GFIA
GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

Older and wiser

Solutions to the global pension challenge

May 2018

About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 40 member associations the interests of insurers and reinsurers in 61 countries. These companies account for 87% of total insurance premiums worldwide, amounting to more than $4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.

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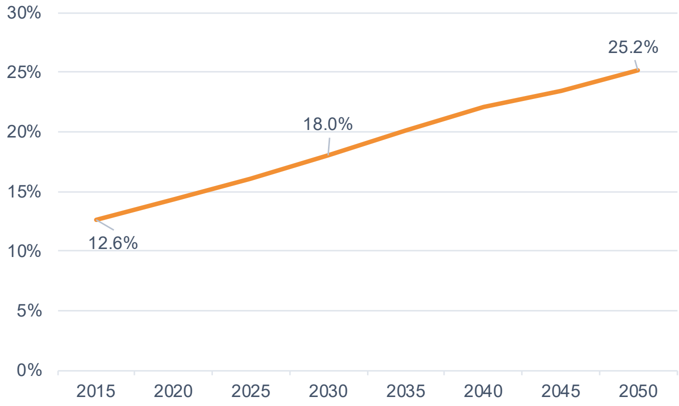
Introduction

The pension gap

The world is experiencing an unprecedented demographic transformation brought about by declining birth rates and rising life expectancy. Together, these trends are leading to a dramatic increase in the ratio of retirees to workers in many countries and increasingly aged populations even in "young" nations[1]. By 2030, there will be 18 people aged 65 and over per 100 working-age people and by 2050 the global old-age dependency ratio is projected to rise above 25 retirees per 100 working-age individuals (see Figure 1). More retirees to be supported by each person of working age will have profound implications for the sustainability of national statutory pension systems, which are traditionally funded on a pay-as-you-go (PAYG) basis.

Figure 1: Ratio of retirees to workers is increasing



Source: "World Population Prospects 2017", United Nations

If nothing is done, the "greying" of the population across the world will lead to a widening gap between the social security contributions collected and the pension payments, thus increasing the burden on public finances. Across the countries of the Organisation for Economic Co-operation and Development (OECD), public pension expenditure is expected to rise substantially despite the impact of recent reforms, with the average increasing from 9.5% of GDP in 2015 to 11.7% in 2050[2] (see Figure 2).

1 "World Population Ageing", United Nations, 2015
2 "Pensions Outlook 2014", OECD

Figure 2: Estimated government pension payments as % of GDP — 2015 and 2050

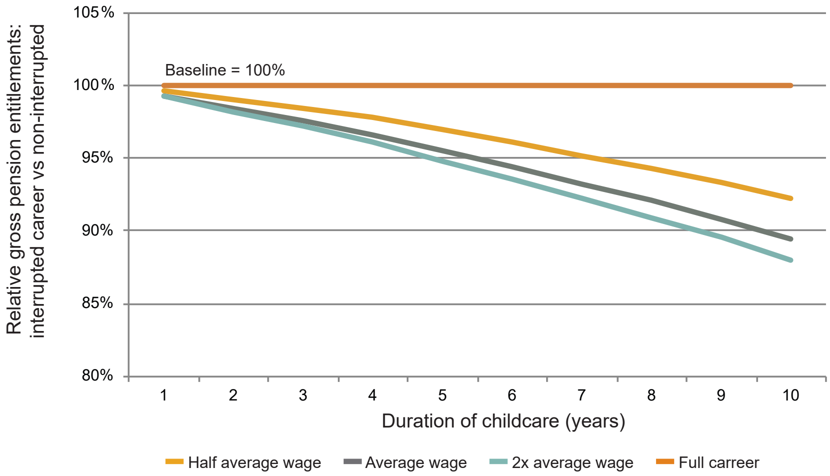
Source: "The Coming Pensions Crisis", Citi, March 2016 (OECD and Citi research)

In addition, it is increasingly common that people start their working life later and have career interruptions. This has an impact on the way they contribute to — and the ultimate size of — their pension from occupational schemes. According to the OECD, a worker on an average wage who delays entry into the labour market by five years will reduce their pension entitlement by an average of 6%[3]. Likewise, on average across OECD countries, a woman on an average wage who interrupts her career for five years to care for her children would lose around 4% of her pension income (see Figure 3).

Labour markets in developed countries are also characterised by a shift from traditional employment relationships to other forms, such as self-employment, temporary employment or part-time employment. At the same time,

3 "Pensions at a Glance 2015", OECD

Figure 3: Impact of career breaks for childcare on future pension entitlements at different earnings levels — OECD average



Source: "Pensions at a Glance 2015", OECD

almost half of all workers in emerging countries are still in vulnerable forms of employment, and almost four out of five workers in developing countries are in this employment category[4] (see Figure 4).

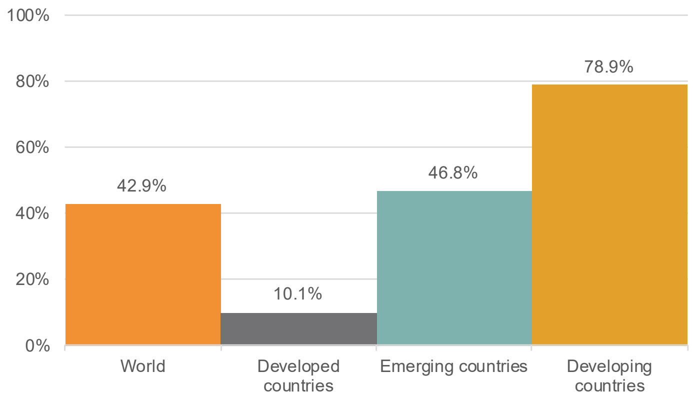
Workers in these more "vulnerable" forms of employment can be subject to lower levels of security, in the sense that they often have limited access to social protection schemes and to occupational pension schemes. In 2013, 52% of employees in 111 countries surveyed by the International Labour Organization were affiliated to a private pension scheme, compared with 20% of the self-employed[5] (see Figure 5). Nearly 80% of employees with a permanent contract were contributing to a pension scheme, compared with just 51% of employees with temporary contracts (see Figure 6). This clearly demonstrates that fewer self-employed and temporary workers are saving through funded pension schemes than more traditional, full-time workers.

