The Long-Term Risks in Defined Contribution Plans
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The World Pension Alliance (WPA) is a collective organization made up of the main advocacy associations representing pension plans and providers in the World, including Europe, the United States of America, Canada, Latin America, and United Kingdom.

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As part of the World Pension Alliance (WPA) working plan for 2023–2024, we agreed to work on the topic of long-term risks in defined contribution (DC) schemes.

Occupational pension plans can take two primary forms: defined benefit (DB) and defined contribution (DC) (although it is perfectly possible to combine elements of both within 'hybrid' arrangements and other structures also exist). These plans differ in how pension benefits are determined and who bears the associated risks. **In traditional DB schemes**, employers bear the vast majority of the risks, while **in traditional DC schemes,** employees assume the entire burden. Between these two extremes, **various hybrid arrangements** exist, featuring different degrees of risk-sharing between employers and employees, which may be accompanied by certain guarantees.

Over recent decades, DC schemes have gained prominence globally. Latin America and Australia are predominantly DC-oriented. In Canada and the United States, DC schemes are increasingly important. The European pension landscape is also becoming DC-dominated as the Netherlands, the largest occupational European pension market, is currently transitioning from DB to DC schemes.

These shifts mark a significant change in the distribution of long-term risks, which now lie largely on employees. The main long-term risks include investment risk, longevity risk, inflation risk, operational risks, high costs, and knowledge gap. Given these changes, we find it important to delve into the topic of DC schemes and their associated long-term risks.

We gathered country-level information from the WPA members as part of this project.

We received 15 answers from Austria, Belgium, Canada, Chile, France, Germany, Italy, Mexico, Peru, Portugal, Romania, Spain, Switzerland, UK, USA.

You can find an overview of the answers received in the table below.

More details are available in the full answers. Please go to the annex here.

Country and association	**Types of schemes existing in the country (DB/ DC/ Hybrid/ Other)**	**Types of pensions represented in the membership** **Most prominent form of occupational pension provision in the country**	**Asset allocation in DC schemes and changes in the past 5 years** **Regulatory and legislative factors driving this change**	**Primary long-term risks for DC savers**
Austria *WKO*	DB schemes: Employer and employees' representatives agree on the pension and benefit to be paid to the beneficiaries. The contributions can change depending on ongoing events to ensure the guaranteed amount to employees. DC schemes: Contribution is either fixed or a percentage of the salary. The employer is only responsible for the contribution. Security pension: Since 2013, this has allowed DC pension fund members (but not beneficiaries) to switch to a conservative investment pool. This model guarantees that the pension will not fall below the value of the first monthly pension at the time it is first drawn and is adjusted for value every five years.	WKO represents pension funds (IORPs) providing occupational pensions. Mostly DC schemes in Austria.	Almost 100% of pension schemes are now DC.	They include: • Capital market volatility and uncertain performance of pension funds. • Inflation rate. • High actuarial interest rates (discount rates to convert DC capital into lifelong annuities).
Belgium *PensioPlus*	DC scheme: Pure DC is not allowed, but the ''Belgian'' DC model guarantees a minimum return. If at the end of the affiliation of an employee, the return does	PensioPlus represents pension funds (IORPs) that provide occupational pensions.	Almost 100% of pension schemes are now DC.	Insufficient contributions are the most important factor. They lead to inadequate income in old age.

	not match the guaranteed amount, the employer or sponsor must pay the difference. From an international perspective, these plans are technically DB.	85% of IORPs participants are in a ‘’Belgian’’ DC scheme.	Over the past 20-30 years, most new plans have been "Belgian DC" schemes. Since 2006, industry-wide "Belgian DC" arrangements have further increased the prevalence of DC schemes. Despite this growth, DC schemes generally have lower contribution levels, and the majority of AuM are still linked to DB schemes.	
Canada *Mebco*	Target Defined Benefit Schemes: • Primarily in the multi-employer sector, with contributions negotiated through collective agreements. • Benefits can vary based on funding status and legislation. • Predominantly found in private sector (union-negotiated) and public sector plans. Defined Contribution Schemes: • Typically for single-employer schemes . Registered Retirement Savings Plan (RRSP): • Alternative or addition to DB/DC schemes.	MEBCO’s members primarily participate in DB-target pension plans. MEBCO also represents DC schemes."	There is no significant change in the negotiated public and private sector areas, though some single-employer schemes are closing and transitioning to DC or RRSPs.	Investment risk is linked to ensuring sufficient retirement income and managing longevity risks. While DC schemes include locking-in provisions and lifetime annuities, the key issue is how funds are managed during the working years

	• It has less regulation than DB and DC schemes do.			
Chile *FIAP Internacional*	1st pillar: Means-tested social assistance pension (Universal Guaranteed Pension, PGU), financed by general taxes. 2nd pillar: A mandatory privately managed DC system based on employee and employer contributions with individual accounts (with freedom of choice of funds by members, who are assigned to a fund according to their age if they do not choose) managed in competition by the Administradoras de Fondos de Pensiones (Pension Fund Managers, AFPs) and supervised by a specialised regulatory entity. Third pillar: A voluntary DC pillar. There is competition among AFPs and other offering entities.	Ooccupational pension provisions in Chile are mainly based on individual capitalization. Withdrawals are permitted only upon retirement and if the pension meets a specific threshold relative to average earnings. Social security contributions are deposited into individual accounts managed and invested by AFPs (pension fund administrators). Pension amounts are directly correlated with personal savings efforts. The system offers flexibility with a free choice of AFPs and pension fund types, fostering competition among providers and diverse investment options.	The rise of DC schemes in Chile began with the introduction of the mandatory individual pension system. The reform replaced the pay-as-you-go and DB system with the individual capitalisation system to achieve several objectives, including ensuring financial sustainable, etc.	They include: • Work cycle risks: The pension savings accumulated in individual accounts depend directly on factors such as the level and stability of income, periods of employment, unemployment, and type of employment throughout a worker's career. Unexpected periods without contributions can significantly impact the ability to finance adequate pensions. • Longevity risk: DC savers face the risk of outliving their retirement savings due to unchanged contribution rates and retirement ages in Chile. • Investment risk: The performance of pension investments in DC schemes is subject

				to market conditions, investment decisions, and economic factors. While AFPs have historically achieved strong average real returns, risks arise from members making frequent, uninformed changes to their investment strategies. • Regulatory changes: Changes in pension regulations or policies can introduce uncertainty and impact retirement benefits. For instance, emergency withdrawals during the COVID-19 pandemic affected pension savings levels.
France *CTIP*	Collective DC: Group insurance contracts done by employers for employees (€200 bn of AuM in Q1 2023). Individual DC with guarantees: Personal insurance contracts for self-employed (€40 bn). Pure DC with individual investment choice: For employees with auto-enrolment (€30 bn).	Collective pension funds and group insurers are managed by social partners. €200 bn are in collective DC and €30 bn in funded DB.	1st pillar PAYG system represents 98% of pensions in France. IORPs have been growing since 2019, following their authorisation to operate in France.	AuM are mostly allocated in public bonds and not in the real economy.

	Funded DB: Group insurance contracts for executives (€30 bn).			
Germany *Aba*	Pure DB scheme (Leistungszusage): The employer carries investment and biometric risks and is fully responsible for the promised pension. Hybrid scheme (Beitragsorientierte Leistungszusage (boLZ)): The employer promises to convert a fixed volume of contributions into an entitlement to a pension. Hybrid scheme (Beitragszusage mit Mindestleistung (BZML)): The employer commits to providing a pension with a guaranteed minimum benefit based on the contributions made. This type of scheme shifts investment risks and opportunities to the employee, with the assurance of a minimum benefit. The exact pension amount is determined only when the pension event occurs. Collective pure DC scheme (Reine Beitragszusage (Sozialpartnermodell)): Collective pure DC where guarantees are not possible. There is no choice of investment for members and beneficiaries, and it can only be established via collective agreements.	While exact numbers are unavailable, the following points offer an overview: • BoLZ was introduced in 1999, BZML in 2002, and Sozialpartnermodell in 2018. • Before 1999, all occupational pensions in Germany were pure DB, which continues to influence the current member and beneficiary base. • Hybrid models have become standard since their introduction. • Before mid-2024, the German government is expected to propose a reform bill on occupational pensions, likely easing access for employers without collective agreements to adopt existing Sozialpartnermodelle,	The Sozialpartnermodell entered into force in 2018. Before this, DC occupational pensions did not exist in Germany. The first two pure DC schemes in Germany were established only in late 2022, with a third one following in 2024. This number is anticipated to rise. However, DB and hybrid schemes will continue to dominate the German market.	• Longevity risk • Information gap for savers: During the saving phase, members of DC are uncertain about the eventual size of their pensions The German collective DC helps mitigate these effects.

		thereby increasing their prevalence.		
Italy *MEFOP*	Pure DC schemes: They feature individual accounts with member-chosen investments, established through sectoral collective agreements, mainly for automatically enrolled members. While some options offer guarantees, they primarily rely on member choice. DC schemes dominate the market. DB and hybrid schemes only make up a small share.	Mefop represents both occupational and personal pensions. In Italy, DC schemes are the most important both in terms of members and AuM.	/	Pension adequacy
Mexico *FIAP Internacional*	Means-tested social assistance pension (Universal Guaranteed Pension, PGU) financed by general taxes. A mandatory privately-managed DC system based on employee and employer contributions with individual accounts managed in competition by the Administradoras de Fondos para el Retiro (Retirement Fund Administrators, AFORE) A voluntary DC pillar (to complement the second pillar)	The primary form of occupational pension is based on individual capitalisation. Funds can only be withdrawn upon retirement, with social security contributions deposited in individual accounts managed by AFOREs. Pension amounts depend on individual savings efforts. The system allows for free choice of AFOREs and pension funds' types.	There has been an increase in DC schemes over the last five years due to the 2019 pension fund reform and the transition to Target Date Funds (Siefores Generacionales). Currently, SAR's AUMs represent around 19% of Mexico's GDP and are expected to grow due to mandatory contribution increases (15% by 2030).	• Work Cycle Risks: The amount of savings in an individual account at retirement depends on factors like remuneration levels, periods of employment, unemployment, inactivity, and employment types (formal, informal, independent). There is a risk that workers may experience many months without contributions, negatively impacting their pension levels. • Investment risk: The performance of the Siefores' investments depends on several external and internal factors. A risk arises when members make frequent and

				unfounded changes of investment funds Also, because of the lack of experience and the implementation of good practices of specific managers and intermediaries at the (relatively) new asset classes. Low interest rates at retirement can also pose a challenge, as they can affect the conversion of accumulated balances into a sustainable pension income.
Peru *Fiap Internacional*	Non-contributory safety-net and earnings- related contributory component: It provides a modest benefit to individuals in extreme poverty. The earnings-related pension is mandatory for all formal workers in Mexico and includes both public and private systems operating in parallel. The public system (SNP) is a defined-benefit PAYG system managed by the public sector. Private system (SPP) is a defined-contribution system managed by the private sector. Workers must choose between the SNP and SPP; if no preference is expressed, they default to the SPP. AFPs must offer four	The most prominent form of occupational pension provision in Peru is based on individual capitalisation, with the almost the 70% of affiliations in the SPP for over the SNP. Employers have the responsibility to provide relevant information to workers. In the SPP, the amount of pension received is directly related to the individual's savings effort.	Yes, the SPP has increased asset allocation since the mandatory individual pension system By the end of 2019, the four AFPs managed 23% of GDP. There is a growing asset allocation. During the COVID-19 pandemic, the government mandated several rounds of private pension withdrawals. From 2020 to 2022, six extraordinary withdrawals were approved, representing half of the pension system's assets and about 10% of GDP. Despite the end of the health emergency, Congress	In Peru, the main long-term risks for savers in DC and DB schemes are: • Work cycle, informality, and illegality risks: The highly informal labour market, where 71.1% of the population is working, impacts pension coverage. As a result, the SNP is facing financial imbalance. • Longevity risk: Increasing life expectancy and declining fertility rates pose long-term challenges for both DB

	investment and the system allows for free choice of AFP and pension fund type. Contributions are not mandatory for formal self-employed workers, but they can choose to contribute to either system voluntarily Special contributory pension schemes exist for specific occupations. SPP workers can also make additional voluntary contributions to their accounts.		mandated a seventh withdrawal in 2024.	and DC systems. The contribution rate has not increased since 1992, and mandatory contributions were reduced in 2015. • Inflation risk: The private scheme offers various pay-out options with life annuities that include indexed payments. However, the public PAYG system lacks pension indexation to inflation or wage growth. Without indexation, the future replacement rate could drop to 9.9%. • Structural risk: Peru has kept both public and private pension schemes due to political and fiscal pressures. This dual system faces challenges from the informal labour market and lacks a full transition to a private system, despite financial imbalances in the PAYG system.

				- Investment risk: The performance of the SPP depends on investment strategies amid market volatility and economic/political events. - Operational risk and cost: The AFP have implemented a centralised system that collects contributions and centralises other common administrative tasks. This platform, managed by the AFP for the private system, demonstrates the advantages of such an approach to increase administrative efficiency, at lower cost According to the OECD (2019), this type of platform could be extended to manage contributions also for the public sector.
Portugal *APFIPP*	DB schemes Pure DC schemes with individual investment options	APFIPP represents both open and closed pension funds.	The shift is not recent.	Inflation risk: It reduces purchasing power and harms pension adequacy.

