



FINANCIAL CONSUMER PROTECTION AND EDUCATION FOR RETIREMENT PLANNING

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1. THE OECD/INFE APPROACH TO
PLANNING FOR RETIREMENT

2. CHALLENGES AND NEED FOR
FINANCIAL EDUCATION
ON RETIREMENT ISSUES

3. SELECTED POLICY SOLUTIONS



1. OECD work on FE and FCP relative to pensions

Financial Consumer Protection (FCP)

- Through the **G20/OECD Task Force on Financial Consumer Protection**
- All G20+OECD+ FSB countries and relevant SSBs and IOs (including the IOPS)
- Work covers the all financial sector including pension
- High-level Principles on financial consumer protection include two key principles for pension:
 - **Disclosure (principle 4)**
 - **Redress mechanisms (principle 9)**

Financial Awareness and Education (FE)

- Developed since 2008 through the **International Network on Financial Education (INFE)**
- 113 economies, 260 public institutions
- IOs and SSBs are welcomed to become full/regular associate members of the INFE
- Work includes **important aspects related to pension awareness and education since the beginning**



OECD/INFE key areas of work

Framework : National Strategies
(high-level principles, publication, policy handbook)

Evidence & Methodologies

Financial literacy indicators
adults
youth (PISA)

Evaluation

Benchmarks :
Core competencies

Effective delivery

INFE Research Committee

Peer review

Practical guidance

Partnership & capacity building

Target audiences

Youth

Women

Migrants

SMEs

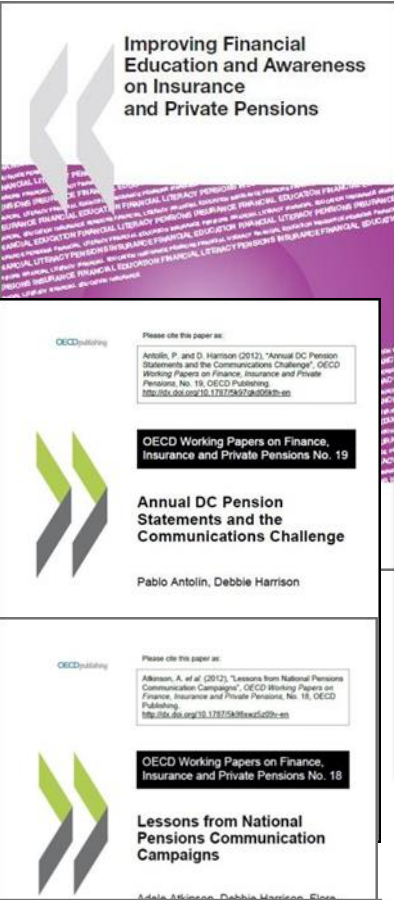
Vulnerable groups

Sectoral issues

Credit

Saving & investment

Pensions
Insurance



OECD work on retirement planning within the project on financial education

2005 OECD Recommendation on Principles and Good Practices for Financial Education and Awareness: stated importance of FE for retirement planning

2008 OECD Recommendation on Good Practices for Financial Education Relating to Private Pensions: identifying good practices

Supporting pension reforms and overall retirement planning is a key goal of many **national strategies for financial education**



Dedicated work stream and subgroup within the INFE :

Information

- Communication Campaigns
- Pension Statement

Financial education for retirement planning and care in old age

Long-term saving and investor education



2. The importance of retirement planning: *A consumers' perspective*

Essential

- as individuals are living longer

Part of broader household/individual plans

- involving various decisions and constraints (housing, health, labour)

Subject to policy changes often implying more responsibilities for individuals

- From PAYG to (private) funded system
- From Defined Benefit to Defined Contribution
- Changes in the pay out phase (lump sum, annuities)

Complex and long-term

- Involving financial concepts and trends, legal and tax framework
- provided by different stakeholders (possible trust issues)

... often perceived as uninteresting and irrelevant and therefore (very) challenging!