Furthermore, economic volatility is reducing the willingness of employers to maintain traditional workplace pension arrangements.

4 "World Employment and Social Outlook: Trends 2017", International Labour Organization, January 2017
5 "World Employment and Social Outlook 2015", International Labour Organization, May 2015

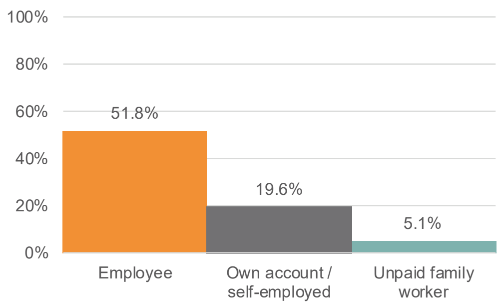
GFIA therefore strongly recommends that policies to foster private pension saving by all citizens are put in place to ensure that people save enough for retirement.

Figure 4: Vulnerable employment rate — 2016



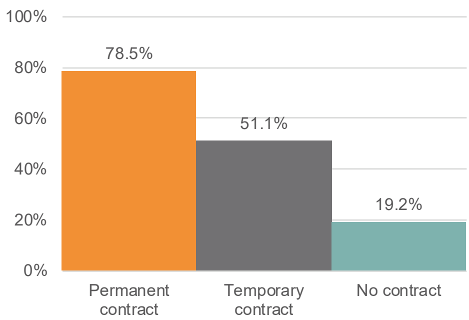
Source: "World Employment and Social Outlook: Trends 2017", International Labour Organization, January 2017

Figure 5: Effective affiliation to old-age pension schemes in 111 countries — 2013



Source: "World Employment and Social Outlook 2015", International Labour Organization, May 2015

Figure 6: Proportion of employees/total employed contributing to a pension scheme in 111 countries — 2013

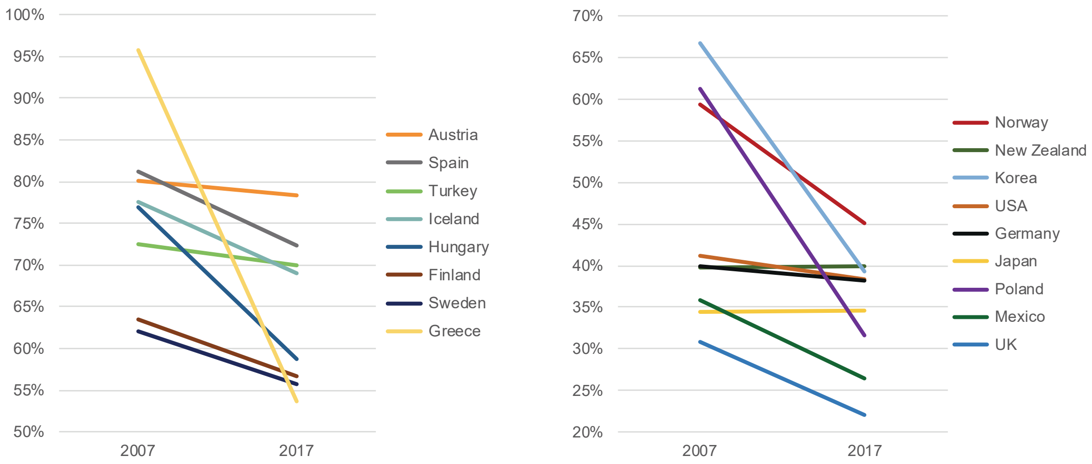


Source: "World Employment and Social Outlook 2015", International Labour Organization, May 2015

The need to promote private savings

Most countries have already engaged in reforms to increase the resilience of their public pension systems to risks resulting from demographic changes or macroeconomic shocks. Reforms include automatic adjustment mechanisms and/or raising the retirement age. While such reforms have generally proven to be effective, they have also resulted in lower expected replacement rates and less adequate future pension benefits (see Figure 7).

Figure 7: Gross replacement rates for workers on average earnings in selected OECD countries — 2007 and 2017