	DC with some element guarantees: Only a few in Portugal			
Romania *APAPR*	2nd pillar: DC schemes with some investment options and a net capital guarantee. 3rd pillar: DC schemes with some investment choices. Some funds have a net capital guarantee like in the 2nd pillar.	APAPR represents all pension arrangements in Romania. They are all DC.	/	Pension adequacy: Contribution rates are too low. (4.75% of gross income in the 2nd pillar and 2-2.5% in 3rd pillar).
Spain *Inverco*	Most schemes are DC in Spain.	Inverco represents 2nd and 3rd pillar pension schemes. Most of them are DC schemes.	/	They include: • Inflation • Market fluctuation • Massive reimbursements prior to the expected investment horizon, (i.e. In Spain, due to the incorporation of a legal gate, as of 2025, members will be able to reimburse contributions with at least 10 years of seniority. • Legislative changes: The government has limited the contributions to the 3rd

				pillar to a maximum of € 1.500.
Switzerland *ASIP*	DB schemes: The benefits are predetermined and based on the salary. DC schemes: The benefits are based on the accrued contributions. "1e" pension schemes: These schemes offer greater flexibility in managing the extra-mandatory portion of employees' pension contributions. Currently, they are not widespread, but legislative changes could increase their popularity.	ASIP represents mostly DB schemes, including ''1e'' pension schemes.	/	/
United Kingdom *PLSA*	DB schemes - Final Salary (most closed to new entrants but some open). Career Average Schemes (mostly in public sector). DC – DC Trust Schemes, Master Trust Schemes, Group Personal Pension Schemes, Individual Personal Pension Schemes. Hybrid - Collective Defined Contribution Schemes. The Royal Mail Scheme is currently the only	PLSA's members represent defined contribution, defined benefit, master trust, and local government pension schemes. DC is now the most prominent form of occupational pension provision by scheme membership. The LGPS remains the largest scheme by assets under management.	The main reasons are: • People are living longer but are not retiring later. • Long-term investment returns on pension funds are projected to fall. • Pension funds are now less tax advantaged.	• The main issue is pension adequacy, as low minimum contribution rates may lead to insufficient retirement income. • The flexibility savers have with their pension savings (e.g., 25% tax-free lump sum, drawdown, annuity), which exposes them to complex decisions and risks, and they may not

	CDC scheme in the UK and is a single employer scheme.		• The value of benefits has increased because regulations have imposed higher minimum standards, leading to higher costs. • DC schemes are also cheaper than traditional final salary DB schemes. • Auto-enrolment is another factor. It began in 2012.	be supported well enough in their retirement planning.
USA *NCPERS*	• DB schemes in the US are mostly funded. • DC schemes are mostly pure DC. • A limited number of hybrid schemes exist, mainly in the public sector – these plans combine elements of DB and DC schemes. • In the U.S., DC schemes are dominant, especially in the private sector. • There are marked differences in the type of scheme available to workers in private and	Pension schemes in the public sector are mostly DB schemes. In a few jurisdictions, DB pensions were converted into DC schemes, but they have either been converted or are trying to convert back into a DB scheme.	• DC assets in the U.S. have grown from $8.9 trillion in 2019 to $9.9 trillion by Q3 2023. • This growth is mainly due to a decline in labour unions. • Another factor is the shift from manufacturing to service industries. Companies in struggling sectors, which traditionally offered DB plans, faced economic challenges, while service sector	• Hidden fees that financial institutions charge to maintain DC accounts. • The lack of expertise and knowledge among DC savers to manage their investments. • During tough economic times employees and employers may cut back on their contributions to DC plans.

	public sectors. For example, about 69 % of private sector workers have access to a DC scheme. In the public sector 92 % of workers have access to a DB scheme. • About 58 million workers (about 37 % of the workforce) do not have access to a retirement plan.		companies that usually offer DC schemes grew. • Increased administrative burdens and costs from funding, reporting, fiduciary requirements, and accounting changes, along with volatile employer contributions, have led most private sector employers to abandon DB for DC schemes.	

Country and association	National measures to manage long-term risks in DC schemes and / or best practices from members of the association	Initiatives to inform members and beneficiaries about long-term risks and other types of communication strategies	Responsibilities and obligations of sponsors in DC schemes
Austria *WKO*	There has been a slight shift towards long-term and illiquid assets, e.g., real estate housing assets.	The pension funds must comply with the European Directive for Institutions for Occupational Retirement Provision II (IORP II) and their requirements on communication.	They include: • Paying contributions for the employees to the pension fund on time. • Sharing information about their employees and plan members to the pension fund. • Communication responsibilities to and with members in which pension funds support employers.
Belgium *PensioPlus*	The government aims to increase contributions to sector-wide pension plans to at least 3% of salary, but this goal has not been met for now. Due to the Belgian legal minimum investment return, the investment risk for participants is limited and covered by additional employer funding.	Employees have no investment choice, so communication on long-term DC risks is less important.	Paying the minimum investment return of the ‘’Belgian’’ DC scheme.
Canada *Mebco*	• DC scheme benefits must provide lifetime retirement income, with benefits passed to the spouse upon the member's death.	This is done through general education of scheme’s members. Mebco’s DC members are committed to educating their	CAPSA’s guidelines cover: • Providing enough investment options and oversight of DC asset managers.

	• Members may have the option to unlock funds for non-retirement purposes, which can impact retirement income and household security. • Some DC schemes are managed on a master trust basis, allowing lower fees through collective investment management. • Assistance in the decumulation phase, including professional advice at reduced fees, is available in some schemes. • Most Canadian jurisdictions permit variable benefits from DC schemes. • CAPSA (Canadian Association of Pension Supervisory Authorities) and other regulators have issued guidelines for DC scheme management.	members on all aspects of their DC scheme.	• Practices for automatic enrolment, fee review, and conflict of interest management. • Guidelines for providing variable benefits.

Chile *FIAP Internacional*	The measures implemented are: • Life-cycle investment: This allows members to choose based on age and risk tolerance. • Gradual expansion of authorised investment instruments and portfolio diversification. • Regulation of pension advisors: Previous lack of oversight led to large changes in investment portfolios affecting members negatively. • Pension options: Various pension modalities are offered, including programmed withdrawals and lifetime annuities. • Pension estimation tools: Simulators help members estimate pensions and the probability of achieving a pension goal. Pension fund administrators have also strengthened educational and guidance services. • Payment of pension contributions for unemployed affiliates.	Key initiatives and strategies existing worldwide: • Transparency and education: Increasing member understanding through transparent information about risks, investment options, costs, and potential outcomes empowers individuals to make informed decisions in DC systems. • Quality of service comparisons: Many countries publish comparisons of service quality among pension providers, allowing members to assess factors such as performance, fees, and services offered. • Pension advisors: In Chile, independent pension advisors provide information to affiliates and beneficiaries, assisting them in making decisions aligned with their needs. • Pension estimation and simulators: Administrators provide members with	Employers in DC schemes must ensure timely payment of pension contributions to pension fund managers (AFPs) and provide detailed payment information to ensure compliance with pension regulations. Employers do not directly govern, members choose the managing entity. Governance rules and investment structural limits are regulated by law. In voluntary pension plans, employers may negotiate with administrators on schemes, services, and administration costs for their staff.

	• Regulatory oversight: The *Superintendencia de Pensiones* ensures compliance, transparency, and accountability within the pension system. • Risk management: Pension funds incorporate processes to manage investment and operational risks. Best practices from other countries include: • Transparency and education: Empowering members through transparent information and educational resources about pension schemes, investments, and risks. • Diversification in asset allocation. • Default investment allocation. • Expansion of contribution bases beyond employers to reduce periods without contributions during members' working lives.	reports estimating future pensions under various assumptions, along with pension simulators. • Communication strategies: Implementing diverse communication strategies tailored to member characteristics and preferences throughout their working lives enhances understanding and decision-making capabilities. • Quotation systems: Establishing systems to compare pension amounts, their evolution, and associated risks and costs helps members evaluate decumulation options effectively There is a trend LATAM towards establishing digital systems in which relevant information is delivered to different pension providers so that, in a competitive environment, they can provide their pension offers to members who are retiring.	

	- Longevity risks: Evaluating options for pooling longevity risks among retirees and introduce longevity insurance to enhance retirement security. - Robust regulatory framework: Implement strong oversight and regulatory mechanisms to safeguard pension savings and ensure system stability.	Thematic reviews and inspections: Regulatory authorities conduct reviews and inspections to ensure pension funds have robust risk management processes in place.	
France CTIP	Risks are mitigated through the funds directly (e.g., UCITS).	Information on risks and returns is provided to members.	
Germany *Aba*	The German collective DC model: - Social partners are involved in the risk management process. - Sponsors must pay an additional security contribution to avoid pension fluctuations. - The German supervisor is involved in the setup and operation of these schemes.	The current requirements are based on the IORP II Directive. There are additional legal provisions on the information requirements of the *Sozialpartnermodell.*	The only obligation of sponsors is to pay the contributions. The law on the *Sozialpartnermodell* provides possibilities for sponsors to pay additional contributions to address some DC risks (as agreed in the collective agreements). The implementation and control in the Sozialpartnermodell are done by the social partners.

	• Pension schemes must define investment options based on members' retirement needs.		
Italy *MEFOP*	Pension schemes must define investment options based on members' retirement needs. When a member joins the scheme, a questionnaire is sent to advise on the best option, but the members are the ones making the final decision. Disclosures are done through standardised pre-enrolment documents and pension benefit statements. The supervisor website also provides information on the costs of investment options and net returns.	Each pension scheme has its communication strategy. For example, in 2022 when interest rates rose, pension schemes informed members that the fund operates on a long-term basis. Data from the supervisor proved this communication to be effective.	/
Mexico *FIAP Internacional*	Several measures have been implemented to manage long-term risks in DC schemes. • Estimation of pension amounts and risks: The National Commission of the Retirement Savings System (CONSAR) has made available to affiliates a calculator that allows	Some examples of initiatives and strategies include: • Transparency and education mechanisms on DC pension systems. • Quality of service comparisons: In Mexico, CONSAR evaluates AFOREs to enhance	They include the timely payment of pension contributions to the AFORE. Sponsors do not have a direct role in governance as the choice of managing entity is made by the member. They are also not involved in selecting the entity that manages the pension funds within the DC scheme.

	them to estimate pension amounts and the probability of achieving a certain pension goal with voluntary contributions. • Regulatory oversight: The National Commission of the Retirement Savings System (CONSAR) supervises the pension system. • Life-cycle funds: In 2019 the regulator established ten different Target Date funds to diminish exposure to risky assets. • Risk management processes: Pension funds incorporating risk management procedures. • Gradual expansion of authorised investment instruments of the investment regime to improve diversification and reduce investment risk.	service coverage and quality, encourage voluntary savings, and promote the registration of new accounts. • Pension estimation: Pension fund administrators must provide members with statements. They also offer pension simulators to members.	The regulation establishes that the largest proportion of contributions is made by the employer.
Peru *FIAP Internacional*	In Peru, some measures have been implemented to manage long-term risks in DC schemes. These measures include:	Key initiatives and strategies include: • Financial education programmes	Sponsors (employers) have several key responsibilities and obligations regarding pension affiliation. They must:

	• Multi-Fund investment: The AFP are required to offer four different investment funds with varying risk profiles. • Guidelines for the design of the investment policy: The Superintendency of Banking, Insurance, and Private Pension Administrators establishes the global investment policy for the SPP portfolio. Each investment manager is responsible for the preparation of the investment policy, which must be evaluated and approved in consideration of the guidelines above. • Retirement modalities and advice: In SPP individuals have three options (where a combination of choice can also be possible) with the assistance of an advisor. • Regulation oversight: The SPP is regulated and supervised by the SBS and is the only pension provider that is regulated. The SBS is independent and has	• Digital platforms and mobile applications • Personalised communication: Quarterly and annual reports provided. • Awareness campaigns: AFPs use mass media and social media to highlight the importance of planning for the future and understanding pension fund investment risks. • Personalised advisory services: Direct guidance on managing pension funds and mitigating long-term risks is provided through meetings with financial advisors, webinars, and Q&A sessions.	• Provide information on available affiliation options. • Assist with the affiliation process, including supplying forms and helping employees with completing documents. • Facilitate employee contributions to the pension system, including automatic salary deductions for mandatory contributions and providing information for making voluntary contributions independently.

	regulatory, supervisory and sanctioning powers. To adopt the best international practices and effectively mitigate long-term risks in DC schemes, some key strategies stand out: • Pension education: The AFP Association promotes the professional and technical development of young people by providing a digital platform. • Pension simulator: AFPs have implemented pension simulators, allowing affiliates to project their future pensions and make informed financial decisions. • Transparency: AFPs in Peru offer detailed information on account balances, returns, contributions, and other relevant aspects. • Regulatory framework: Peru's legal framework for corporate governance promotes transparency, independence, and competence.		

	• Governance principles: The board of directors and CEO of banks, insurance companies, and AFPs are responsible for implementing best practices in corporate governance.		
Portugal *APFIPP*	Life cycle strategies are a best practice.	/	They must pay the contributions.
Romania *APAPR*	The industry is facing extensive regulations regarding investment and capital requirements, along with guarantees.	/	An individual model where the beneficiaries are the sponsors.
Spain *Inverco*	Some governmental measures include: • Investment rules • Eligible assets rules • Limited possibilities for early withdrawal before retirement • Transparency regime • Governance- risk management function • Delegation rules • Supervisory reporting: Quarterly information	The legal regime mandates information requirements, including pre-contractual details and periodic reports that explain and disclose short-term and long-term risks.	They are represented in the Supervisory committee together with members. The committee must: • Monitor compliance with the clauses of the scheme related to the rights of its members and beneficiaries. • Select the actuary who certifies the status and dynamics of the scheme. • Appoint the representatives of the scheme in the committee of the pension fund to which the pension plan belongs.

			• Propose and decide on the other matters over which the Law confers its competence. • Represent the interests of the participants and beneficiaries with the pension scheme.
Switzerland *ASIP*	/	/	/
United Kingdom *PLSA*	Several government initiatives aim to improve the DC landscape: • UK Pensions Dashboards: Allowing savers to see all their pensions in one place. • Advice/guidance review: Enhancing guidance for savers at retirement. • Value for Money framework: Shifting focus from cost to value to maximise savings. • Ending Small Pots proliferation: Addressing the issue of deferred small pots. • Operational risks also need to be managed, e.g., monitoring contribution payments.	PLSA operates the Retirement Living Standards, a tool that informs beneficiaries about how their lifestyle might look like in retirement based on three different levels pitched in minimum, moderate and comfortable. PLSA co-runs the Pay Your Pension Some Attention campaign, which aims to increase pension awareness and engagement. PLSA introduced the Pension Quality Mark (PQM) to identify and celebrate good quality DC pensions in the UK.	Sponsors of DC schemes are responsible for contributions, financial records, investment decisions, professional advisers, service providers, scheme records, member registration, and reporting. Trustees of a sponsor should: • Ensure provision for members who do not choose an investment option. • Offer appropriate investment choices to members. • Help members understand the link between contributions and benefits. • Encourage members to seek advice and provide support. • Provide timely and relevant information to prospective

	• There are also business-level risks, which are aspects that the Pensions Regulator supervises e.g., the stability and solvency of the scheme funder. • [The Pension Quality Mark](#) (PQM), introduced by the PLSA, identifies high-quality DC pensions.		members, current members, and members approaching retirement.
USA *NCPERS*	• Some DC schemes' sponsors are using the auto-enrolment approach instead of allowing workers. • Some employers are asking financial institutions to provide some investment options for employees to invest in. • Some states are implementing NCPERS' Secure Choice plan which offers DC scheme to small employers in the private sector through public DB schemes. • Congress in 2019 enhanced some options in DC schemes through SECURE (Setting Every	Public sector DB schemes usually have communications programmes. NCPERS holds regular education and communications programmes.	Sponsors of DC plans must ensure that fees are reasonable and transparent, provide adequate investment choices, help participants understand investment risks, and offer retirement planning education programmes.

	Community Up for Retirement Enhancement) Act. The legislation increased the age for triggering required minimum distributions. • SECURE Act also a allows participants to take a distribution of a lifetime income investment and roll it into another plan, without withdrawal restrictions, provided their plan no longer offers that investment option.		