The challenges and their consequences

Low financial knowledge in general

Low level of risk awareness
including the impact of living longer

Low knowledge of pension systems
and reform

Present-biased time preferences

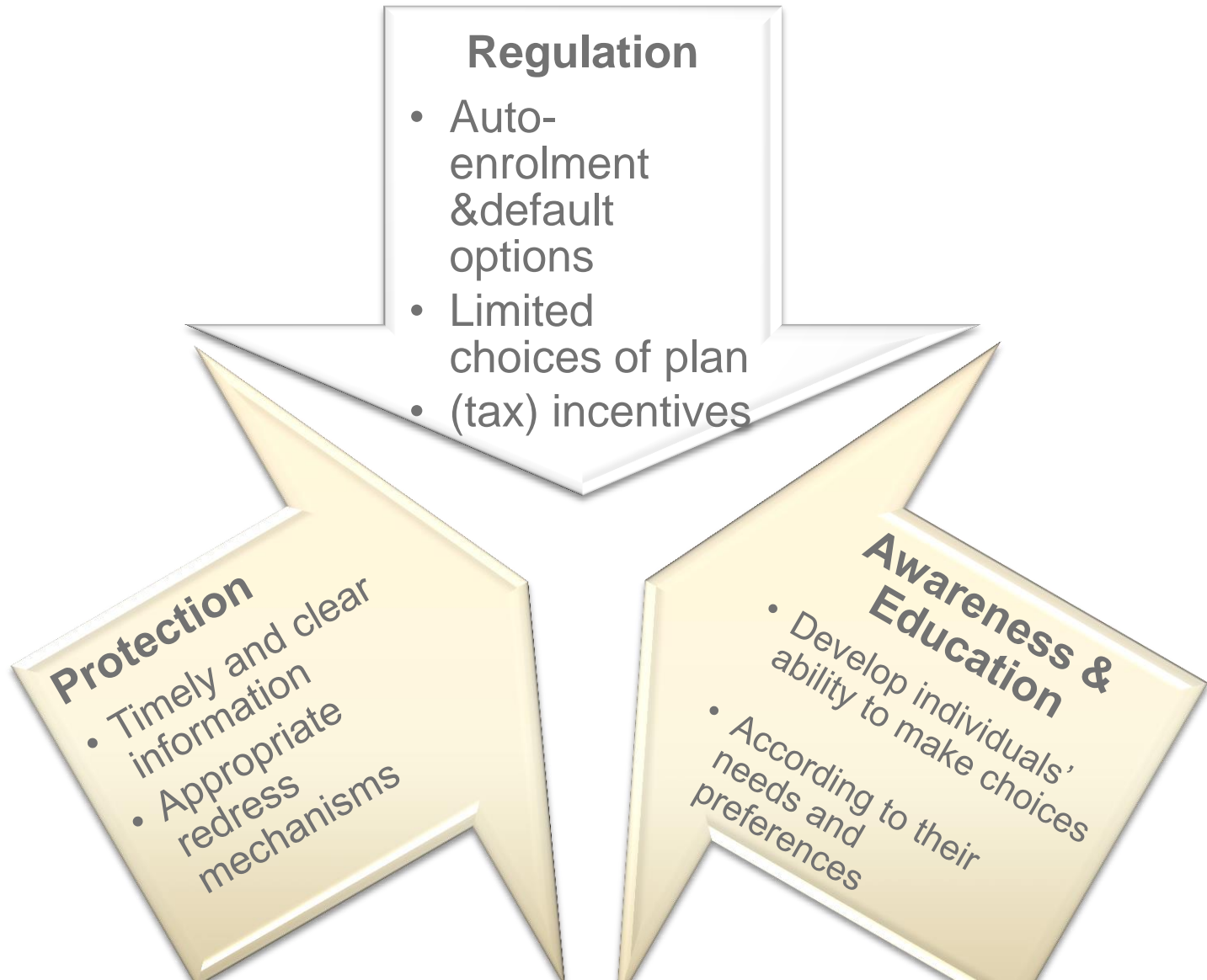
Loss aversion and status-quo bias

Limited attention and choice
overload

- ☐ Under-estimating retirement income needs and longevity
- ☐ Struggling to plan ahead
- ☐ Failing to take beneficial opportunities