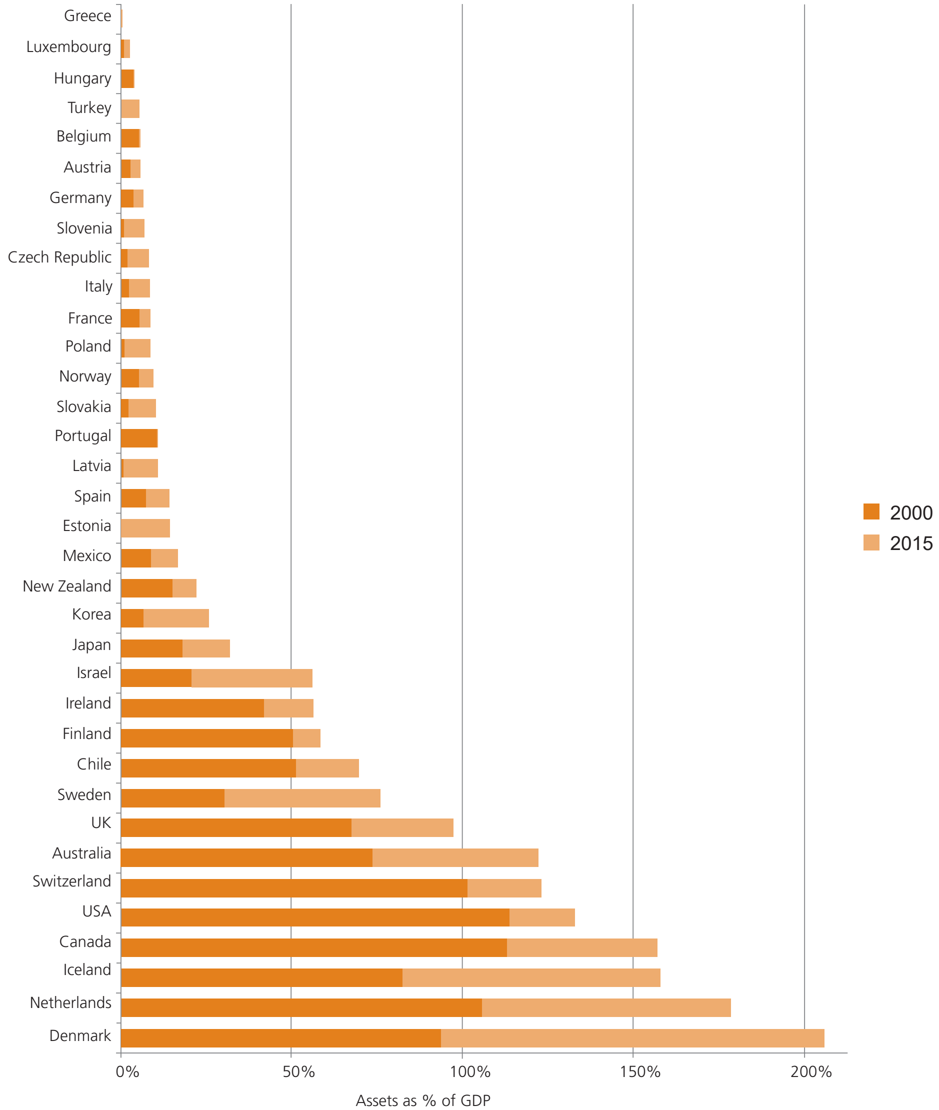
Sources: "Pensions at a Glance 2007" and "Pensions at a Glance 2017", OECD

As the OECD stressed in December 2016[6], citizens need to take personal responsibility and contribute more and for longer periods if they are to have an adequate income in retirement. The amount of private pension saving, however, varies significantly between countries[7] (see Figure 8). Facilitating individuals' ability to pre-fund their retirement would reduce the inappropriate shifting of the costs of ageing between generations through PAYG systems and public debts.

GFIA believes that governments around the world should further foster funded pensions alongside traditional PAYG systems to bolster multi-pillar pension systems.

6 "Pensions Outlook 2016", OECD
7 "Pension Markets in Focus 2016", OECD

Figure 8: Total assets in private funded pension arrangements — 2000 and 2015



Source: "Pensions Outlook 2016", OECD

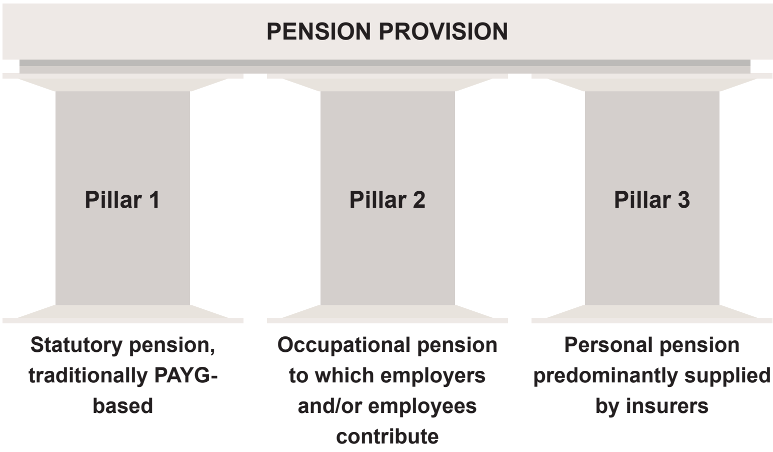
Multi-pillar systems complement statutory retirement income (generally referred to as **first pillar**) with funded private pension pillars:

- A **second pillar**, or occupational pensions, consisting of funded pension arrangements (schemes) linked to a work contract or an occupational activity. These are generally set up by employers at either company or sector level, often with some involvement of employees or employees' representatives. In some countries, the self-employed can access this type of product. Occupational pensions are mostly provided by financial institutions such as life insurers or pension funds.
- A **third pillar**, or personal pensions, consisting of voluntary retirement savings. These are products that individuals can access on a voluntary basis. Personal pensions are predominantly provided by insurers.

Multi-pillar pension systems are widely seen as the most effective way to ensure the sustainability and adequacy of retirement provision. This is due to the fact that they have the significant advantage of diversifying risks, since the factors that mostly affect the first pillar (labour market dynamics, demographic changes and public finances) are not fully correlated with those that affect the second and third pillars (changing financial returns, market volatility and inflation).

