

Investment Company Institute
2015 ICI Global Retirement Savings Conference:
The Role of Public and Private Pension Provision

Key Takeaways from the Global Retirement Savings Conference

Steve Utkus, Principal, Vanguard Center for Retirement Research: One thing definitely is this notion that you can't describe a retirement system purely in terms of its components, but you have to think holistically. You have to think about the social insurance component, you have to think about the occupational—whether it's mandatory or voluntary—system, and you have to think about individual savings. I think that's a well-established principal in pensions, but it was a continuous theme of the conference as we went from country to country. That you couldn't look in isolation at the system whether it's defined benefit or defined contribution—the occupational workplace system. You had to look at the holistic system. I think that was a very important idea.

It's interesting we have countries at very different levels of economic development, levels of resources, different social and political philosophies and, yet, there does seem to be a consensus that the social insurance pillar, the state-managed pension financed with general tax revenue, is critical to poverty reduction. So a number of countries introduced those sorts of pensions to support low-wage workers who could not successfully save in a savings-oriented defined contribution system. That seemed to be a universal observation from country to country. Now, some countries have very generous first pillars and they confuse wealth accumulation and savings accumulation with social insurance objectives. It's hard to distinguish

those but I thought that was a really important, if you will, global consensus on the importance of the first pillar.

One of the common misperceptions at forums like these is that some experts focus solely on Social Security because that's the government finance program and some experts only focus on the 401(k) system and the fact that it covers just over half of workers, and so they don't look at the two and how they complement one other. And I think today's forum did a good job at educating others about the US system, as well as for the US representatives to learn about what's happening in other countries.

There's a big debate in retirement plans between defined benefit and defined contribution and he offered a framework which I thought was really useful: to think about the functional components of a plan that you like. For example, in DB plans, they're great for pooling costs and risks, but DC plans are great because of transparency and portability, and clear ownership rights. And so this notion that, we should really—as we think about designing retirement systems—pick from a menu of choices. We shouldn't pick DB or DC, but we should think of elements of each that we want to incorporate into future designs of a system.