Regulation, Protection and Awareness/Education should work hand-in-hand to address the challenges





What people may need to (possibly with help and advice)

Know and understand

- **Basic pension rules and any material changes**, about public and private pensions, including taxation and pay out phase
- An appreciation of **risks** related to pension systems, such as longevity, investment, inflation risk, etc.
- **Financial knowledge** concepts (compound interest, etc.)
- Basic numerical abilities



Do (depending on pension systems and individuals)

- **Estimate their retirement income needs** both in accumulation and payout phase
- **Take decisions** regarding participation, provider, contributions, investment allocation, when to starting to receive benefits, what pay-out option to take
- **Shop around**



A matrix of individuals' needs across different pension schemes

			RETIREMENT PLANNING CHALLENGES according to pension system characteristics								
			Public PAYG			Private					
			Non- contribut ory / Flat	DB earnings- related	NDC	Mandatory		Voluntary			
						Occupational		Personal	Occupational		Personal
						DB	DC	DC	DB	DC	DC
WHAT PEOPLE SHOULD KNOW AND UNDERSTAND											
Basic understanding of pension RULES, including public and private pensions rules, retirement saving taxation, rights and responsibilities related to pensions			yes	yes	yes	yes	yes	yes	yes	yes	
Basic appreciation of RISKS related to pension systems and retirement:	Demographic/longevity risk	no	yes	yes	some	yes	yes	some	yes	yes	
	Political risk	yes	yes	yes	yes	yes	yes	yes	yes	yes	
	Inflation risk	no	some	some	some	some	some	some	some	some	
	Investment risk	no	no	some	no	yes	yes	no	yes	yes	
Understanding of FINANCIAL KNOWLEDGE CONCEPTS relevant for retirement planning:	Inflation	no	yes	yes	yes	yes	yes	yes	yes	yes	
	Time value of money	no	yes	yes	yes	yes	yes	yes	yes	yes	
	Interest compounding	no	some	yes	yes	yes	yes	yes	yes	yes	
	Relation risk-return	no	no	some	some	yes	yes	some	yes	yes	
	Effect of costs and fees on capital	no	no	no	some	yes	yes	some	yes	yes	
Basic numerical abilities			no	yes	yes	yes	yes	yes	yes	yes	
WHAT ATTITUDES PEOPLE SHOULD HAVE											
Long-term orientation			no	yes	yes	yes	yes	yes	yes	yes	
Motivation and self-control			some	some	some	some	yes	yes	yes	yes	
WHAT PEOPLE SHOULD BE ABLE TO DO											
ESTIMATE THEIR RETIREMENT INCOME NEEDS both in accumulation and payout phase			yes	yes	yes	yes	yes	yes	yes	yes	
TAKE DECISIONS regarding:	Participation in a scheme	no	no	no	no	no	no	yes	yes	yes	
	Provider	no	no	no	maybe	maybe	maybe	maybe	yes	yes	
	Contribution rate/level	no	maybe	maybe	maybe	maybe	maybe	yes	yes	yes	
	Investment allocation	no	no	no	no	maybe	maybe	maybe	yes	yes	
	When starting to receive benefits	maybe	yes	yes	yes	yes	yes	yes	yes	yes	
What payout option			no	no	no	maybe	yes	yes	maybe	yes	
SHOP AROUND across providers/products both for contribution/accumulation and payout phase			no	no	no	maybe	maybe	yes	maybe	maybe	yes

Legend:

yes
maybe/some
no

darker colour means that there is a stronger financial education need
middle colour means that there may be a financial education need depending on countries' regulation and /or scheme rules
lighter colour means that there is a minor financial education need



3. Selected policy suggestions from a financial education/awareness perspective



Needs assessment

- Identify needs for financial education in the population (depending on national circumstances)
- including the needs of specific groups



Overall framework and directions

- Take financial literacy needs into account when developing regulation about private pensions
- Develop policies within a national strategy for financial education aimed at establishing basic financial literacy competencies early & in schools



