Asia-Pacific Economic Cooperation

APEC Business Advisory Council

APFF

Asia-Pacific Financial Forum

Key Messages

Retirement Income and Pensions

2015

Asia-Pacific Financial Forum
KEY MESSAGES: RETIREMENT INCOME AND PENSIONS

SUMMARY

Insurers and pension funds play important roles in financing the needs of individuals and households in the event of unexpected adverse events and after retirement. At the same time, they are important sources of long-term investment in capital markets and infrastructure. However, they face challenges in playing these roles, particularly the lack of appropriate financial instruments and enabling policy frameworks for pension funds and insurance firms to accumulate capital and expand their investment in the region, in addition to the need to further develop capital markets. Policies to widen access to retirement income are a challenge for economies in the region and for industry.

Successful retirement systems promote the movement of capital from short-term “bank-centric” investment into longer-term capital market and infrastructure assets, including real estate, catastrophic bonds, disaster- risk financing, private equity, and trade finance (particularly in support of SMEs’ financing needs).

APFF urges policymakers take immediate measures to develop the region’s retirement income systems and support the mobilization of such large pools of long-term capital into productive assets. This represents a “triple win” for consumers, the financial sector and APEC governments.

PROVISION OF RETIREMENT INCOME AND LONGEVITY SOLUTIONS

As the fastest aging region globally, Asia faces a unique set of challenges at individual, corporate and governmental levels. Despite having the highest global savings rate (currently estimated at US$6 trillion) and a growing middle class, Asia’s economies significantly lag behind in policy framework and regulatory incentives to facilitate retirement income and longevity solutions, and to deploy these assets into longer-term capital markets.

Retirement income systems rebalance the socio-economic resources to meet the challenges of an aging society. A successful retirement income system requires two sets of policy levers:

- **Ensuring adequate retirement savings** – facilitate consumer demand for solutions through e.g. mandatory provisions, tax measures, product design, consumer education, distribution channels
- **Ensuring adequate lifetime retirement income** – facilitate a supply of product solutions though e.g. developing capital markets, long-term investment, regulatory, accounting and risk management frameworks

Almost all APEC economies in the region have some type of retirement income system to cover a portion of its citizens and civil workers, but none of these systems currently provide adequate retirement income. There are many reasons for this including a lack of fiscal resources to expand coverage to most of the working population, or the lack of fiscal sustainability of providing adequate pensions. With low contribution rates to retirement savings mandated by legislation, some of these systems are simply inadequate. Others focus purely on retirement savings and do not have provisions for retirement income and longevity solutions, which are becoming increasingly important with increasing longevity across all APEC economies, declining fertility rates and decreasing dependency on children for financial support in retirement.

ENABLING INSURANCE AND PENSION INDUSTRIES’ FULL CONTRIBUTION TO REGIONAL DEVELOPMENT

The insurance and retirement savings industry, by the very nature of its liabilities, is a long-term business. It requires matching long-term liabilities of policyholders and retirement savers to long-term assets, particularly long-duration bonds, real estate, and infrastructure finance.

Successful retirement systems produce a fast-growing asset pool with a long-term liability nature and limited liquidity requirements over the medium term. These assets represent stable, long-term patient capital and the growth of institutionalized capital market investments encourages in turn a growth engine for economies' financial sectors including insurance, securities, and asset management.

Efforts to encourage or mandate retirement savings in emerging APEC economies offer the opportunity to break the vicious cycle of a lack of investable projects, underdevelopment of capital markets, and limited capacity to mobilize large pools of patient, long-term capital in the form of retirement savings that can also provide alternative means of disaster-risk financing. Mobilization of such large pools of long-term capital would represent a "triple win" for consumers, the financial sector and APEC governments.

RECOMMENDED ACTIONS FOR CEBU ACTION PLAN

- ***Promote the accumulation of long-term capital in pension funds through retirement income market reforms*.** This involves promoting both i) consumer demand for retirement savings as well as ii) wider access to and supply of retirement income products. To promote demand for retirement savings, governments should identify and adopt policies related to consumer education, tax measures, mandatory provisions, distribution channels and product design. To promote retirement income product supply, policy makers and the private sector should collaborate to ensure that this is supported by policy, regulatory and accounting frameworks related to capital markets, long-term investments and risk management.

- ***Identify and address regulatory and accounting issues that affect insurers' incentives to undertake long-term investment in infrastructure and capital markets*.** Regulatory issues include bank-centric regulations, short-term oriented economic regimes and one-size-fits-all models that do not fit different business models across the region. Accounting issues include those affecting asset-liability interactions that produce volatility in balance sheets and profit and loss statements, as well as issues related to complexity, consistency, transition and presentation of traditional long-duration contracts.

- ***Identify best practices in promoting private funds for equity investment in infrastructure, including those involving public-private collaboration*.** This involves exploring effective use of non-traditional financing vehicles[1] and collaboration among institutional investors, financial institutions and multilateral development agencies and private equity funds. One example of a partnership among parties including a multilateral agency, a foreign and local pension fund and an infrastructure asset management firm is the Philippine Investment Alliance for Infrastructure (PINAI), which is now investing in energy projects.

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[1] These could include infrastructure funds, business trusts, guarantees linked to government actions that impact commercial viability of projects, build-operate-transfer, securitization and co-financing with multilateral development banks.