The design of multi-pillar systems is key. To be successful, the pension pillars must reinforce each other and have clear roles and objectives (eg poverty prevention or income replacement).

Figure 9: The three pension pillars



The role of life insurers

GFIA is convinced that life insurers, as major providers of occupational and personal pensions, have to be an integral part of any multi-pillar system. The flexibility and responsiveness of the insurance sector means that insurers are able to offer a wide range of pension and insurance products tailored to the cultures and needs of different markets.

Traditional insurance pension products play a key role in pension provision because they are based around the principle of providing a minimum return guarantee and/or using risk-sharing mechanisms such as collective pooling (see Figure 10). In addition, there may be restrictions on early surrender or other appropriate mechanisms to balance the interests of the remaining insurance collective against those of early leavers. This allows insurers to invest long-term and spread risks across many different investors and across time. In doing so, they can smooth their investment returns and aim to provide all pension savers with returns in line with the long-term market average.

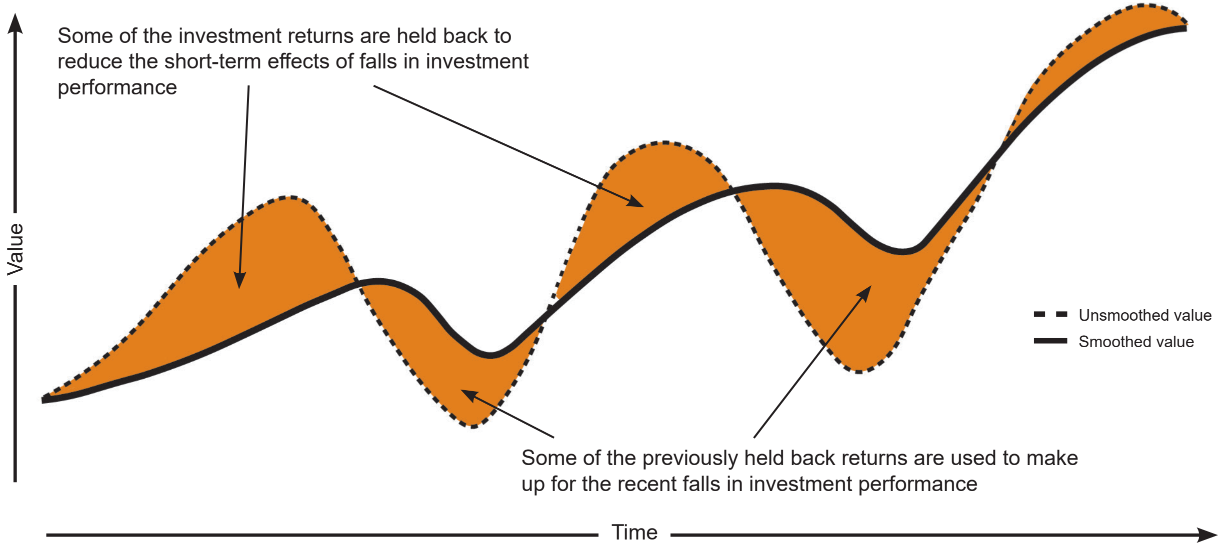
Insurance pension products also pool biometric risks, in particular longevity risk, which is the risk that pensioners live longer than expected and use up all their savings before they die. Through pooling, the risk is shared across those who live longer than expected and those who die earlier than expected, so everyone gets an income for their entire lives. Other biometric risks can also be covered by such products, either as a standard feature or as optional additional cover. These include provision if a saver or beneficiary dies prematurely (mortality risk) and protection if savers lose their income due to illness or accident and are unable to pay contributions due to invalidity (morbidity risk).

Insurers use their experience of investment management, pension administration and customer service to offer other investment services, such as possibilities for individuals to invest in funds during the accumulation phase.

Last but not least, insurers provide annuities and other products that offer guarantees to policyholders in retirement. The investment returns available when the consumer buys the annuity will, together with life expectancy, determine the guaranteed income that the insurer is able to provide. New developments[8] have led to the introduction of hybrid products that can provide the security of an annuity (with guarantees on the capital and/or income) with flexibility in how it can be accessed. Both annuities and various hybrid options are examples of tools that can help to ensure that citizens benefit from a reliable income stream throughout their retirement.

8 “Life Annuity Products and Their Guarantees”, OECD, December 2016

Figure 10: Return smoothing through collective mutualised investment products



Source: Legal & General

Policy recommendations

Recommendation 1: Stimulate the uptake of private pensions

THE PROBLEM

Statutory pension systems alone cannot adequately provide for the retirement income of their citizens (declining pension generosity problem). Their coverage is also challenged by the rise of new categories of atypical workers. Such workers tend to have more limited access to occupational schemes than traditional, full-time employees (pillar 2 coverage problem). Furthermore, such workers are less likely to have access to social protection systems and public pension systems, especially in emerging countries (pillar 1 coverage problem).

To improve the sustainability of pension systems, the adequacy of pension incomes and the pension coverage itself, more people need to save into supplementary pension arrangements. A high level of participation in funded pensions is also a crucial prerequisite to achieving the scale necessary for a strong, funded pension system. It is therefore essential for policymakers to increase the attractiveness of funded pensions and ease access to them in order to facilitate their uptake and achieve higher coverage. (Offering attractive products is, of course, a key responsibility of providers.)

Enrolment systems

Governments should choose enrolment systems that ensure the widest uptake and coverage, taking into account the design, role and institutional capability of their statutory pension system (eg primarily poverty relief or income replacement).

