implementing policies that have led to a further lowering of interest rates, but that’s not a cause. Pension funds, insurance companies, pension systems, what they have to do is to learn to manage this situation, and there are strong challenges. And those challenges and some potential solutions and policy options to address those challenges as well, we discuss in the Pension Outlook and I encourage everybody to read it to find out some of those solutions.

Ortbals-Tibbs: That’s this week in funds. See you next week.