Country and association	**National strategy to address the decumulation phase**	**National supervisors and policymakers' responsibilities in the oversight and regulation of DC schemes** **Policies implemented to mitigate long-term risks in DC schemes**

Austria *WKO*	Many DB book reserve schemes were transferred to DC schemes in the late 1990s and are already in the decumulation phase. During this phase, beneficiaries receive a variable annuity from their pension fund. Overall, pension funds already have good experience managing the decumulation phase.	The supervisor issued specific rules for risk management by pension funds, including both short-term and long-term risks.
Belgium *PensioPlus*	Benefits are mostly paid as a lump sum in both DB and DC schemes.	The rules and regulations in DC are part of social and labour law. The scheme design is based on collective agreements in most cases.
Canada *Mebco*	Variable benefits have been allowed in most jurisdictions. In Canada, all DC schemes that are registered are required to provide lifetime monthly income with ongoing benefits to the spouse of the member unless the spouse has waived that right.	Canadian pension law establishes safeguards for DC savings, including locking-in and spousal benefit requirements. While there is good regulatory oversight, more focus on DC scheme governance is needed due to the shift from DB schemes to RRSPs and DC schemes. Policies around education, auto-enrolment and contribution increase are necessary.
Chile *FIAP Internacional*	Chile has implemented several measures to manage the decumulation phase within its private DC pension system: • Universal guaranteed pension • Compulsory pension conversion: Accumulated savings in individual accounts must be converted into a pension stream upon	National supervisors and policymakers in Chile have several key responsibilities and obligations in overseeing and regulating the private pension system: • Establishing a robust regulatory framework. • Setting a pension target and updating system parameters: Defining the

	retirement, with withdrawals allowed only if they exceed a set minimum pension amount. • Flexible pension options in the decumulation phase • Enhanced regulation of life annuities through several steps: Better access and availability of life annuities, improved transparency, more competition, and regulation of brokerage commissions. • Pension consultation and offer system: A digital system through which retirees can compare pension offers. • Limited pension fund choices: During retirement, members can only select from some pension funds prioritising fixed-income investments, with default fund allocations adjusted as members age. • Financial education improvement. Despite these efforts, challenges remain regarding pension adequacy and the impact of early withdrawals on retirement savings in Chile.	replacement rate targets and ensuring that the main system parameters are consistent with these targets. • Appointing a supervisory authority for the private pension system, which oversees the prudential regulation. • Promoting transparency and competition: This includes allowing workers to choose their pension fund administrator, pension fund and reducing entry barriers for new competitors. • Provision of certain state guarantees, e.g., if a life insurance company fails to comply with its pension payment and insurance coverage obligations. • Addressing coverage gaps.
France *CTIP*	Not relevant for now.	/
Germany *Aba*	The collective DC model includes lifelong benefits for the future. Its collective feature aims to reduce pension volatility and allows risk sharing.	The supervisor oversees compliance with the prudential framework of the institutions that implement the *Sozialpartnermodell* and approves

	The pension will start with the individual's pension capital. This capital will be added to a shared fund, which is sustained by investment income and new pension contributions. This allows for long-term funding based on realistic assumptions.	relevant documents, including the pension scheme. The supervisor engages with social partners and the institution before final approval. Institutions implementing the *Sozialpartnermodell* must submit annual reports to the supervisor. While the German legislator provides the overarching legal framework, the specific details of the *Sozialpartnermodell* are determined by the social partners.
Italy *MEFOP*	The majority of annuities are managed by insurance companies. Only a few pension schemes manage the accumulation phase directly. Through their association and Mefop, closed pension funds have negotiated an agreement with an insurance company to outsource the decumulation phase. This agreement allows members to select from various types of annuities.	/
Mexico *FIAP Internacional*	Mexico has taken several measures to address the challenges of managing the decumulation phase within its private DC pension system: • Universal guaranteed pension: The Mexican pension system has a first pillar that grants a minimum pension to all people starting from 65 years old. • Obligation to convert accumulated savings in the individual account into a pension stream.	National supervisors and policymakers in Mexico have several responsibilities and obligations in overseeing and regulating the private pension system: • Establishing a robust regulatory framework: There is extensive regulation based on numerous complementary standards that regulate the operation of the private pension Mexican system. • Promoting transparency and competition: Policymakers have introduced measures

	• Allowing different pension options for the decumulation phase • Limitation on the choice of pension funds in the retirement phase.: Workers can request their AFORE to transfer their Individual Account funds, designated for pension payments, to their chosen SIEFORE, the Basic Pension SIEFORE (SBP), or the SIEFORE that determines the CONSAR. The SBP follows a conservative investment strategy to maintain a low-risk profile.	to promote transparency and competition in the private pension system.
Peru *FIAP Internacional*	Peru has implemented various measures to manage the decumulation phase within its DC scheme: • Retirement at legal age: Affiliates can access their retirement pension at age 65. • Ordinary early retirement: Affiliates of the SPP can retire before 65 if their accumulated fund guarantees a pension of at least 40% of their average salary and they have maintained a contribution density of at least 60% over the last 120 months. • Early retirement due to unemployment: For those over 50 and under 65 who have been unemployed for at least one year. • Early retirement for high-risk jobs • Minimum retirement pension: Guarantees a minimum pension for workers with at least 20 years of contributions and who are at least 65 years old.	The SBS is an autonomous entity responsible for regulating and supervising the SPP. • The SBS is responsible for regulating the operations of AFP and the provision of benefits to their affiliates. • The SBS monitors AFP to ensure compliance with legal provisions and administrative directives. • The SBS authorises the operation of AFP. • The regulations detail the types of instruments and define their classification. • Sanctions and precautionary measures: In specific cases, the SBS may impose sanctions and precautionary measures on companies under its supervision.

	• Lump sum: Since 2016, individuals can withdraw 95.5% of their accumulated assets as a lump sum without penalty, leading nearly all retirees to opt for this. Upon retirement, disability, or survivor's pension, affiliates can choose from various payment modalities, including programmed withdrawal, life annuity, temporary annuity with deferred life annuity, and staggered life annuity.	
Portugal *APFIPP*	Since 2019, benefits can be paid directly from individual accounts into pension funds, with the beneficiary bearing investment and longevity risks. This offers an alternative to previously mandatory annuity purchases.	The DC market is still developing and is lacking maturity. A policy change occurred in 2019, shifting from mandatory annuity purchases to allowing benefits from employers' contributions to DC schemes paid directly by pension funds. Beneficiaries bear both investment and longevity risks, receiving pensions until their accumulated funds are exhausted.
Romania *APAPR*	/	All aspects of pension fund management are regulated.
Spain *Inverco*	The pension legislative framework includes eligible asset rules and investment guidelines ensuring that liquidity matches between investments and redemptions. Beneficiaries can receive their pension as a lump sum, an annuity, or a combination of both. Lump sums are the preferred option.	Pension schemes, funds, and their managing entities are subject to prudential supervision in areas including: • Operating conditions • Technical provisions and their funding • Own resources and solvency margins • Investment rules and management • Governance structure • Information disclosure to members and beneficiaries

Switzerland *ASIP*	The mandatory 2nd pillar in Switzerland, though looking like a DC scheme, is a DB scheme based on a performance target. The goal is to reach around 60% of the former salary.	/
United Kingdom *PLSA*	The 2015 Pension Freedoms offer more flexibility to savers but also introduce greater risks requiring careful consideration. Ensuring savers navigate successfully from saving to pension withdrawal remains a significant challenge. PLSA's Guided Retirement Income Choices Framework aims to address this issue by mandating trustees to assist members in retirement with suitable products meeting standardised criteria. Progress in this framework is temporarily on hold due to the General Election.	In the UK, DC schemes are primarily regulated by two bodies: • The Pensions Regulator (TPR) oversees workplace pensions, ensuring automatic enrolment, employer contributions, and safeguarding savings. • The Financial Conduct Authority (FCA) regulates contract-based schemes, aims to protect consumers, maintains financial system integrity, and promotes competitive financial services markets. Government policy drives industry changes, supported by the PLSA advocating for reforms that benefit savers.
USA *NCPERS*	/	National regulators and policymakers must ensure that the financial institutions managing DC participants' assets comply with the highest fiduciary standards and prevent employers from reducing their contributions to DC schemes.

Annex

1. **Austria**

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?
There are both models in Austria and an additional possibility called “Security-Pension”. 1. The defined contribution pension fund model - the contribution can either be a fixed amount or a percentage of the salary. The pension fund calculates the pension amount that can be expected from the contributions paid. In the defined contribution pension fund model, the employer only undertakes in the pension agreement to pay contributions to the pension fund for its employees. 2. The defined benefit pension fund model - the employer(‘s representatives) and employee (representatives) agree on the amount of the pension (e.g. fixed monthly amount, percentage of salary depending on years of service, with or without indexation), the benefit to be paid to the beneficiaries. The pension fund calculates the necessary contributions based on the agreed pension amount, but these can change. Depending on the development of the capital markets and the change in pension entitlement, the contributions may rise or fall. In any case, the employer must pay in enough to ensure that the pension fund can provide the promised benefits. With this model, the employee can therefore count on the contractually agreed pension amount. 3. Security-Pension Since 2013, the security pension has offered most future recipients of pension fund pensions the opportunity to switch to an investment pool with conservative investments (Security Investment and Risk Pool) and thereby secure a guaranteed pension. This model guarantees that the pension granted upon retirement does not fall below the value of the first monthly pension at the time the pension fund benefit is first drawn. It is also value-secured every five years. In addition to a “hard guarantee”, the “security pension” also has the advantage of statutory valorization. Beneficiaries therefore have certainty about the minimum amount of their supplementary pension when they retire. The following requirements must be met to switch to the Security-Pension: - Defined contribution pension fund commitment - No minimum return guarantee

- A written declaration of the switch to the Security-Pension - Information of the beneficiary in accordance with § 19b PKG It is possible to switch to a security pension when you retire or from the age of 55 until you retire. A change is not possible for beneficiaries, i.e. pensioners. The actuarial reserve and fluctuation reserve set up for the beneficiary on the transfer date must be transferred to the Security Investment and Risk Pool. In principle, the possibility of the right of choice must be agreed in a pension fund contract.
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
Our members represent all occupational pension provision which is provided via pension funds (IORPs). This is the most prominent form and includes all of the above mentioned types, the most prominent type beeing the DC funded model.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
There are nearly 100% DC-funded models over the last 5 years, because of the significant change in the distribution of long-term risks, which now lie largely on employeesThe legislative factors didn´t change.
4. What do you identify as the primary long-term risks for DC savers?
The volatility of the capital markets, resulting in uncertain performance of pension funds, the inflation rate and a few old and as such still rather high actuarial interest rates (discount rates for converting DC capital into lifelong monthly pensions).
5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?
There has been a slight tendency to shift towards long-term and more illiquid assets, such as real estate housing assets.

6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?
This is well known. In addition, pension funds have to comply with the information requirements as stated in the IORP II directive.
7. What are the responsibilities and obligations of sponsors in DC schemes?
The most important responsibility for sponsors is that they are obliged to pay the contributions for their employees to the pension fund, on time and to share the necessary information about their employees and plan members with the pension fund. In addition, they have certain responsibilities for communication to and with members; pensions funds support the employers with that task.
8. How does your country address the challenge of managing the decumulation phase within DC schemes?
As many DB book reserve schemes were transferred to DC schemes within pension funds during the late 1990s, many of these schemes are already in the decumulation phase. During this phase, beneficiaries stay with their pension fund and get a variable annuity. So our pension funds have already a lot of experience with handling the decumulation phase.
9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?
The supervisor has issued some special rules for risk management by pension fund which have to be observed. They do not only take into account short-term risks and opportunities, but also long-term risks and opportunities.

2. **<u>Belgium</u>**

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?

In Belgium pure DC schemes are not allowed. Social law determines that in “Belgian DC” schemes a minimum return (currently equal to 1,75% pa) has to be guaranteed. If, at the end of affiliation of an employee the pension fund (or group insurance) is not able to provide a return of 1,75% pa the employer (or sponsor) has to pay the difference. From an international perspective this technically makes these plans DB plans.
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
Approximately 85% of the participants are affiliated to a “Belgian DC” plans. Nearly all pension benefits are paid out as a lump sum.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
The last 20 -30 years the majority of new plans are “Belgian DC” schemes. Since 2006 a number of industry wide “Belgian DC” arrangements have been introduced, increasing the number of members of DC schemes dramatically. However these schemes have still (very) low levels of contributions. The majority of the pension assets are still linked to DB plans. The amount of assets in DC plans is increasing but AUM of pension funds remain predominantly linked to DB plans.
4. What do you identify as the primary long-term risks for DC savers?
The main long term risk for DC savers are too low contributions into the DC scheme. Sure, other important risks include inflation, poor investment returns and longevity but too low contributions will be the main source of too low income at old age.
5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?
The government has as objective to increase the level of contributions to sector wide pension plans to at least 3% of salary. This objective has not been met (yet). Given the Belgian legal minimum investment return the investment risk to the participants is limited and covered by additional employer funding.

6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?
Given the minimum investment guarantee and employees having no investment choices to make communication on long-term risks associated with DC pensions is less important.
7. What are the responsibilities and obligations of sponsors in DC schemes?
The sponsors are responsible for funding the minimum investment return in Belgian DC plan. Benefits are predominantly paid as lump sums (in both DB and DC arrangements).
8. How does your country address the challenge of managing the decumulation phase within DC schemes?
In both DB and DC plans the benefits are predominantly paid as lump sum.
9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?
The rules and regulations on DC schemes are part of social and labour law. The scheme design is in many cases agreed upon in collective labour agreements.