Different models exist around the world:

- hard compulsion, or mandatory participation for all or some categories of people
- soft compulsion, such as auto-enrolment
- voluntary participation, based on individual choice

These are typically applied to the second pillar, but may also be appropriate for third-pillar personal pensions.

Auto-enrolment encourages participation, but still allows individuals to make choices, such as opting out. It aims to overcome people's inertia and make it possible to achieve the critical mass necessary for economies of scale, while avoiding the constraints of hard compulsion.

From studying auto-enrolment schemes in six countries — Canada, Chile, Italy, New Zealand, the United Kingdom and the United States — the OECD identified several elements that must be carefully selected to achieve the success of any automatic enrolment scheme[9]. These include the target population, the opting-out window and re-enrolment process, contribution rates and incentives. Communication and education campaigns accompanying the launch of a scheme are likewise important.

DO

- Adopt enrolment systems that achieve the largest uptake, taking into account a country's overall pension structure.

Tax configurations

Governments should adopt tax configurations that incentivise citizens to save for the long term.

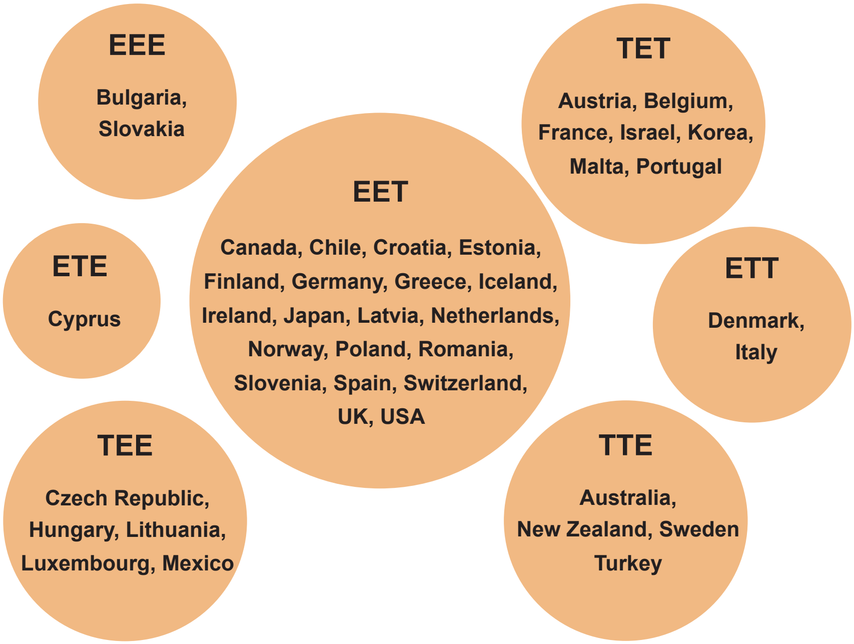
The tax regime is one of the key ways in which countries can incentivise citizens to save for their retirement. Tax incentives are also an essential tool for encouraging the necessary transition from a pension system featuring exclusively a PAYG, statutory pension system to a multi-pillar arrangement based in part or entirely on occupational and personal pensions.

Saving through a funded pension scheme entails three possible stages of taxation: the contributions, the investments and the income withdrawal at retirement age. This means that the taxation of funded pension schemes can take any of eight configurations depending on whether each of these stages is subject to taxation (T) or exempt from it (E).

9 OECD Pensions Outlook 2014 — Chapter 4: Increasing private pension coverage and automatic enrolment schemes: Evidence from six OECD countries

Among those eight, the “exempt-exempt-taxed” (EET) configuration in particular aims to encourage the early engagement of pension subscribers. It means that the contributions and investment income are exempt from tax, but that the benefits are taxed. Out of 35 OECD countries, 18 apply a variant of the EET regime to funded private pension plans[10] (see Figure 11). It will typically have the net effect of lowering average taxation over the course of a lifetime, as people will usually pay a lower marginal rate of tax in retirement than they do when they are working. Younger savers, in particular, benefit from EET because of the non-taxation of accrued interest (investment income). Last but not least, EET has the advantage of providing the government with tax revenue when it needs it most, ie when people start to claim their statutory pension.

Figure 11: Tax treatment of retirement savings in private pension plans in OECD and EU countries



Note: Main pension plan in each country

Source: OECD and GFIA

10 “Stocktaking of the tax treatment of funded private pension plans in OECD and EU countries”, OECD, 2015

It is also vitally important that tax incentives remain stable, so that citizens have confidence in the fiscal treatment of their pension savings and to build trust in the pension system. It is equally crucial that tax incentives are clear and easy to understand and that they incentivise citizens to save for the long term, thus accepting to postpone consumption.

Last but not least, policymakers should bear in mind that traditional tax incentives may provide little or no benefit to most lower-income individuals. In addition to traditional tax incentives, specific incentives for low-income individuals are therefore desirable. Flat-rate public subsidies, for example, significantly increase the overall tax advantage for low-income individuals[11].

DO

- Have in place appropriate tax schemes that incentivise long-term savings for the purpose of retirement.

DON'T

- Frequently change tax regimes for private pensions.

Awareness-raising

Governments should work together with the industry to raise awareness of the need to save early and enough for retirement.

National governments should be encouraged to provide every citizen with clear and accurate information about the expected value of their statutory pension benefits. It is particularly important to demonstrate the effect of decreasing statutory pension levels on individual retirement income. Showing someone what they can expect in retirement — and so clearly demonstrating their own potential pension gap — can encourage them to save more. Life insurers are keen to work with national governments to draw people's attention to the fact that they need to save (more) for their retirement and need to take responsibility for financing their retirement. Insurers are also ready and willing to work with governments to articulate what a good retirement outcome looks like, based both on a consensus on what a pension is for and on a definition of what minimum standard of living is acceptable.

