AN IDEAL RETIREMENT SYSTEM: WHAT’S REQUIRED?

Improved outcomes require a tailored approach
There is no single solution to creating the best retirement system that will fit all countries. Countries must take into account their own circumstances:

ECONOMIC. CULTURAL. POLITICAL. HISTORICAL. CAPITAL MARKETS.

Proven fundamentals
There are common principles that countries can apply to their own circumstances to create better outcomes. The best retirement systems have the following:

A sustainable system needs scope to adjust the following:

- Mandatory contributions
- Level of taxation
- Eligibility requirements, including age

The Way Forward

TEN PRINCIPLES FOR AN IDEAL RETIREMENT SYSTEM

Mandatory contributions of at least 8% of earnings

A basic pension for the poor of at least 25% of average earnings

At least 60% of earnings net replacement rate for the median income earner

A strong regulatory framework that leads to improved governance and better protection for members

High coverage within the private pension system

100% funded assets for the future > 100% of the country’s GDP

A strong regulatory framework that leads to improved governance and better protection for members
Clear **objectives** for the whole retirement system, including the complementary roles of each pillar of income or financial support.

A multi-pillar approach allows for risk diversification and efficiency

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<td>A BASIC PUBLIC PENSION THAT PROVIDES A MINIMUM INCOME</td>
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A minimum level of **funding** for all workers with contributions by employers, employees, and the self-employed.

- **65%-80%**
  - An ideal income in retirement is 65-80% of an average revalued income
  - A lifetime approach to contribution limits rather than annual limits will allow people to be able to “catch-up” on their retirement savings when they can afford to provide this flexibility
  - Retirement savings need to include contributions from income replacement (i.e., sick/disability leave or parental leave as well as earned income)

Cost-effective and attractive **default** arrangement before and after retirement.

With the ability to make personal decisions in relation to
- The level of contributions, above the required minimum
- Investment choice, particularly for DC members
- The type and level of any life or disability insurance
- Retirement age
4. Administration and investment costs should be disclosed with some competition present to encourage fair pricing.

5. **Flexibility** as individuals’ personal and financial circumstances vary, and retirement will occur at different ages and in different ways across the population.

6. Benefits provided during retirement should have an income **focus** but permit some capital payments, without adversely affecting overall adequacy.

   Capital may be needed for a variety of purposes including:
   - Medical
   - Dental
   - Purchase of a car
   - Remodelling of the home due to a disability
   - Aged care facilities

   Between 20% and 40% should be able to be accessed during retirement years.

7. Contributions (or accrued benefits) at the required minimum level must have **immediate vesting**. These benefits should be accessible only under certain conditions, such as retirement, death, or permanent disability.
8 Taxation support from the Government in an equitable and sustainable way, providing incentives for voluntary savings and compensating individuals for the lack of access to their pension savings.

9 The governance of pension plans should be independent from the government and any employer control.

Trust and confidence is critical in any retirement savings system. Trust and confidence require good governance, strong regulation, consumer protection, cost-efficiency, good communication, access to education and advice.

All about communication

Pension plans within the ideal retirement system should communicate with their members in many ways and many forms:

- AN ANNUAL REPORT ABOUT THE PENSION PLAN
- AN ANNUAL BENEFIT PROJECTION PROJECTING THE LIKELY RETIREMENT INCOME

10 Appropriate regulation, including prudential regulation of pension plans and some protection for pension scheme members.

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