3. Canada

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?

in the multi-employer sector, where contributions are negotiated under a collective agreement and fixed for the term of the collective agreement, these plans are largely defined benefit. In Canada the emerging name for a DB plan in the multi-employer sector is a target benefit plan which means that the benefits can change (increase or decrease) based on the funding position of the plan and applicable legislation. DB plans remain for the majority of private sector plans where unions negotiate benefits and in the public sector. For single employer plans they are becoming DC oriented. In Canada we would say DB and DC plans are subject to provincial or federal legislation. There is a third type of plan – the registered retirement savings plan (RRSP) which can be offered instead of or in addition to a DB or DC plan. The RRSP has few regulations such as locking in and mandatory spousal benefits and they are regulated only by the income tax act of Canada whereas DB and DC are either provincially or federally regulated in addition to certain element such as contribution levels and investments regulated under the income tax act of Canada.
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
MEBCO's members are largely in DB-target pension plans. We also represent plans that are DC.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
See above. We would say not in the negotiated public and private sector area. We do see single employer plans closing and reverting to DC or RRSPs.
4. What do you identify as the primary long-term risks for DC savers?
We think this is investment risk that would then relate to sufficient retirement income/longevity risk. DC plans in Canada are subject to locking in and lifetime annuities however the main issue is how the funds were managed during the working life.
5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?
By law in Canada, it is required that a benefit paid out of a DC plan is a lifetime retirement income with provisions for benefits to continue to an eligible spouse on the death of the member. However there are opportunities for members to unlock substantial amounts on retirement for purposes other than retirement and this can impact the level of retirement income and security for . household. Some DC plans are managed on the "master trust basis" which means the governing body (a board of trustees) would select investments and the member

does not have a role in this function. This allows professional investment management at lower fees. Some plans have implemented decumulation phase assistance to members such as professional advice for the management of their retirement accounts at reduced fees. Most Canadian pension jurisdictions also allow variable benefits to be paid from a DC plan which means the member's funds remain invested in the DC plan and the member may choose that a specified amount be paid from the plan monthly or some other regular period. Organizations such as CAPSA (Canadian Association of Pension Supervisory Authorities) and some pension regulators have issued guidelines for DC plan management particularly around understanding of fees, enrolment of members, providing sufficient investment choices and oversight of the DC plan.
6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?
This would be done via general education of plan members. MEBCO's DC members, we believe, commit to educating their members regarding all elements of their DC plan including review of investment choices, understanding risk, the level of benefit being saved vis a vis the member's retirement savings needs/expectations.
7. What are the responsibilities and obligations of sponsors in DC schemes?
CAPSA's guidelines are the most comprehensive and include: providing sufficient investment options, oversight of investment managers managing DC assets; practices around automatic enrolment, understanding and review of fees; review of potential conflicts of interest and guidelines around the provision of variable benefits.
8. How does your country address the challenge of managing the decumulation phase within DC schemes?
Variable benefits have been permitted by most jurisdictions. In Canada all DC plans that are registered are required to provide lifetime monthly income with ongoing benefits to the spouse of the member unless the spouse has waived that right.
9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?
Canadian pension law does establish fences around DC savings such as locking in and spousal benefit requirements. While there is a good amount of regulatory oversight on DC plans, we do see more emphasis in the future on DC plan governance because of the closing

of DB plans in favour of RRSPs and DC plans. Policies around education are important as are automatic enrolment and contribution escalation.

4. <u>Chile</u>

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?
Chile’s pension system comprises three pillars: i. Means-tested social assistance pension (Universal Guaranteed Pension, PGU) which is financed with general taxes; ii. A mandatory privately-managed DC system based on employee and employer contributions[1] with individual accounts (with freedom of choice of funds by members, who are assigned to a fund according to their age if they do not choose) managed in competition by the *Administradoras de Fondos de Pensiones* (Pension Fund Managers, AFPs) and supervised by a specialized regulatory entity; and iii. A voluntary DC pillar (to complement the second pillar) in which there is competition among AFPs and other offering entities (such as banks; life insurance companies; Mutual and Investment Fund Managers; stockbrokers).
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
The most prominent form of occupational pension provision in Chile is based on individual capitalization. This system, established by DL 3,500 in 1980, ensures that workers who have completed their working life receive a flow of income during retirement. According to the law, withdrawals of funds are only allowed once members retire, and only if the pension amount exceeds a certain level in relation to the average of remunerations. Social security contributions are deposited in individual accounts, capitalized and invested by the AFPs. The amount of pension received is directly related to the individual's savings effort, creating a direct link between personal contributions and pension benefits. Additionally, the system allows for free choice of AFPs and the type of Pension Fund for social security savings, promoting competition among providers and flexibility in investment options. In case of disability and survival, a group insurance policy contracted with life insurance companies finances the additional contributions required to supplement the funds accumulated in the individual account. These additional funds are necessary to ensure the pension levels established by law.

[1] Employers pay for disability and survival insurance, with an average rate of 1.49%, which finances additional contributions in the event of these contingencies.

3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?

Yes, there has been an increase in DC schemes, but not over the last 5 years; rather, it has been since the beginning of the mandatory individual pension system. Currently, the assets under management of the pension funds represent around 70% of Chilean GDP. Indeed, the introduction of mandatory DC schemes by the Chilean government in 1981 played a significant role in transitioning from DB to DC systems. Supervision by the Superintendencia de Pensiones (SP) ensures compliance with regulations and promotes transparency and accountability within the pension system.

The reform that replaced the pay-as-you-go and DB system for the individual capitalization system was necessary to provide financial sustainability to pension programs given demographic trends; to eliminate existing discrimination between workers, because there were multiple administrative entities and programs depending on the type of work; to protect the savings of all workers, since in the old system those who did not achieve a certain minimum number of years of contributions lost partially or totally the funds; to improve efficiency in system administration, introducing competition; and to increase the pension amounts that can be granted to members in the long term.

4. What do you identify as the primary long-term risks for DC savers?

The primary long-term risks for Defined Contribution (DC) savers in Chile include:

a) Risks related to the work cycle: The savings accumulated in the individual account at the end of the working life, available to finance the pension, depend directly on the level and evolution of remuneration, the periods of employment, unemployment, and inactivity, and the types of employment (formal, informal, independent) that workers register during their working life. There is then a risk that workers will register a high and unexpected number of months without contributions, and that this will affect the pension levels they can finance.

b) Longevity Risk: DC savers face the risk of outliving their retirement savings. Contribution rates and retirement ages have not been adjusted in more than forty years of operation of the system, which, together with the increase in life expectancies, has significantly increased the average years of pension receipt, increasing the risk that funds are not sufficient to cover the needs in old age. Furthermore, the average worker has long periods of his working life in which he does not contribute, and one of the pension options, programmed withdrawal, does not protect pensioners from longevity risk.

c) Investment Risk: The performance of pension investments in DC schemes is influenced by several factors, including market conditions, investment decisions, and economic factors. These factors affect the growth, variability, and return of retirement funds. The average real return on investments obtained by the AFPs in the administration of pension funds since the beginning of the system has been strong, with Fund C (only this fund has existed since 1981) averaging more than 7%. This return, along with a wide diversification strategy that includes various asset classes like stocks and bonds, provides a significant portion of the pension's funding. However, a risk arises when members make frequent and unfounded changes of investment funds, based on short-term considerations or attempts at market timing. To mitigate this risk, reviewing the frequency of allowed fund changes and improving educational information for members is crucial. Additionally, further progress in investment regulation is needed to optimize the return-to-risk ratio. This could involve expanding permissible investments and introducing portfolio risk control measures. Finally, low interest rates at retirement can also pose a challenge, as they can affect the conversion of accumulated balances into a sustainable pension income.

d) Regulatory Changes: Changes in pension regulations or policies can impact the retirement benefits and savings of DC savers, introducing uncertainty and potential risks to their long-term financial security. Examples of this type include the early withdrawal of mandatory pension savings that were done because of the COVID-19 emergency, which had very bad effects over the level of pension that members can finance with their savings.

Addressing these risks requires effective risk management strategies, diversification of investments, regular review of retirement plans, and financial education to help DC savers make informed decisions to safeguard their retirement savings over the long term.

5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?

In Chile, several measures have been implemented to manage long-term risks in Defined Contribution (DC) schemes. These measures include:

a) Life-Cycle Investment Strategy: The introduction of five different investment funds (Multifunds: A, B, C, D, and E) in 2002 allows affiliates to choose from various risk-return options based on their age and risk tolerance. For those members who do not select a fund, there is a default allocation based on their age. This default allocation aims to gradually shift members from riskier to more conservative funds as they approach retirement age, ensuring a more balanced and suitable investment approach over time.

b) Gradual expansion of authorized investment instruments and portfolio diversification. As the capital market developed and improved, and as authorities and administrators gained experience, the investment options for pension funds were expanded, contributing to better diversification and reduced investment risk. The authorization for foreign investment was a very important measure in this regard. More recently, investment limits in alternative assets have been increased, which will help continue improving the risk-return relationship of pension funds.

c) Pension financial advisors, who previously provided frequent recommendations for fund changes without being regulated by the superintendencies, are now subject to regulation and control. The lack of oversight led to massive changes in investment portfolios, negatively affecting both the members who followed these recommendations and the capital market.

d) Existence of different pension options: Retirees have the option to choose from various pension modalities, including programmed withdrawals and lifetime annuities. The latter protect retirees from longevity and return risks. Regulation needs to be improved to perfect the programmed withdrawals modality, which currently involves a decreasing pension amount and does not include longevity insurance.

e) Estimation of pension amounts and risk: The Superintendence of Pensions has made available to affiliates a simulator that allows them to estimate not only pension amounts but also the probability of achieving a certain pension goal. Pension fund administrators have also created pension simulators and strengthened educational and guidance services for affiliates, a task that faces the challenge of dealing with affiliates who, on average, have low pension and financial education.

f) Payment of pension contributions for unemployed affiliates. There is an unemployment insurance that pays the pension contributions of low-income beneficiaries who receive subsidies from the Solidarity Unemployment Fund.

g) Regulatory Oversight: The Superintendencia de Pensiones (SP) supervises and regulates the pension system in Chile, ensuring compliance with regulations, transparency, and accountability. This regulatory oversight helps protect the interests of pension savers and promotes a stable and secure pension system.

h) Risk Management Processes: Pension funds in Chile incorporate risk management processes to address investment risks, operational failures, and other potential risks that could impact the long-term sustainability of DC schemes. These processes aim to enhance the security and stability of pension savings over time.

Regarding best practices among countries for effectively mitigating long-term risks in DC schemes, some key strategies include:

a) Transparency and Education: Increasing member understanding through transparency and education about pension schemes, investment options, and risks can empower individuals to make informed decisions and actively participate in managing their retirement savings.

b) Diversification and Asset Allocation: Encouraging diversification and appropriate asset allocation within pension funds can help mitigate investment risks and enhance long-term returns, ensuring a more balanced and resilient investment portfolio.

c) Default Investment Allocation. A crucial aspect in ensuring the appropriate investment of pension savings is the establishment of technically defined default allocations for those affiliates who do not choose a fund. Some countries, such as Mexico, have opted for generational funds that assign affiliates to a specific fund based on their age. The investment structure of these funds becomes more conservative (more fixed income) as the retirement age approaches, without requiring any decisions from the affiliates. It is also important to review the number of fund transfers that more active affiliates can make, to prevent numerous transfers that, in many cases, are not based on well-founded decisions.

d) Expansion of pension contribution bases. In many countries, there is high informality, inactivity, unemployment, and rotation between different types of work. Additionally, the importance of independent employment is increasing. Given this reality and these trends, it is important to expand the contribution bases significantly beyond employer contributions to reduce periods without contributions during the working life. For example, some proposed measures include contributions through consumption, mandatory contributions for granting authorizations to perform certain activities for small business owners, and pension contributions deducted from unemployment insurance benefits.

e) Longevity Risks. The options for mutualizing longevity risk among retirees and introducing longevity insurance should be evaluated, with the goal of improving the protection of retirees against longevity risk, increasing pension amounts, and reducing the costs that retirees must pay.

f) Regulatory Framework: Establishing a robust regulatory framework with strong oversight and supervision mechanisms can help safeguard pension savings, protect members' interests, and ensure the stability and sustainability of DC schemes over the long term.

By implementing these measures and drawing from best practices observed in other countries, Chile and other nations can effectively manage long-term risks in DC schemes, promote financial security for retirees, and enhance the overall resilience of pension systems.

6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?

Initiatives among countries aim to inform members and beneficiaries about the long-term risks associated with their Defined Contribution (DC) pensions. Effective communication strategies play a crucial role in educating individuals about the risks and helping them make informed decisions regarding their retirement savings. Some examples of initiatives and strategies include:

a) Transparency and Education Mechanisms: One key approach is to increase member understanding through transparency and education within DC pension systems. This involves providing clear information about the risks, investment options, costs, and potential outcomes associated with DC schemes to empower individuals to make informed decisions.

b) Quality of Service Comparisons: Many countries have implemented mechanisms to publish quality of service comparisons, allowing members to assess different pension providers based on factors like performance, fees, and services offered. This transparency helps members evaluate the risks and benefits associated with different providers.

c) Pension Advisors: In Chile, pension advisors were established with the aim of providing information to affiliates and beneficiaries of the pension system so they can make informed decisions according to their needs and interests concerning the benefits and provisions of the system. These advisors are individuals or entities that must be independent from the pension fund administrators and life insurance companies.

d) Pension estimation: Pension fund administrators are required to send their members, in addition to statements of account with accumulated savings balances, returns and costs, reports with an estimate of the pensions they will be able to finance under certain assumptions. In addition, they make pension simulators available to their members.

e) Communication strategies. The strategies applied are multiple and diverse depending on the administrators. The trend is to improve and accompany members throughout their working life, differentiating the type of message according to the characteristics of the members and the mechanisms through which communication is established. There is an awareness of the importance of these communications, which must be simple, relevant and systematic to contribute to better decisions by members during their working life and in the pension phase.

f) Quotation Systems: Establishing a quotation system to compare pension amounts, their evolution over time, and the risks and costs of different pension options help members make informed decisions in the decumulation options (like the so-called SCOMP on Chile). These systems enable individuals to evaluate different pension products, understand their features, and choose the most suitable option for their retirement needs. There is a trend in Latin America towards establishing electronic systems in which relevant information is delivered to different pension providers so that, in a competitive environment, they can provide their pension offers to members who are retiring. This has contributed to reducing barriers to entry into this industry, improving information, and increasing pension amounts.

g) Thematic Reviews and Inspections: Conducting thematic reviews and inspections by supervisory authorities can help ensure that pension funds have appropriate risk management processes in place to address investment risks, operational failures, and other potential risks that could impact members' retirement savings over the long term.

By implementing these initiatives and communication strategies, countries can enhance member awareness, promote financial literacy, and empower individuals to navigate the long-term risks associated with DC pensions effectively.

7. What are the responsibilities and obligations of sponsors in DC schemes?

The responsibilities and obligations of sponsors (employers) in Mandatory Defined Contribution (DC) schemes include the timely payment of pension contributions, both from workers and employers themselves, to the Pension Fund Managers (AFPs), and the provision of detailed information on these payments., ensuring compliance with pension regulations. Sponsors do not have a direct role in governance as the choice of managing entity is made by the member, and they are not involved in selecting the entity that manages the pension funds within the DC scheme. The regulation establishes the governance rules and structural limits on investments. There are voluntary pension plans in which employers can take on a greater role, for example by negotiating with pension administrators pension plans for their staff, services to be provided and administration costs.