11 OECD Pensions Outlook 2016 — Chapter 2: Does the tax treatment of retirement savings provide an advantage when people save for retirement?

Policymakers should make the most of the opportunities offered by digitalisation, notably by promoting national tracking services and dashboards.

There are many examples of national initiatives aimed at raising pension awareness:

- The Belgian pension tracking system, “mypension.be”, provides information on all statutory and occupational pension arrangements in Belgium.
- “PensionsInfo”, for which the Danish insurance association (F&P) has been running the secretariat since its launch in 1999, is a comprehensive tracking tool allowing each citizen to access an overview of their entire pension entitlement in all pillars. Through this service, pension providers can also flag dormant pension rights to individuals and prompt them to check whether it would be profitable to transfer the funds to a new scheme. The tool also shows related insurance cover.
- In Japan, a comprehensive tracking tool managed by the Japan Pension Service, a government-affiliated corporation, enables all the citizens enrolled in the statutory pension to track their payment records and have an overview of their estimated annual benefits after retirement.
- In the Netherlands, “mijnpensioenoverzicht.nl” provides individuals with information on their first- and second-pillar pensions.
- The Swedish pension tracking system, “Minpension.se”, was established in 2004 as a subsidiary of insurance association Insurance Sweden. It gives individuals a full picture of their current total pension rights and savings in all three pillars. They can also receive a free estimate of their total future pension.
- The Association of British Insurers (ABI), on behalf of the wider UK industry and with the sponsorship of the UK Treasury, is managing the proof of concept for the technical infrastructure to deliver online services that will show customers all their pension entitlements together in one place. Known as the Pensions Dashboard, the prototype was demonstrated in March 2017.
- In the US, the Social Security Administration makes benefit statements available online with estimates for retirement, disability and survivor benefits. Paper statements are mailed to workers aged 60 and older three months before each birthday.

DO

- Provide every citizen with clear and accurate information about the expected value and/or replacement rate of their statutory pension benefits.

Digitalised distribution

Policymakers should embrace the opportunities offered by digitalised distribution.

It must be as easy as possible for individuals to access long-term savings products to fund their retirement. Without hindering or incentivising one channel more than another, all ways of distributing pension products should be possible, providing convenience and freedom of choice. In particular, people should be able to purchase products online as easily as by other means.

DO

- Leave it to citizens to choose the form in which they receive their pension information.

DON'T

- Make delivery of printed documents mandatory.
- Oblige pension distributors to have a face-to-face interview with potential pension subscribers.

Recommendation 2: Empower consumers

THE PROBLEM

Demographic challenges and reforms to statutory pension systems make individual responsibility for retirement provision more vital. It is more important than ever before that citizens understand their responsibility to save more and make plans for their income in retirement — and that they start to do so from an early age and have the ability to take informed decisions.

Financial planning is something that is very easy to put off. There are always more enjoyable, preferable or seemingly more urgent things to spend one's income and time on. Getting people to think far ahead about their retirement pension needs is hard and is affected by several behavioural biases (fear of loss, procrastination and risk aversion, but also over-confidence). Moreover, individuals are often not sufficiently aware of how their pension system works and many realise too late that their statutory pension will not be enough to ensure an adequate standard of living.

The level of financial literacy is low in most countries, including developed ones[12]. Individuals generally lack an adequate understanding of finance and financial products. And individuals may believe that they are far more financially literate than they are. A crucial element in equipping people with the skills to make informed decisions is thus to ensure that there is sufficient financial education.

Financial education

Governments should implement national strategies to foster financial education.

Policymakers must ensure that there is sufficient financial education to empower individuals to plan and manage their financial future. National strategies are needed to promote financial education and literacy from an early age and to support the work being done by insurers in this area.

Across the world, insurers are playing a key role in promoting financial education and boosting financial literacy. These efforts by the industry should be complemented by measures by policymakers to ensure there is adequate financial education.

12 "Financial Education in Europe — Trends and Recent Developments", OECD, April 2016

Here are just a few examples of the insurance industry's many pension-related initiatives that span all life stages from childhood to retirement:

- The Austrian insurance association (VVO) has developed a board game called "Less risk — more fun" that has been distributed to schools all over Austria. Young people learn through play to assess and be aware of different risks at different stages in their life and to learn how to minimise them. Raising awareness of the need for private pension provision is included.
- In 2016, the Spanish insurance association (UNESPA) launched a four-year campaign called "Estamos seguros" (We are insured/safe/sure) comprising a broad range of actions to raise public financial awareness.
- The Life Insurance Association of Japan (LIAJ) is promoting financial education — with a particular focus on insurance to address the issue of lower insurance take-up by young workers — to ensure the sustainability of the social security system:
    - The LIAJ developed learning/teaching materials on insurance in the context of social security in 2017. The materials are to be used in junior-high and high school classes, and those for high schools were recognised as being some of the most effective materials by the National Institute for Consumer Education.
    - In 2016, the LIAJ made recommendations for fostering insurance education in schools, highlighting the importance of personal savings and the benefits of insurance.
- Finance Norway has developed a training programme in personal finance for 30 000 lower secondary school students. Questions about pensions feature in the programme.
- In the UK, the ABI is involved in a national campaign for greater financial awareness and education called the Financial Capability Strategy for the UK. It sits on the Financial Capability Board and the Retirement Planning Steering Group.
- In July 2017, the ABI released research into re-framing the benefits of saving into a pension. A consumer research agency was commissioned to look into new ways of talking about pensions so that consumers understand the benefits of saving into a pension, can compare the benefits with other savings vehicles and are ideally incentivised to save more.
- In 2016, the ABI published a pensions language guide called "Making Retirement Choices Clear", which seeks to remove jargon from the language about pensions. The consumer research work was developed in collaboration with providers of money guidance, consumer representatives, the industry, government, regulators and other stakeholders. ABI members are incorporating the guidance into their consumer communications.