Different stakeholders' roles in informing /educating

- Supervisor/public authorities - designing the system and making it intelligible to individuals
- Private stakeholders- implementing the framework in place
- A range of other players - disseminating messages in a consistent way



The role of financial education and its tools (based on OECD definition, 2005)

Information / awareness

Instruction

Advice

General information

Events/ awareness
campaign

Tools to compare
pension plans

Pension statements

Personal info
on demand

Calculators

Retirement planning
seminars

Non-retirement
financial literacy
training

Counseling / advice



The tools (1) :

More is done on information and awareness for now..
Likely because there is still room for improvement



Information

(including pension statement)

- Clear, not overwhelming, minimum jargon
- Comparable and standardised
- Combine information about pension schemes
- Combine general and personalised information
- Both unsolicited and on demand
- Complement personalised information with online calculator/simulator
- How to present projections remain a dilemma



Awareness

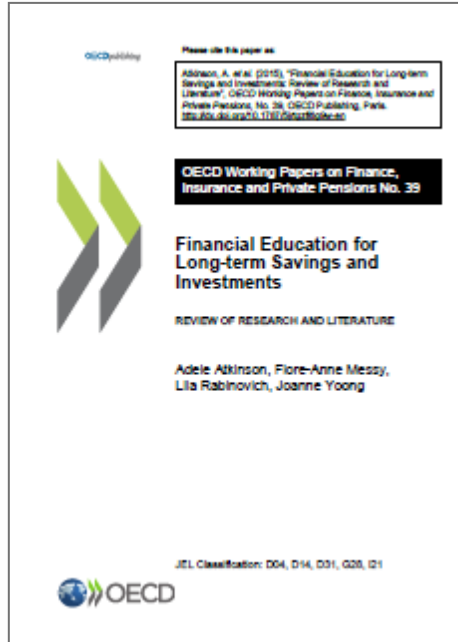
(communication campaigns)

- Plan (define the objectives, budget, evaluation)
- Avoid confusion between different stakeholders' messages
- Use multi-stage campaigns
- Segment your audience smartly
- Use innovation
- Harness media and other intermediate



The tools (2) :

Instruction and Advice are less frequently used:
These can be useful tools if well-designed



Enabling environments

- Harness the workplace (especially for low income groups)

Demand-driven

- Provide education when needed (reform)
- Life-cycle approach

Digital tools

- Tailored advice/warning : wider outreach and personalisation

Engaging initiatives and messages

- Computer stimulated image at the age of retirement
- not about « pension » but about future life opportunities

Priority target audience

- Beneficiaries of DC schemes, women, pre-post retired, low income, young adults, small entrepreneurs

Evaluation, monitoring and reporting
should be part of any initiatives





Selected current approaches

MoneyWise in the Netherlands organises a **Pension3Day** every year, involving over 250 partner organizations to raise awareness of pension issues among employers and employees

The Commission for Financial Capability in New Zealand created the Kiwisaver Fund Finder (fundfinder.sorted.org.nz) where users can **compare funds according to riskiness, fees, past returns, and services offered**

Information about a person's pension situation is provided both by **letter and online with standardised format across public and private pensions** in Denmark, Estonia, the Netherlands, Sweden, etc.

The Australian government set up the Financial Information Service, which provides free education and information to help people making informed investment and financial decisions. FIS also offers **free seminars covering retirement and pension topics**



Issues to consider given (persisting) low levels of financial literacy and complexity of pension issues



Pensions systems need to :

- **Be suitable** in providing an appropriate retirement income to the population (using default options and autoenrolment as necessary)
- **Simple enough** (possibly offering limited choices)



Transparency and communication
should be improved especially in the case of pension reforms



Well-designed financial awareness and education initiatives targeting pension issues can be harnessed :

- within a **national strategy** aimed at raising overall level of financial literacy
- as complementary tools to :
 - support **behavioral changes &**
 - Provide individuals with the possibility to **make informed choices**



THANK YOU

www.oecd.org/finance/financial-education

www.financial-education.org