8. How does your country address the challenge of managing the decumulation phase within DC schemes?

Chile has taken several measures to address the challenges of managing the decumulation phase within its private DC pension system:

a) Universal guaranteed pension. The Chilean pension system has a first pillar that grants a guaranteed pension to all people who reach the age of 65, meet residency requirements in the country, and do not belong to the 10% of families with the highest income. (PGU, see question 1). This ensures a minimum level of income during retirement.

b) Obligation to convert accumulated savings in the individual account into a pension stream. Withdrawal of funds is only possible when members retire if they can finance a pension amount that exceeds a minimum level established by regulations.

c) Allowing different pension options: The Chilean pension system offers various pension options during the decumulation phase, such as programmed withdrawals, life annuities, and temporary income with deferred life annuity. This flexibility allows retirees to choose the option that best suits their needs and risk preferences.

d) Improvement of life annuities regulations: The Chilean government has taken steps to improve the regulations of life annuities, which provide a guaranteed income stream for life (this helps protect retirees from longevity risk and ensures they do not outlive their savings). The steps the Chilean government has taken for encourage the use of life annuities include:

    - Reforms to Decree Law 3,500: Reforms introduced to this Decree in 1988 reduced the requirements for obtaining an early retirement pension and opened the possibility of assigning the Recognition Bond, which increased the availability and accessibility of life annuities.
    - Improving Transparency: The government has recognized the lack of transparency in the marketing of life annuities and the need for better information for both Life Insurance Companies and pensioners when choosing a pension option and provider. Efforts have been made to address conflicts of interest between intermediaries and members and to reduce high levels of commissions that can discourage annuitization.
    - Enhancing Market Competition: The Chilean government has implemented measures to promote competition in the life annuity market, including allowing retirees to choose from multiple Life Insurance Companies through a bidding procedure. This process aims to ensure that retirees have access to competitive offers and can select the best option for their retirement income needs.
    - Regulation of Brokerage Commissions: The government has regulated the commissions paid by Life Insurance Companies for life annuity brokerage to prevent reductions in pensions resulting from high commissions. This regulation aims to protect retirees from excessive fees and ensure that they receive fair and transparent information when choosing a life annuity provider.

e) Pension Consultation and Offer System. As previously indicated, Chile has an electronic system for consulting pension offers, in which AFPs, life insurance companies, pension advisors, and retiring members participate. The system aims to ensure that retirees receive pension offers in a competitive process where all providers of different pension modalities can participate having the relevant information of the retiring members. The system sends a pension offer certificate to the members.

f) Limitation on the choice of pension funds in the retirement phase. Retirees can only choose Pension Funds C, D, and E, which are those with a higher percentage of investment in fixed income instruments. In addition, the default fund allocation for active members who do not choose fund establishes a transfer to funds with a lower percentage of variable income as they change age groups. Members who are retiring also have the possibility of keeping their savings in checking accounts while the pension process lasts.

g) Improvement of the financial education: The Chilean government has recognized the importance of financial education in helping workers make informed decisions about saving, investing, and decumulating their pension assets. Efforts are being made to improve financial literacy among the population.

However, the Chilean pension system has also faced criticism, particularly regarding the adequacy of pension benefits and the impact of early withdrawals on retirement savings. Ongoing reforms aim to address these issues and strengthen the decumulation phase of the system.

9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?

National supervisors and policymakers in Chile have several key responsibilities and obligations in overseeing and regulating the private pension system:

a) Establishing a robust regulatory framework: The Decree Law 3,500 of 1980 and numerous complementary regulations govern the functioning of the private pension system. This includes regulating the investment process for pension fund resources and the operations of Pension Fund Administrators (AFPs).

b) Setting a Pension Target and Updating System Parameters. In an individual capitalization system, pension benefits are not guaranteed, but it is important to define replacement rate targets and ensure that the main system parameters, such as the contribution rate and retirement ages, are consistent with these targets. Given the political complexity of adjusting these parameters, it is necessary to establish a technical institution that proposes the necessary adjustments and an approval process that is less exposed to short-term political pressures.

c) Appointing a supervisory authority: The Chilean government has appointed the Superintendence of Pensions to supervise the private pension system. The main tasks of the Superintendence are to oversee and supervise the AFPs, ensure compliance with pension regulations, and aid in the development and interpretation of pension regulations.

d) The Superintendence of Pensions and the Capital Market Commission must ensure that private pension systems are subject to sound prudential regulation to protect the rights of members and beneficiaries. This includes setting investment rules, valuation standards, and solvency requirements for pension funds and life insurance companies. In addition, the authorities should promote the improvement of markets that are closely related to the pension system, such as the labor market, the insurance industry, and the capital market. They should pay special attention to controlling the payment of pension contributions and expanding the investment opportunities for pension funds, both domestically and internationally, to achieve adequate profitability and diversification of pension savings. e) Promoting transparency and competition: Policymakers have introduced measures to promote transparency and competition in the private pension system, such as allowing workers to freely choose their pension fund administrator and type of pension fund and reducing entry barriers for new competitors in the administration of pension funds and the offer of pension modalities. f) Provision of certain state guarantees: State guarantees are provided in the following cases: when a life insurance company fails to comply with its pension payment and insurance coverage obligations; and when an AFP fails to achieve the minimum profitability for a pension fund (relative to the average profitability of the same fund in the system) and does not supplement it with its own resources to reach the minimum established by regulation. g) Addressing coverage gaps: While Chile's private pension system has achieved high coverage among formal sector workers, there are still challenges in extending coverage to informal workers and the self-employed. Policymakers need to address these gaps to ensure more comprehensive pension coverage. In summary, national supervisors and policymakers in Chile have a responsibility to establish a robust regulatory framework, appoint a strong supervisory authority, ensure sound prudential regulation, promote transparency and competition, provide guarantees and oversight, and address coverage gaps to ensure the effective functioning and sustainability of the private pension system.

5. France

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?
French pillar 2 and 3 pensions represent 300 Bn€ of AUM as of Q1 2023. - 200 bn€ of collective DC (group insurance contracts subscribed by employers for employees)

- 40 bn€ of individual DC with guarantee (personal insurance contracts for self-employed) - 30 bn€ of pure DC with individual choice of investment (for employees with autoenrollment) - 30 bn€ of funded DB (group insurance contracts for executives) 1st pillar is a PAYG system of 90 bn€ of annual benefits.
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
Collective pension funds and group insurers managed by social partners. Part of that : - 200 bn€ of collective DC (group insurance contracts subscribed by employers for employees) - 30 bn€ of funded DB (group insurance contracts for executives)
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
1st pillar PAYG system represents 98% of pensions in France. But Iorps are increasing since 2019, since Iorps are allowed to run in France. France is a country of hybrid DC schemes. No shift DB from DC, DB is small part of the market.
4. What do you identify as the primary long-term risks for DC savers?
To invest too much public bonds, and not in the real economy (equity, corporates, mid cap, etc.)
5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?
Risks are mitigating through Funds (Ucits for example).
6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?

Regular information must be done to members on past returns and risks.
7. What are the responsibilities and obligations of sponsors in DC schemes?
8. How does your country address the challenge of managing the decumulation phase within DC schemes?
Not a challenge yet in France.
9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?

6. <u>Germany</u>

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?
• Leistungszusage: pure DB: Employer carries investment and biometric risks and is fully responsible for the promised pension. • Beitragsorientierte Leistungszusage (boLZ): hybrid: Employer promises to convert a fixed volume of contributions into an entitlement to a pension. The contribution volume can be based, for example, on a fixed amount or on a constant ratio to the respective pensionable employment earnings, with the pension benefit resulting from an - as a rule - actuarially calculated conversion of the amount. • Beitragszusage mit Mindestleistung (BZML): hybrid: Employer promises a pension that amounts to the contributions paid. This form of commitment assigns the investment risks and opportunities to the employee; however, the risk is limited in that the employee can expect the so-called minimum benefit in any case (100% of the contributions, excluding the amount required for covering biometric

risks, are guaranteed). The employee does not know the exact amount of the pension until the pension event (age, disability, death) occurs. • Reine Beitragszusage (Sozialpartnermodell): collective pure DC (guarantees are forbidden), no choice of investment for members and beneficiaries, can only be established via collective agreements.
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
aba represents all types of occupational pensions in Germany. We do not have exact numbers on this, but the following considerations should provide an overview to work with: boLZ was introduced in 1999, BZML in 2002, Sozialpartnermodell only in 2018 (the first two Sozialpartnermodelle started operating in late 2022, a third onw followed in early 2024). Hence, until 1999, all occupational pensions were pure DB, which still has a structuring effect on today´s stock of members and beneficiaries of occupational pension schemes. However, hybrid models have become the norm since their introduction. For the last years, pension promises were mostly given in the form of boLZ. Before the summer of 2024, we expect the German government to present a reform bill regarding occupational pensions, which will most likely include a facilitation of the access for employers that do not have a collective agreement in place to existing Sozialpartnermodelle. This is expected to increase the dissemination of the Sozialpartnermodell. On a side note: There are five vehicles for providing occupational pensions in Germany: Direktzusage, Unterstützungskasse, Pensionskasse, Pensionsfonds and Direktversicherung. BZML and Sozialpartnermodell can only be provided via the latter three vehicles.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
Sozialpartnermodell was introduced with the “Law strengthening occupational pensions” (“Betriebsrentenstärkungsgesetz”), which entered into force in 2018. The aim was to increase the coverage of occupational pensions. Prior to this, DC occupational pensions did not exist in Germany.

The first two pure DC schemes in Germany were only established in late 2022, a third one followed in early 2024. This number is expected to grow further. An increase in asset allocation in DC schemes is therefore expected to occur in the years to come. Nevertheless, DB and hybrid schemes will remain vastly predominant in Germany for the foreseeable future.

4. What do you identify as the primary long-term risks for DC savers?

Generally, we see longevity as the primary long-term risk for DC savers. To which extent occupational pensions should cover this risk is in our view subject to the level of the respective statutory pension system of a given country.

During the saving phase, members of DC occupational pension schemes do not know how high their occupational pensions will eventually be (also not a minimum amount with which they can calculate). Also, if the pension benefit is a lifelong payment (as is mandatory for the Sozialpartnermodell), the amount that is eventually paid out might fluctuate over time. Hence, the main risk is that savers don't know whether they need to save even more to be able to finance their desired standard of living in old age.

However, as will become evident in the answers to the questions below, Social Partner Models display a variety of features that help to mitigate this risk.

5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?

Social Partner Models by design display a variety of features that aim at managing long-term risks associated with DC.

First of all, the respective social partners need to be involved in the risk management of a Social Partner Model. As this also includes employee / union representatives, members can be sure that their interests and preferences are taken into account in decision-making. However, given that decisions are made by committees (and not by the members themselves), to whose members the fit and proper criteria apply, it is assured that those in charge possess the according qualification.

Furthermore, sponsors “should” also pay an additional “security contribution” to avoid fluctuations of the pensions that eventually will be paid out (see also answer to 7).

Lastly, the German NCA BaFin is involved in both the setting up and the operation of Social Partner Models (see answer to question 8).

For the legal basis for the implementation of a social partner model, see §§ 33-42 of PFAV (German).

Given that Social Partner Models have only started operating recently in Germany, it is too early to speak about best practices.
6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?
Given the types of occupational pension promises that exist in German (see answer to 1), including Sozialpartnermodell, we believe that the current information requirements towards members and beneficiaries, which are based on the IORP II Directive, are adequate. On top of these general requirements, there are some legal provisions regarding the information requirements of Sozialpartnermodell, which take the specific characteristic of DC pensions into account (see § 41 PFAV, in German). Generally, we believe that savers should be provided with an overview on their pension entitlements in all pillars of a country´s system of old-age provision. Germany is currently setting up a national pension tracking system that aims at providing this overview.
7. What are the responsibilities and obligations of sponsors in DC schemes?
There are no obligations for individual sponsors other than the payment of contributions. The obligation to be involved in the "implementation and control" (e. g. asset allocation, risk management) of a Sozialpartnermodell has been delegated to the social partners that conclude the respective collective agreement, not the individual sponsoring undertakings. The law provides possibilities for sponsoring undertakings to pay additional contributions aimed at addressing different types of DC-specific risks (which need to be agreed upon in the respective collective agreement), such as to avoid / minimize fluctuations of the pensions that are paid out. For the legal basis, see §§ 21-25 of BetrAVG (German).
8. How does your country address the challenge of managing the decumulation phase within DC schemes?
The social partner model foresees lifelong benefits (albeit not necessarily in the form of an annuity). In the decumulation phase, only a collective model is possible, which is intended to reduce the volatility of pension benefits and achieve collective risk sharing. The individual pension capital of the respective beneficiary at the start of the pension serves as the starting value. The subsequent pension amount is calculated in such a way that it can be financed from the pension capital in the long term based on realistic assumptions. To this end, the

pension capital of the new pensioner is added to the capital stock from which all pensions are paid each month. The capital stock should be continuously increased by the investment income generated and the new pension assets of the new pensioners.
9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?
The supervisor (BaFin) oversees whether the institution carrying out the Sozialpartnermodell (e. g. an IORP) is in line with the prudential framework and approves the corresponding documents, especially the respective pension plan. BaFin is already involved with the social partners and the institution carrying out the pension plan before its final approval. The institution carrying out the Sozialpartnermodell has to report annually to BaFin. This annual report has to include, i. a., the balance sheet and income statements. Additionally, every six months, the institution has to provide a report on selected business development figures. The German legislator has set the broad legal framework, but the details of each Sozialpartnermodell have to be agreed upon by the respective social partners. As stated above, we hold that the Social Partner Model displays a variety of features that effectively mitigate the risks associated with DC schemes. As far as the longevity risk is concerned, Sozialpartnermodelle are legally required to provide lifelong payments (§ 22 BetrAVG (German), see also answer to 4).

7. Italy

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?
Market is based on pure DC schemes managed by individual accounts with individual choice of investments. Occupational schemes are established by the sectoral collective bargaining. Some investment options offer a guarantee, they are dedicated to automatically enrolled members. DB and hybrid schemes represent a negligible share of the market.

2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
Our members represent both occupational and personal pensions. DC schemes are the most prominent form of occupational pension, both in terms of members and AUM.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
4. What do you identify as the primary long-term risks for DC savers?
The adequacy of the benefit to the retirement needs of the beneficiary.
5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?
The regulation request pension schemes to define the investment option taking into account the retirement needs of the member, in order to address the adequacy risk. So, each investment option has its own “target member”. Life cycle strategies are gaining momentum. When joining the plan, members can rely on a questionnaire “advising” on the best option, however members have the final say. It is a best practice. Disclosure toward members/potential members is key. Best practices are the standardization of pre-enrolment documents and of the PBS as well by the NCA, to ensure comparability. The standardization encompasses IORPs and PPPs as they share the same legislative and regulatory framework. The PBS contain a projection of future retirement income, it is computed following the rules defined by the NCA. The web site of the NCA reports every year the costs of every investment option of the scheme and the link to the cost annex of the pre-contractual document for every scheme. Moreover every year the NCA update the net returns (costs and taxation) of the different schemes (1Y, 3Y, 5Y, 10Y and 20Y).

All pension schemes provide members/potential members with a PTS to make projections; these tools can also use 1st pillar assumption but no direct link with data of the state social security is in place, data must be provided by the member/potential member. The state social security has his own PTS.
6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?
Every scheme has its own communication strategy. For instance, during the pandemic or during the turmoil of 2022 (raise of interest rates) pension schemes provided members with information explaining that the pension fund is a long-term plan, so the losses were only latent unless requesting the (early) benefit. Data from the NCA proved that these communications were effective.
7. What are the responsibilities and obligations of sponsors in DC schemes? Paying the premiums in favour of their employees, based on the provisions of the law and of the collective bargaining's.
8. How does your country address the challenge of managing the decumulation phase within DC schemes?
On the decumulation phase, from 1993 the law states that members can withdraw the benefit up to 50% of the pot as a lump sum and the rest as an annuity. Before that date no constraints were in place, one could have asked for 100% of the pot as a lump sum and indeed most of the members did it. Most of the annuities are paid by insurance companies, only a few pension schemes manage directly the accumulation phase to avoid solvency requirements. Closed pension funds jointly negotiated through their association and Mefop an agreement with an insurance company to outsource the decumulation phase, the agreement is due to expire in 2025. Under the agreement members can choose between different types of annuities.
9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?
All supplementary pension schemes (DB, DC, hybrid, personal and occupational) fall under the scope of the IORP 2 directive.