DO

- Take the lead in the creation and promotion of financial education materials.
- Ensure that the materials are easy to understand, eg in the form of games for children.

DON’T

- Leave financial education to individuals.
- Hinder efforts by the private sector to provide financial education materials to citizens.

Pre-contractual information

Policymakers should ensure that pre-contractual information about pension products is meaningful, fair, clear and not misleading, in order to support consumers in choosing appropriate products. Information requirements should focus on quality rather than quantity.

However financially literate they are, people cannot make informed decisions unless they have sufficient, high-quality and appropriate information to enable them to compare and choose products. Ensuring the effectiveness of product information by simplifying disclosure requirements is vital if consumers are to compare products and select the ones that meet their needs.

Policymakers have a role to play in ensuring that pension and savings information is clear and consumer-friendly but also — and most importantly — is designed specifically for pensions. To have a clear and demonstrable benefit for consumers, pre-contractual information requirements should focus on quality rather than quantity. Too much information may prevent consumers from making good assessments and appropriate choices. Pension information must also be consistent over time to avoid negatively affecting consumers’ understanding of disclosures. Finally, any product information requirements must be future-proof and suitable for all current and potential distribution modes, be they on paper or digital.

The choice of whether to seek advice when buying a pension product should be left to the individual, as long as this is in accordance with national rules.

DO

- Focus pre-contractual information requirements on the quality of information rather than its quantity.
- Leave it to individuals to decide whether to seek advice when buying a pension product.

DON'T

- Restrict modes of information provision.
- Oblige pension providers to deliver duplicate information to subscribers.

Recommendation 3: Foster the efficiency of pension saving

THE PROBLEM

In light of the currently challenging economic and demographic conditions affecting statutory pensions, it is important that funded pensions are able to provide citizens with a good standard of living after retirement. However, future pension adequacy (ie the level of returns) depends not just on how much people save and how early they start saving. Adequacy also depends on consumers' asset mix and how the pension contributions can be channelled by providers.

Asset mix

Savers should be informed of the importance of the asset mix in achieving their goals for income in retirement.

Investing in a range of assets that includes equities and property can be as important as saving early and enough because of the very different long-term returns and diversification that are offered by the different asset classes. The long-term nature of insurance savings products allows insurers to include more illiquid and long-term assets in their portfolios, such as infrastructure and green projects. The natural and legitimate concerns many individuals have over the risks and volatility of certain asset classes can be overcome by taking a long-term approach, together with the traditional insurance techniques of collective pooling of risks and providing customers with the option to have a minimum return guaranteed.

DO

- Inform savers of the importance of their asset mix in achieving their retirement income goals.

Prudential treatment

Policymakers must ensure that consumer protection is achieved through the appropriate prudential treatment of long-term liabilities.

Insurers are the main providers of long-term savings and pension products, and policymakers should ensure that prudential regulations for insurers do not undermine this critical function. This means that the capital required for life insurance products should reflect prudent consumer protection objectives, but also that investments in long-term assets (eg infrastructure) should not be discouraged by regulation.

Policy measures that aim to protect retirement savers should be balanced and proportionate to the characteristics of the products to avoid undermining the availability of retirement savings products. Only if an environment exists that provides policy stability and ensures flexibility to innovate can insurers support the design of new products that meet consumers' needs and ambitions. It is also crucial that regulation is consistent between different types of schemes. For instance, in the UK, occupational and personal pensions are not regulated in the same way, which makes retirement solutions difficult to develop and manage.

DO

- Ensure there is adequate prudential regulation.

DON'T

- Impose excessive or inadequate prudential requirements on pension providers and/or pension products.
- Impose inconsistent rules between different types of schemes.
- Overestimate the liquidity risks for long-term investments and disincentivise long-term, illiquid investments.

Decumulation

Savers should be offered decumulation options suited to their needs and in line with national practices.

While building up adequate pension capital is crucial, the design of the pay-out phase plays a key role in ensuring individuals enjoy an adequate standard of living in retirement.

Pension decumulation practices and rules vary substantially across the world[13]. For instance, some countries require individuals to purchase lifetime annuities, while others allow different options such as lump sums,

13 "Forms of Benefit Payment at Retirement", OECD, 2008

programmed withdrawals or even a combination of different products. Pension decumulation needs to balance the right level of protection against the risk that people outlive their pension pots and the flexibility to allow access to funds if needed.

DO

- Ensure that, combined with other pension pillars, citizens have the income they need for a decent life in retirement.

DON'T

- Introduce measures that disincentivise citizens from covering longevity risks.

Life risks coverage

Savers should benefit from life risks coverage.

What marks insurers out is their ability to provide protection for very different life risks. These include protection against the risk that pensioners live longer than expected and use up all their savings before they die (longevity risk). They also includes provision if a saver or beneficiary dies prematurely (mortality risk) and protection if savers lose their income due to illness or accident and are unable to pay contributions due to invalidity (morbidity risk).

Life risks can be covered in both the accumulation phase and the pay-out phase.

DO

- Recognise the importance of pension providers offering pension products with mortality and morbidity risk coverage.
- Ensure that citizens are able to take up life risks coverage.

Innovation

Policymakers and insurers should work together to facilitate innovation and to ensure regulation does not discourage insurers from offering well-designed, long-term, tailor-made, collective pension products.

For example, annuity products offered within retirement plans can provide retirement savers with a broader range of pay-out options and the ability to achieve guaranteed income streams for life. Certain products, such as longevity annuities, allow savers to delay the age at which they start receiving pension benefits to help ensure their savings will last through retirement.

Satisfied customers, who have their needs and demands met, are the goal of the insurance industry and the foundation for a viable, long-term business model. The life insurance industry continuously strives to innovate and to enhance its products and services to meet consumers' constantly evolving needs and demands:

- The German insurance association (GDV) has developed and implemented, together with its members, a voluntary transfer agreement for funded occupational pensions when individuals switch employer (Übertragungsabkommen). Employees transferring their pension rights from the former employer's pension institution to the new employer's are not subject to a new risk assessment, if biometric risks are covered. Moreover, they are not charged anew with distribution costs. The agreement has proven successful in practice.
- In Denmark, several new hybrid life insurance products have been developed in recent years that combine a higher degree of investment freedom with a minimum level of certainty and predictability of future pension benefits.
- The Japanese life insurance association (LIAJ) held a symposium on the national social security and tax number system and released a recommendation paper in 2017, with a view to using the number system to enable insurers to offer innovative services, especially to elderly people in a significantly ageing society. If the improvement is properly implemented, more prompt and reliable insurance payments would be possible by verifying the safety and whereabouts of elderly customers through their national social security and tax numbers.
- In the Netherlands, since the September 2016 “Verbeterde premieregeling” Act, people with a defined contribution occupational scheme are able to choose between a fixed or a variable pension payment. This law provides the opportunity to prolong the investment period during the pay-out phase and thus to potentially receive higher benefits while also being covered for longevity risks. Since the introduction of this Act, Dutch insurers have developed variable annuities.

- Swedish defined contribution (DC) occupational pension schemes are normally member-directed; that is, the employee can choose the form of the savings and the fund manager. Designated providers under collectively agreed schemes (covering approximately 90% of the Swedish workforce) have to offer products that fulfil certain criteria stipulated by the social partners. The products can be unit-linked insurance, traditional life insurance or a combination and may therefore include risk-sharing and a guarantee. This means that, in spite of the fact that the scheme is DC, the designated providers may take risk over from the employee as a result of the product design.
- In the UK, innovation in the retirement market has made products more personalised and based on long-standing consumer preferences for both security and flexibility. The enhanced annuity market has grown substantially, using medical and lifestyle underwriting to allow people with a shorter life expectancy to secure a higher regular and guaranteed income. Hybrid products have been developed since pension changes were introduced in April 2015 to allow people to keep their pension invested and draw an income flexibly, while also guaranteeing some or all of their income or the amount invested. There are also new features to help people pass on their pension to beneficiaries. There has been innovation in how providers and advisers interact with customers, such as in the development of automated advice and other digital tools. A risk warning system to flag sustainability concerns to financial advisers is also an innovative product currently in use.

DO

- Incentivise providers to offer innovative products that respond to consumers’ needs.

DON’T

- Hinder pension providers’ innovation.
- Place unnecessary requirements on new schemes.

Summary of policy recommendations

GFIA's members can help to unlock the full potential of multi-pillar pension systems, with life insurers supporting governments' efforts to deliver adequate pensions to citizens. The insurance industry is a key source of the investment needed for economic growth and to fund the retirement of present and future generations. The sector is thus a major asset in tackling the upcoming challenges.

If insurers can fulfil their role in the right conditions, there is clear potential for a "triple win":

1

A win for citizens

They will benefit from adequate retirement income and biometric risk protection, even in times of major demographic challenges and less generous statutory pensions.

2

A win for governments

They can ensure the sustainability of their long-term budgets and at the same time make sure that their citizens enjoy decent living standards in old age.

3

A win for global growth

It will be significantly strengthened by insurers' long-term investments in the real economy.

While there is no single policy measure or solution that will fix the global pension crisis, GFIA's proposals overleaf — implemented widely and consistently — could help to reduce the pension savings gap.

Stimulate the uptake of private pensions

- Governments should choose **enrolment systems** that ensure the widest uptake and coverage, taking into account the design, role and institutional capability of their statutory pension (eg primarily poverty relief or income replacement).
- Governments should adopt **tax configurations** that incentivise citizens to save for the long term.
- Governments should work together with the industry to **raise awareness** of the need to save early and enough for retirement.
- Policymakers should embrace the opportunities offered by **digitalised distribution**.

Empower consumers

- Governments should implement national strategies to foster **financial education**.
- Policymakers should ensure that **pre-contractual information** about pension products is meaningful, fair, clear and not misleading, in order to support consumers in choosing appropriate products. Information requirements should focus on quality rather than quantity.

Foster the efficiency of pension saving

- Savers should be informed of the importance of the **asset mix** in achieving their goals for income in retirement.
- Policymakers must ensure that consumer protection is achieved through the appropriate **prudential treatment** of long-term liabilities.
- Savers should be offered **decumulation** options suited to their needs and in line with national practices.
- Savers should benefit from **life risks coverage**.
- Policymakers and insurers should work together to facilitate **innovation** and to ensure regulation does not discourage insurers from offering well-designed, long-term, tailor-made, collective pension products.

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