8. **Mexico**

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?
México's pension system comprises three pillars: i. Means-tested social assistance pension (Universal Guaranteed Pension, PGU) which is financed with general taxes; ii. A mandatory privately-managed DC system based on employee and employer contributions with individual accounts (with freedom of choice of funds by members, who are assigned to a fund according to their age if they do not choose) managed in competition by the *Administradoras de Fondos para el Retiro* (Retirement Fund Administrators, AFORE) and supervised by a specialized regulatory entity; and iii. A voluntary DC pillar (to complement the second pillar).
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
The most prominent form of occupational pension provision in Mexico is based on individual capitalization. This system, established in 1997, ensures that workers who have completed their working life receive a flow of income during retirement. According to the law, withdrawals of funds are only allowed once members retire. Social security contributions are deposited in individual accounts, capitalized and invested by the AFOREs. The amount of pension received is directly related to the individual's savings effort, creating a direct link between personal contributions and pension benefits. Additionally, the system allows for free choice of AFOREs and the type of Pension Fund for social security savings, promoting competition among providers and flexibility in investment options.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
There has been an increase in the DC schemes during the last 5 years because of the 2019 reform of the pension funds in Mexico that transitioned to Target Date Funds (called as Siefores Generacionales) scheme. Currently, the AUMs of the SAR (Sistema de Ahorro para el Retiro) represent around 19% of Mexico's GDP and is expected to accelerate the rate of growing due to the pension funds reform related to

the mandatory contributions (15% at the end of 2030). Supervision by the National Commission of the Retirement Savings System (CONSAR) ensures compliance with regulations and promotes transparency and accountability within the pension system.

The reform that replaced the pay-as-you-go and DB system for the individual capitalization system was necessary to provide financial sustainability to pension programs given demographic trends; to eliminate existing discrimination between workers, because there were multiple administrative entities and programs depending on the type of work; to protect the savings of all workers, since in the old system those who did not achieve a certain minimum number of years of contributions lost partially or totally the funds; to improve efficiency in system administration, introducing competition; and to increase the pension amounts that can be granted to members in the long term.

4. What do you identify as the primary long-term risks for DC savers?

The primary long-term risks for Defined Contribution (DC) savers in México include:

e) Risks related to the work cycle: The savings accumulated in the individual account at the end of the working life, available to finance the pension, depend directly on the level and evolution of remuneration, the periods of employment, unemployment, and inactivity, and the types of employment (formal, informal, independent) that workers register during their working life. There is then a risk that workers will register a high and unexpected number of months without contributions, and that this will affect the pension levels they can finance.

f) Investment risk: The performance of the Siefores' investments depends on several external and internal factors like the macroeconomic outlook, market conditions, as well as every internal investment process. Currently, since the establishment of the SAR in 1997, the average nominal annual return of the system is around 10%. This return, along with a wide diversification strategy that includes several asset classes like stocks, bonds, FIBRAs (Real Estate Investment Trusts), structured assets as CKDs and CERPIs (Alternative Assets) and commodities provides a significant portion of the pension's funding. However, a risk arises when members make frequent and unfounded changes of investment funds, based on short-term considerations or attempts at market timing. Also, because of the lack of experience and the implementation of good practices of specific managers and intermediaries at the (relatively) new asset classes. To mitigate this risk, reviewing the frequency of allowed fund changes and improving educational information for members is crucial. Finally, low interest rates at retirement can also pose a challenge, as they can affect the conversion of accumulated balances into a sustainable pension income.

5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?

In Mexico, several measures have been implemented to manage long-term risks in Defined Contribution (DC) schemes. These measures include:

i) Estimation of pension amounts and risk: The National Commission of the Retirement Savings System (CONSAR) has made available to affiliates a calculator that allows them to estimate pension amounts and the probability of achieving a certain pension goal with voluntary contributions (additional contributions).

j) Regulatory Oversight: The National Commission of the Retirement Savings System (CONSAR) supervises and regulates the pension system in Mexico, ensuring compliance with regulations, transparency, and accountability. This regulatory oversight helps protect the interests of pension savers and promotes a stable and secure pension system.

k) Life-Cycle Funds: In 2019 the regulator established ten different Target Date funds aligned with the year of birth of the workers and with a glidepath of diminishing exposure to risky assets.

l) Risk Management Processes: Pension funds in México incorporate risk management procedures known as the BCP (Business Continuity Plan) and DRP (Disaster Recovery Plan) to address investment risks, operational failures, and other potential risks that could affect the workers' heritage. These processes aim to enhance the security and stability of pension savings over time.

m) Gradual expansion of authorized investment instruments of the Investment Regime. As the gradual inclusion of new capital market developed and improved, and as authorities and administrators gained experience, the investment options for pension funds were expanded, contributing to better diversification and reduced investment risk. The authorization for foreign investment through stocks, bonds and more recently, trough CERPIs was a very important measure in this regard.

6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?

Effective communication strategies play a crucial role in educating individuals about the risks and helping them make informed decisions regarding their retirement savings. Some examples of initiatives and strategies include:

h) Transparency and Education Mechanisms: One key approach is to increase member understanding through transparency and education within DC pension systems. This involves providing clear information about the risks, investment options, costs, and potential outcomes associated with DC schemes to empower individuals to make informed decisions.

i) Quality of Service Comparisons: In Mexico. The CONSAR evaluates AFORE to encourage them to provide greater coverage and quality in their services and operations, as well as encourage voluntary savings and the registration of new accounts, actions that in the future will help increase workers' pensions.

j) Pension estimation: Pension fund administrators are required to send their members, in addition to statements of account with accumulated savings balances, returns and costs, reports with an estimate of the pensions they will be able to finance under certain assumptions. In addition, they make pension simulators available to their members.
7. What are the responsibilities and obligations of sponsors in DC schemes?
The responsibilities and obligations of sponsors (employers) in Mandatory Defined Contribution (DC) schemes include the timely payment of pension contributions to the Retirement Fund Administrators (AFORE). Sponsors do not have a direct role in governance as the choice of managing entity is made by the member, and they are not involved in selecting the entity that manages the pension funds within the DC scheme. In Mexico, the regulation establishes that the largest proportion of contribution is made by the employer.
8. How does your country address the challenge of managing the decumulation phase within DC schemes?
México has taken several measures to address the challenges of managing the decumulation phase within its private DC pension system: h) Universal guaranteed pension. The Mexican pension system has a first pillar that grants a minimum pension to all people who reach the age of 65. i) Obligation to convert accumulated savings in the individual account into a pension stream. Withdrawal of funds is only possible when members retire if they can finance a pension amount that exceeds a minimum level established by regulations. j) Allowing different pension options: The Mexican pension system offers various pension options during the decumulation phase, such as programmed withdrawals, life annuities and a combination of both. This flexibility allows retirees to choose the option that best suits their needs and risk preferences. k) Limitation on the choice of pension funds in the retirement phase. At the express will of the Worker, the AFORE must transfer the resources of the Individual Account with pension attribute that serve to finance pension payments to the SIEFORE that this choose or where appropriate, transfer them to the Basic Pension SIEFORE or the SIEFORE that determines the CONSAR. The SBP (Basic Pension SIEFORE), has a conservative investment thesis that allows that the resources of the worker remain invested with a low risk profile (mainly in Mexican Government Bonds).Finally, it is important to address that all the SIEFORES have a glidepath, which adapts respectively to the stablished limits of the investment regime that consider the age and a fitted risk-return profile.
9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?

National supervisors and policymakers in Mexico have several key responsibilities and obligations in overseeing and regulating the private pension system:

h) Establish a robust regulatory framework: There is extensive regulation based on numerous complementary standards that regulate the operation of the private pension Mexican system. This includes regulating the investment process of pension fund resources and the operations of the AFORES.

i) Promoting transparency and competition: Policymakers have introduced measures to promote transparency and competition in the private pension system, such as allowing workers to freely choose their pension fund administrator and type of pension fund and reducing entry barriers for new competitors in the administration of pension funds and the offer of pension modalities.

9. Peru

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?

The Peruvian pension system has a non-contributory safety-net and earnings- related contributory component. The non-contributory pension provides a modest benefit to individuals in extreme poverty that do not have access to a contributory pension, denominated Pensión 65 for retirement pension y Contigo for disability pensions, both managed by the Ministry of Development and Social Inclusion (Ministerio de Desarrollo e Inclusión Social [MIDIS]).

The earnings-related pension, mandatory for all formal workers, is made up of a public and private systems to operate in parallel. The public system is a defined-benefit pay-as-you-go (PAYG) system managed by the public sector (National Pension System, Sistema Nacional de Pensiones [SNP]) and the private system is a defined-contribution individual system managed by the private sector (Private Pension System, Sistema Privado de Pensiones [SPP]). Workers must choose whether to contribute to the SNP or to the SPP; if they don't express a preference, they are affiliated to the SPP, by default. New entrants into the SPP are enrolled to contribute to the pension fund administrators (Administradoras de Fondos de Pensiones, [AFP]) winning the last auction, AFP who offer the lower commission. The AFP are required to offer four different investment funds with varying risk profiles. The system allows for free choice of AFP and type of pension fund for social security savings.

Although contributions are not mandatory for formal self-employed workers, they can voluntarily choose to contribute to either system. Several special contributory pension schemes also exist for workers in specific occupations, but many of these have been closed to new entrants. Workers affiliated with the SPP may also make additional voluntary contributions to their pension accounts.

2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
The most prominent form of occupational pension provision in Peru is based on individual capitalization, with the almost the 70% of affiliations in the SPP for over the SNP. Employers have the responsibility to provide sufficient information to workers so that they can make the decision that best suits their needs. In the SPP, the amount of pension received is directly related to the individual's savings effort, creating a direct link between personal contributions and pension benefits, with an average retirement pension of PEN 1,125.02 (USD 302.18). This is a radical difference with respect to pay-as-you-go system, with an average retirement pension of PEN 704.75 (USD 189.30), where 1 out of every 2 workers lose all their savings because they do not meet the minimum contribution requirements (10 years). Both systems, private and public, provide benefits in the form of 1) retirement pensions; 2) disability pensions; and 3) survivor pensions for spouses, dependent children and dependent parents. In addition, individuals working in hazardous or arduous occupations are covered for disability and survival insurance under the Complementary Insurance for Risky Occupations (Seguro Complementario de Trabajo de Riesgo, [SCTR]) scheme. Nevertheless, in SPP the fund account is hereditary, the life annuities have indexed options, and the disability pension have the participation of the insurance company that can guaranty a pension up to 70% of income. The legal retirement age is 65 under both systems, but several options for individuals to retire early also exist, at age 50.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
Yes, the SPP has been increasing asset allocation since the beginning of the mandatory individual pension system in 1992 with the Decree Law 25897. The currently four AFP managed a total of PEN 174.8 billion in pension assets (23% of GDP) at the end of 2019, tripling the contributions of their affiliates. In the context of the COVID-19 pandemic, the Government mandated a several rounds of private pension withdrawals. Hence, between 2020 and 2022 was approval six extraordinary withdrawals (Urgency Decree 034, Urgency Decree 038, Law 31017, Law 31068, Law 31192, and Law 31478), equivalent to half of the pension system' assets and around 10% of GDP (PEN 87.9 billion). The asset allocation managed decreased to PEN 128.4 billion at May 2024, as a result of required to sell long-term assets. In 2024, despite the end of the state of health emergency, Congress-mandated a seventh withdrawal (Law 32002) that allows a withdrawal per member of up to PEN 20,600, without exception, which has been in the process since June of the present year. The AFPs have achieved a nominal annual return on investments as of May 2024 of 10.06% for the type 2 fund (where 91% of affiliates are located), which demonstrates the commitment of the AFP to their affiliates, despite operating in an environment of legal instability.
4. What do you identify as the primary long-term risks for DC savers?

In the case of Peru, the main long-term risks for savers in DC and DB schemes are:

a) Risks related to the work cycle, informality and illegality (DB and DC): the Peruvian labor market is highly informal, impacting the coverage of the DB and DC systems. Nearly 71.1% of the population works in the informal sector. Frequent transitions between formality, informality and inactivity are an important additional problem, as these generate significant gaps in workers' contributions to the pension system. As a result, contribution densities (i.e., the percentage of time contributed into a pension system) are low, with an average of six years of contributions in all contributory regimes due to high job rotation. This situation has a greater impact on the most disadvantaged, who are more likely to leave the formal sector recurrently, which leads to low pension savings in the SPP and none in the SNP. Thus, in the SPP the savings accumulated in the individual account have a positive relationship with contributions (remuneration and periodicity), achieving a transparent relationship between contribution and pension, while in the SNP the lower number of people receiving pensions (only 2 out of 10 affiliates aged 65 and over) at a cost of PEN 3.8 billion per year (government transfer in 2023) as result of the financial imbalance between contributions and pension promises.

b) Longevity risk: life expectancy combined with declining fertility rates represents a long-term challenge for pension systems (DB and DC) in terms of providing financially and socially sustainable pensions in a context of progressive aging. This requires taking measures in the future to ensure the long-term financial sustainability of the system, as well as to incorporate an automatic balancing mechanism in the benefit calculation formula to account for population ageing, and especially for improvements in life expectancy. Indeed, the risk is increased by recognizing that the contribution rate has not increased since the creation of both systems in 1992. In contrast, since 2015, mandatory contributions were reduced from 14 to 12 contributions per year with Law 30334 that established the exemption of payments on the bonuses of the National Holidays and Christmas.

c) Inflation risk: the private scheme is the only pension provider that have various combinations of pay-out options involving life annuities, from insurance companies, that include the possibility of payments indexed. Before the approbation of lump sum, in 2016, the system granted a replacement rate of 72% after a 23-year career. In contrast, the public PAYG system has not been pension indexed to inflation or wage growth. Supreme Decree 099-2002 established that the future replacement rate for someone entering the labor market today would be 30% for a 20-year career. The Organisation for Economic Co-operation and Development (OECD)[2], mentioned that in the long-term if the maximum pension is not indexed in the public PAYG system, the future replacement rate would only be 9.9%.

d) Structural risk: the contributory component is made up of a public and a private scheme that function as two separate alternatives for workers. As in other Latin American countries, the introduction of private pensions in Peru was driven by fiscal pressures on its public PAYG system as a result of changing demographics and resulting imbalance between contributions and pension promises, problem that actually persist in Peru. However, due to political considerations and the cost of transitioning fully to a private pension system, Peru maintained the public PAYG system and introduced the funded individual accounts in parallel rather than moving fully to a private

[2] OECD (2019), OECD Reviews of Pension Systems: Peru, OECD Reviews of Pension Systems, OECD Publishing, Paris, https://doi.org/10.1787/e80b4071-en.

system, with only guaranty of pension in the public pension system, despite both schemes operate in an informal an illegally labor market.

e) Investment risk: the performance of the individually funded system depends on internal and external factors, in terms of investment strategies (asset selection, diversification, risk management and investment horizon), applied considering market volatility and economic and political events. The historical annual nominal return on investments in the SPP was 10.29% for the type 2 fund, where 91% of affiliates are located. Consequently, the factors affecting the growth, variability and yield of the retirement funds are mitigated by the administrators with the diversification of investments among different asset classes, sectors, geographical areas, funds and currencies, seeking a balanced portfolio.

f) Operational risk and cost: the AFP have collaborated to establish a centralised system, denominated AFPnet, that collects contributions and centralises other common administrative tasks. Employers manage the payments of affiliates' contributions to the AFP through this system. The AFPnet platform, managed by the AFP for the private system, demonstrates the advantages of such an approach to increase administrative efficiency, at a cost ten times cheaper than what is charged by the SNP through the authority responsible for the collection and control of taxes is the National Superintendence of Tax Administration (Superintendencia Nacional de Administración Tributaria [SUNAT]). This cost is assumed by the administrators, unlike the SNP, which is deducted from the contribution made by workers to the system. According to OECD (2019), this type of platform (AFPnet) could be extended to manage contributions for both the public and private systems.

5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?

In Peru, some measures have been implemented to manage long-term risks in DC schemes. These measures include:

a) Multi-Fund investment: the AFP are required to offer four different investment funds with varying risk profiles. The default fund for new affiliates is the Mixed Fund (Fund 2), which can have up to 45% investment in equities. People can choose to invest in the Growth Fund (Fund 3), which can invest in up to 80% of equities. AFP are required to automatically transfer the affiliate's investment to the Capital Preservation Fund (Fund 1), who can invest up to 10% in equities, when they reach age 60, unless the affiliate requests in writing to stay in Fund 0 or Fund 2. The Super Conservative Fund (Fund 0) is required for individuals aged 65 and over unless they provide a written request to stay in Fund 1 or Fund 2. The historical annual nominal return on investments in the SPP was 10.29% in the type 2 fund (where 91% of affiliates are located) over 30 years, 9.59% in type 3 fund (with 2.7% of affiliates) over 18 years, 6.61% in type 1 fund (with 4.4% of affiliates) over 18 years, and 4.37% in type 0 fund (2.0% of affiliates) over 8 years.

b) Guidelines for the design of the investment policy: the Superintendency of Banking, Insurance, and Private Pension Administrators of Perú (Superindendencia de Banca, Seguros y AFP [SBS]), establishes the global investment policy for the SPP portfolio, and includes long-term diversification, tactical diversification, the global portfolio construction model, portfolio monitoring and rebalancing, liquidity, valuation guidelines for the invested instruments, guidelines for preparing and approving the policies including the responsible entity, internal limits or restrictions on investments, and the currency trading policy. Each investment manager is responsible for the preparation of the investment policy, which must be evaluated and approved in consideration of the guidelines above. As part of this, the managers must establish a minimum, maximum and target percentage of investment for each active asset class, internal investment limits, and the acceptable levels of leverage in derivative investment, among other considerations. The SBS is responsible for reviewing and approving the investment policies and their modifications.

c) Retirement modalities and advice: in SPP individuals can choose to receive their pension in one of three ways, or in some combination, with the assistance of an advisor: (1) Leave their assets invested with the AFP and take a programmed withdrawal, calculated taking into account their balance, age, gender and family; (2) Transfer their assets to an insurance company to purchase a life annuity, in these cases, retirees must pay 4% of their pension monthly to the Nacional Social Health Security (EsSalud) to finance health benefits; and (3) Take 95.5% of their assets as a lump-sum, with the remaining 4.5% transferred to the EsSalud to finance their health coverage (since April 2016, Law 30425).

d) Regulation Oversight: The SPP is regulated and supervised by the SBS and is the only pension provider that is regulated. The SBS is independent and has regulatory, supervisory and sanctioning powers, but its regulatory power in pension matters is more limited than that of banking and insurance, because parameter changes can only be made through the Government.

To adopt the best international practices and effectively mitigate long-term risks in DC schemes, some key strategies stand out:

a) Pension education: the AFP Association promotes the professional and technical development of young people, providing a digital platform for teaching basic concepts of pensions, finance and insurance in general, as well as the understanding of risk concepts and short, medium and long-term forecasting through courses such as Gestionando mis Finanzas (GMF). This was achieved through collaboration with various educational institutions to integrate these courses into their curricula.

b) Pension simulator: the AFP have implemented the use of pension simulators. This tool is crucial as it provides a comprehensive view of the affiliate's future financial situation in terms of retirement. It allows for accurately projecting future pensions and making informed financial decisions, thereby contributing to effectively mitigating long-term risks and better planning for retirement.

c) Transparency: the AFP in Peru provide detailed information on account balances, generated returns, contributions made, and other relevant aspects for monitoring pension funds. This transparency and access to information are essential for affiliates to make informed decisions about their financial future and adequately plan for retirement.

d) Regulatory Framework: the legally imposed framework for corporate governance in Peru aims to promote transparency, independence, and competence. It stipulates the requirements and responsibilities of the board of directors and CEO, addresses conflicts of interest, and requires the financial institutions of the pension system to act in the best interests of members.

e) The governance principles: the board of directors and the CEO are responsible for ensuring that banks, insurance companies and AFPs implement best practices around corporate governance. At least two members of the board of the AFP must be independent. The governance principles that the board should enforce include the establishment of internal policies to support good governance, the review of the external audit process, and transparency around conflicts of interest, in particular the relationship that directors have with the AFP.

6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?

Effective communication strategies play a crucial role in educating and informing affiliates and beneficiaries about the long-term risks associated with their pensions. Moreover, these strategies help them make informed decisions about their retirement savings. Here are some examples of initiatives and strategies:

a) The AFP have developed financial education programs that include workshops, seminars, and online courses. These programs are designed to help affiliates better understand how their pensions work and the associated risks.

b) The use of digital platforms and mobile applications allows affiliates to access detailed information about their funds, pension projections, and risk analyses. These interactive tools facilitate informed decision-making.

c) Personalized communication is crucial for affiliates. In this regard, quarterly and annual reports are sent, detailing the status of their individual accounts, the performance of their investments, and potential risks. These communications typically include graphs and clear explanations to facilitate the understanding of complex information.

d) The AFP have launched awareness campaigns through mass media (television, radio, social media) to inform affiliates about the importance of planning for the future and understanding the inherent risks in their pension fund investments. For example, they have conducted campaigns on social media using explanatory videos and interactive posts to educate their affiliates about the importance of long-term savings and investment diversification.

e) Offering personalized advisory services, where affiliates receive direct guidance on managing their pension funds and strategies to mitigate long-term risks, is highly valued. The AFPs provide these services through meetings with financial advisors, webinars, and Q&A sessions.

By implementing these initiatives and communication strategies, beneficiaries of DC pension schemes can understand the importance of saving for retirement. Additionally, financial literacy is promoted, making it easier for people to effectively navigate the long-term risks associated with DC schemes.

7. What are the responsibilities and obligations of sponsors in DC schemes?

The responsibilities and obligations of sponsors (employers) include the clearly and comprehensively inform employees about the available affiliation options, about DC and BD schemes, explaining the benefits and characteristics of each, as well as the procedures for affiliation. The employers must affiliate process, provide forms and assistance in filling out documents, ensuring compliance with established deadlines. Additionally, employers have the responsibility to facilitate employee contributions to the pension system, which may include automatic deductions from salaries for mandatory contributions (10% of monthly salary) and providing necessary information for employees to make voluntary contributions independently.

8. How does your country address the challenge of managing the decumulation phase within DC schemes?

Peru has implemented various measures to address the challenges of managing the decumulation phase within its DC scheme. Below are the main forms of access to retirement pensions and the special regimes available to affiliates:

a) Retirement by legal age. The affiliates can access their retirement pension upon reaching the legal age of 65.

b) Ordinary early retirement: This allows affiliates of the SPP to access their pension before the legal age if the accumulated fund guarantees them a pension equivalent to 40% or more of their average salary. Additionally, they must have maintained a contribution density of at least 60% over the last 120 months.

a) Early retirement due to unemployment: This regime is aimed at people over 50 and under 65 who have been unemployed for at least one year. To access this retirement, the affiliate must submit a sworn statement of unemployment.

b) Early retirement for workers performing high-risk jobs: This regime is intended for those affiliates who perform high-risk jobs, such as work in mining, metallurgical, and steel production centers exposed to toxicity, danger, and unhealthiness, as well as construction activities.

c) Minimum retirement pension: This benefit guarantees a minimum pension for those workers who meet the requirements of years of contribution (at least 20 years of effective contributions, including contributions to the SNP and/or SPP) and age (at least 65 years). There are two types of minimum pension:

  - Law 27617: Provides a state guarantee for workers who, meeting the requirements of years of contribution and age, do not reach a pension that exceeds the established minimum.

- Law 28991: Benefits SPP affiliates who belonged to the SNP at the time of the SPP's creation, granting them a minimum retirement pension equivalent to that received by SNP affiliates.

d) Lump sum: since 2016, Law 30425 allows individuals to take 95.5% of their accumulated assets as a lump-sum without penalty. As a result, nearly all retirees now take the lump-sum at retirement.

Finaly, upon receiving a retirement, disability, or survivor's pension, affiliates can choose from payment modalities that include programmed withdrawal, life annuity, temporary annuity with deferred life annuity, and staggered life annuity.

9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?

The SBS is an autonomous entity responsible for regulating and supervising the SPP in the country. Its main objective is to safeguard the interests of SPP affiliates, ensuring that the system is solid, solvent, and sustainable in the long-term.

a) The SBS is responsible for regulating the operations of AFP and the provision of benefits to their affiliates. It must also interpret the scope of the legal norms that govern the SPP and the AFP, adhering to the provisions of common law and the principles of law.

b) The SBS monitors AFP to ensure compliance with legal provisions and administrative directives. This includes overseeing the constitution, maintenance, operation, and application of the legal reserve and other profitability guarantees, as well as the investment of administered fund resources.

c) The SBS authorizes the organization and operation of AFP by granting licenses, and maintains records of AFPs, risk rating agencies, and other related entities.

d) The regulations detail the types of instruments and defines their classification as: i) Instruments representing rights over equity participation or stocks; ii) Instruments representing rights over obligations or debt securities; iii) Derivative instruments for portfolio coverage and efficient management; iv) Instruments representing rights over short-term obligations or cash assets; and v) Alternative instruments.

e) It issues provisions to standardize the information that AFP provide to their affiliates and the public, avoiding errors or confusion about their financial status and services. Additionally, it publishes the specific composition of the portfolio for each type of managed fund and its performance.

f) Sanctions and precautionary measures: In specific cases provided for by law, the SBS may impose sanctions and precautionary measures on companies under its supervision, including their dissolution and liquidation if necessary.

These policies and measures, designed to ensure prudent management of pension funds by the AFP, are essential to protect the interests of affiliates and guarantee the sustainability of the private pension system. It is crucial to establish legal stability in the pension system to maintain public confidence and achieve commitments to affiliates, ensuring their access to adequate pensions at retirement.

10. **Portugal**

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?
In terms of DB, the majority of the plans are funded non integrated with the social security. As for DC, almost funds are pure DC with individual choice of investment and there are few cases of DC with some element of guarantee. There are no Hybrid arrangements.
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
Our Members represent open and closed Pension Funds. The most prominent form of occupational pension provision are BD Plans of the Banking Sector.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
The shift from DB to DC schemes has happened some time ago. The BD Schemes that exist now are legacy.
4. What do you identify as the primary long-term risks for DC savers?
In respect of primary long-term risks for DC savers, the risk of inflation is the most relevant, because it will reduce the purchasing power of the benefits that will be paid in the future, meaning that the amount of contributions made may not be sufficient to pay for adequate pensions.

5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?
We do not have knowledge of specific measures, but the growing of life cycle strategies is a best practice that can be highlighted.
6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?
We do not have knowledge of specific initiatives with this purpose.
7. What are the responsibilities and obligations of sponsors in DC schemes?
The obligation of the Sponsor is to make contributions, since all other responsibilities lie within the Pension Fund Management Company.
8. How does your country address the challenge of managing the decumulation phase within DC schemes?”
Portugal has been coping well with the challenge of managing the decumulation phase within DC schemes, specially since 2019, when it was introduced the possibility that benefits originated from employers’ contribution to DC Plans may be also paid directly by Individual Accounts in Pension Funds, with investment and longevity risk beared by the Beneficiary, as alternative to the mandatory buying of annuities that prevailed until them
9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?
The DC market is quite incipient, it does not have sufficient maturity, so the focus has been on the promotion of these plans. In terms of policies taken, it is important to highlight that, since 2019, as opposed to the mandatory buying of annuities that prevailed until them, it was introduced the possibility that benefits originated from employers’ contribution to DC Plans may be paid directly by Pension Funds. The investment and longevity risks are borne by the beneficiaries, with the pension being paid until the accumulated amount runs out.

11. **Romania**

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?
2nd Pillar funds = DC with some investment choice (medium / high risk) and net capital guarantee (i.e. payouts must exceed gross contributions minus fees). 3rd Pillar funds = DC with some investment choice (medium / high risk) – some funds have net capital guarantee also (copying 2nd Pillar funds).
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
We represent 100% of the market, so all pension arrangements are DC with some investment choice and guarantees, as stated above. No DB or hybrid schemes available in Romania.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
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4. What do you identify as the primary long-term risks for DC savers?
Adequacy risks, deriving from low level of contributions. Currently 2nd Pillar contributions are 4.75% of gross income, 3rd Pillar contributions are 2-2.5% of gross income.
5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?
Industry is over-regulated with investment and capital requirement regulations, as well as guarantees. The regulator (ASF) often gets involved in micro-management of potentially risky situations for pension funds. The usual policy is “forbid if potentially risky”.
6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?
7. What are the responsibilities and obligations of sponsors in DC schemes?

Our system is individual (both 2nd and 3rd Pillar) – the sponsors are the beneficiaries themselves.
8. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?
All aspects of pension fund management (operations, investment, financials, etc.) are regulated.

12. **Spain**

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?
In Spain, there are pension plans with all the configurations mentioned above. Nevertheless, the vast majority are DC pension plans.
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
Our members offer second and third pillar pension plans. As mentioned previously, the vast majority are DC schemes.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
4. What do you identify as the primary long-term risks for DC savers?
• Inflation

• Market fluctuation • Massive reimbursements prior to its expected investment horizon, (i.e. In Spain, due to the incorporation of a legal gate, as of 2025, members will be able to reimburse contributions with at least 10 years of seniority. • Continuous legislative changes: Although it began in 2021, the Spanish Government has limited the contributions to the 3rd pillar to a maximum of 1.500 euros (8.000 euros until 2020). The foundation of any Pension system must be based on each of the three pillars.
5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?
• Investment rules • Eligible assets rules • Limited possibilities for early withdrawal before retirement • Transparency regime • Governance- risk management function • Delegation rules • Supervisory reporting: Quarterly information
6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?
There is a whole legal regime that deals with information requirements, pre contractual information and periodic information (yearly, half, and quarterly reports) in which risks are explained and informed.
7. What are the responsibilities and obligations of sponsors in DC schemes?
They are represented in the Supervisory committee as well as members. The Supervisory committee has the following responsibilities and obligations:

a) Monitor compliance with the clauses of the plan in all matters relating to the rights of its members and beneficiaries. b) Select the actuary or actuaries who shall certify the status and dynamics of the plan. c) Appoint the representatives of the plan in the Supervisory committee of the pension fund to which the pension plan is attached. d) To propose and, as the case may be, to decide on the other matters over which the Law confers them competence. (i.e. Investment Policy in conjunction with the investment company) e) To represent judicially and extrajudicially the interests of the participants and beneficiaries in relation to the pension plan.
8. How does your country address the challenge of managing the decumulation phase within DC schemes?
Our Pension legislative framework counts on eligible assets rules and investment rules that favours the liquidity match between investments and redemptions. Also, liquidity management tools are essential for liquidity management risks and should be clearly incorporated in the sectoral legislation. Beneficiaries can obtain their pension through a lump sum, annuity, or a mix of both, being capital the preferred option. For that matter, information is crucial, and while the IORP II Directive sets out the information to be provided in the pension benefit statement of the pension plan, in countries like Spain, where the pension bulk comes from the State, it should be mandatory that the Government provides citizens with a pension dashboard or pension tracker to help them understand their future pension situation and make better accumulation and decumulation choices .
9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?
There is a National Supervisor (DGSFP) in charge of the PP supervision regardless of their type. A summary of their responsibilities and obligations (art. 24 of Royal Decree 1/2002, of 29 of november) are: Supervision shall consist in the continuous verification of the right exercise of the activity, financial situation, market conduct and compliance with the pension plans and funds regulations. Pension plans and funds and their managing entities are subject to prudential supervision which shall include, where appropriate, among others, the following areas: (a) Operating conditions.

b) Technical provisions. c) The funding of technical provisions. d) Own resources requirements. e) The available solvency margin. f) The required solvency margin. g) Investment rules. h) Investment management. i) The governance structure; and j) The information to be provided to member and beneficiaries. Prudential supervision shall be based on a prospective and risk-oriented approach. Supervisory powers shall be exercised in a timely and proportionate manner taking into account the size, nature, scale and complexity of the pension funds' activities and shall include an appropriate mix of on-site inspections and off-site activities. Liquidity management tools are essential for liquidity management risks and adequate running of stress tests are also beneficial for dealing with long-term risks.

13. **Switzerland**

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?
The law defines the minimum legal requirements for occupational provisions.

There are two types of pension scheme in Switzerland: defined benefit plans; and defined contribution plans (which are rare in practice). In defined benefit plans, benefits are fixed in advance and their amount is usually based on the amount of the insured salary. Defined contribution plans provide for benefits which are fixed only when they are to be paid and their amount is determined in light of the accrued contributions of the insured.
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
DB schemes. Cf. 1. 'But 1e' pension plans are a form of 'top-hat' pension plan allowing employees much more flexibility in the management of the extra-mandatory portion of their pension contributions. Although they've been around for some time, so far they haven't been adopted on a large scale. Impending changes to Swiss law will make them a much more attractive proposition for many more employers – so much so that 1e plans have the potential to significantly change the face of Swiss pensions. Named after the legislation that forms their legal basis (Article 1e of the Ordinance on Occupational Old-Age, Survivors' and Disability Benefit Plans, OBB2/BVV2), '1e' pension plans are a special arrangement enabling employees to choose the investment strategy for pension contributions based on earnings above CHF 126,900 (1 January 2016). Typically that's people in middle management and above, depending on the industry and organisation. In theory, 1e plans are a great way of giving financially aware and engaged employees greater control of, and greater responsibility for, their retirement savings – which will be vital to the health of occupational pensions in this country going forward (see Room for manoeuvre despite regulation). In practice, however, adoption of 1e plans (with the exception of a handful of large organisations) has been very limited.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
4. What do you identify as the primary long-term risks for DC savers?
Once the fund promises a lump-sum benefit on retirement instead of a pension, and if other biometric risks are provided in the form of a lump sum and are insured, there will be no significant further risks to the company. The expense will be the cash contributions payable to the plan, but there will be no balance sheet item. A seemingly minor change in the law will mean that suddenly 1e plans will look a lot more attractive for many employers that would previously not have considered offering them.

5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?
6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?
7. What are the responsibilities and obligations of sponsors in DC schemes?
8. How is the decumulation phase for DC schemes organised in your country?
The mandatory 2nd pillar - although it looks like a defined contribution plan - is actually a defined benefit plan because it is based on a performance target: The 2nd pillar ensures that pensioners can continue their accustomed standard of living in an appropriate manner (Art. 113 of the Swiss Constitution para. 2 letter a): “Occupational benefits insurance, together with old-age survivors' and disability insurance, enables pensioners to continue their accustomed standard of living in an appropriate manner.” The two terms “accustomed standard of living” and “appropriate manner” are undefined legal terms, but there are concrete ideas behind them. The benefit target is for the AHV and pension fund pensions together to reach around 60% of the former salary. The pension fund benefits also include the regulatory benefits (in addition to the BVG). The pension funds are so-called registered pension funds.
9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?

14. **United Kingdom**

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?
DB – Final Salary (most closed to new entrants but some open)/ Career Average Schemes (mostly in public sector) DC – DC Trust Schemes, Master Trust Schemes, Group Personal Pension Schemes, Individual Personal Pension Schemes Hybrid – Collective Defined Contribution Schemes. The Royal Mail Scheme is currently the only CDC scheme in the UK and is a single employer scheme.
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
Our members represent Defined Contribution, Defined Benefit, Master Trust, and Local Government Pension Schemes. Defined Contribution is now the most prominent form of occupational pension provision by scheme membership. The LGPS remains the largest scheme by assets under management.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
There has been a significant shift in asset allocation in DC schemes over the past five years. The pensions policy institute in the UK note that there are 4 main reasons for this shift: • People are living longer, but not retiring later. • The long-run investment returns on pension funds are projected to fall in future. • Pension funds are now less tax advantaged since the changes in Advance Corporation Tax introduced in 1997. • The value of benefits has increased as regulation has imposed higher minimum standards—such as statutory indexation and the provision of spouses' pensions—which costs more. Administering a DC scheme or enrolling employees into a Master Trust DC scheme is considerably cheaper than administering a traditional final salary DB scheme. Automatic Enrolment was introduced following the Pensions Act 2008. The implementation of the legislative requirement to automatically enrol eligible employees into a workplace pension began in October 2012.
4. What do you identify as the primary long-term risks for DC savers?

In the UK, we perceive the adequacy of DC pensions to be the primary long-term risk for DC savers with many forecast to fall short of an adequate income in retirement due to low minimum contribution rates. In our Five steps to better pensions, the PLSA proposed key reforms to boost adequacy in the UK pensions landscape. Namely: 1. **New adequate, affordable, and fair objectives** for the UK pensions system. 2. **Maintain the value of the state pension. pension** to protect against pensioner poverty and cover all basic needs. It plays an essential role in the pension provision of most workers so its current value should be maintained in line with the Triple Lock and, when affordable, increased. 3. **Reform AE.** We argue that the Government should raise the minimum contribution levels for automatic enrolment from 8% of band earnings to 12% of total salary and rebalance employer/employee contributions so that they pay 50% each. This will ensure that pension saving remains affordable for savers. We have developed our position to take into account the cost-of-living crisis, so that AE contributions are increased to 10% by 2030 and 12% in early 2030s. 4. **Policy interventions to help under pensioned groups**. Conduct additional research into under pensioned groups, chiefly women, and ethnic minorities. Explore employer guidance on helping under pensioned groups make decisions on their workplace pension. We welcome the changes to childcare costs and its potential positive impact on the gender pensions gap. The status of gig economy workers should be clarified apropos of their AE eligibility in any forthcoming employment bill. In addition, the 2015 pension freedoms allow savers more flexibility when accessing their pension savings with the option to take 25% as a tax-free lump sum, a drawdown product, or an annuity (or a combination of the three). This presents savers with complex financial decisions to make which open them up to risks if they are not sufficiently supported in their retirement planning. That is why we are calling on government, regulators and the industry to adopt the PLSA's Guided Retirement Income Choices (GRIC), to support retirees with these complex decisions, irrespective of what kind of pension or provider they have. The key elements of the framework are: • **To guide and inform savers** – a saver engagement journey, informed by behavioural economics, and deploying a 'path of least resistance' that enables schemes to signpost savers to a retirement solution either inside or outside the scheme. • **To deliver well-designed solutions** – a set of minimum product standards that require schemes, who are better able than savers, to trade off the numerous and complex risks faced at retirement. • **To support schemes to deliver the framework** – key governance minimum standards to underpin the design and delivery of the above elements.
5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?
In the UK, risks in DC are borne entirely by the saver. As previously mentioned, most of the UK population are saving into a DC pension, however research suggests that these levels are too low under current AE minimum (8%). In addition to this, the pension freedoms, which were introduced in 2015, meant that savers no longer had to buy annuity with their pensions pots. This has given savers more choice and flexibility in how they spend their money in retirement but, also presented challenges where they have to manage their own longevity risk.

There are currently a number of Government initiatives underway to improve the DC landscape for savers which include: • Introduction of UK pensions dashboards where savers will be able to see all of their pensions in one place. • The review of the advice/guidance boundary, which is currently being led by Government and Regulators to help schemes deliver enhanced guidance to savers at retirement. • Delivering a value for money framework for DC schemes to encourage a shift from cost to value to help savers get more out of their savings. • Ending the proliferation of small pots. The growth of deferred small pots has been a longstanding issue that presents huge challenges to the Automatic Enrolment pensions market. Without intervention it is anticipated that deferred small pots will result in wasted administration costs of a third of a billion pounds per year by 2030 for pension schemes, severely reducing the value for money they can provide to their members. There are also operational risks which need to be managed – such as monitoring contribution payments, measuring transfer times against SLAs, or scheme liquidity. Fundamentally, there are also business level risks, which are aspects that the Pensions Regulator supervises e.g. the stability and solvency of the scheme funder, though these differ between DB and DC schemes and are therefore mostly a focus of the regulator for DB schemes. In terms of best practice, the Pension Quality Mark is an initiative that the PLSA introduced as a way of identifying and celebrating good quality DC pensions in the UK. Accreditation for the PQM Mark is granted where a scheme has good governance standards and offers contributions of at least 12% with 6% falling on the employer. PQM plus is granted at 15% total contributions with at least 10% coming from the employer.
6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?
We operate the Retirement Living Standards which are a tool designed to inform beneficiaries and others about how their lifestyle might look like in retirement based on three different levels pitched at minimum, moderate and comfortable. Additionally, we jointly operate the Pay Your Pension Some Attention campaign. The Pension Attention campaign is a co-ordinated industry campaign to boost pension awareness and engagement and to prompt savers to assess their position and take action toward their financial future. The 2023 campaign asked savers to 'look back' to try and trace any lost pensions that may have accrued, 'lean in' to understand how much they have currently saved and what this might be worth come retirement and 'move forward' by developing a targeted retirement plan.

The Pension Quality Mark is an initiative that we introduced as a way of identifying and celebrating good quality DC pensions in the UK. Accreditation for the PQM Mark is granted where a scheme has good governance standards and offers contributions of at least 12% with 6% falling on the employer. PQM plus is granted at 15% total contributions with at least 10% coming from the employer.
7. What are the responsibilities and obligations of sponsors in DC schemes?

According to the Pensions Regulator’s Trustee toolkit, Sponsors of a DC scheme are responsible for paying contributions, maintaining financial records and requirements, Investment decisions, professional advisers and service providers, maintaining scheme records, members, registration and reporting. Furthermore, a trustee of a sponsor should:
• ensure that provision is made for members who don’t choose an investment option.
• understand the investment options they offer members and make sure they are offering appropriate fund choices.
• help members to understand that how much they receive from the scheme is linked to how much they pay in
• encourage members to obtain advice and provide as much support as possible.
• provide timely and relevant information to:
    o prospective members about the scheme
    o current members about their savings
    o members approaching retirement about the options they have.

8. How does your country address the challenge of managing the decumulation phase within DC schemes?
The 2015 pension freedoms offer savers more flexibility and choice, but also more risks for savers to consider. There is still much work to do to ensure people are able to negotiate the path from saving to drawing their pension successfully. Our proposed Guided Retirement Income Choices framework provides a basis for reform. We believe there should be a requirement on trustees, set out in legislation, to support their members at the point of retirement with suitable products underpinned by common standards, so that savers can rely on the availability of safe and effective solutions. The Government consulted on proposals to introduce a framework that was similar to our suggested proposals over the past year, however this will require primary legislation. The General Election has meant that work on this area will be placed on hold until a new Government is formed.
9. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?
Most DC schemes are regulated in the UK by the Pensions Regulator (TPR) although some, which are contract based, are regulated by the Financial Conduct Authority (FCA) These two regulatory bodies have a number of duties in protecting member benefits.

TPR are responsible for:

- making sure employers put their staff into a pension scheme and pay money into it (via ‘automatic enrolment’)
- protecting people’s savings in workplace pensions
- improving the way that workplace pension schemes are run
- reducing the risk of pension schemes ending up in the **Pension Protection Fund (PPF)**

The FCA has an overarching strategic objective to ensure that the relevant markets function well. This is embodied in its three operational objectives:

- to secure an appropriate degree of protection for consumers
- to protect and enhance the integrity of the UK financial system
- to promote effective competition in the interests of consumers in the market for financial services.

Ultimately, it is the Government who are responsible for policy changes to the pensions industry. The PLSA works with Government to lobby for changes to the pension landscape in the best interest of savers. The reports mentioned in this questionnaire are hyperlinked below:

- **five steps to better pensions report**
- **Guided Retirement Income choices report.**

15. **United States (from NCPERS)**

1. What types of DB (funded/ PAYG), DC (Pure DC with individual choice of investment, Pure DC with no choice of investment and individual accounts, DC with some element of guarantee, Collective DC), Hybrid (please describe) or Other (please describe) exist in your country?

- DB plans in the US are mostly funded.
- DC plans are mostly pure DC.
- A limited number of Hybrid plans exist, mainly in the public sector – these plans combine elements of DB and DC plans.
- In the U.S. DC plans are dominant, especially in the private sector. While there have been recent press coverage of a few notable large employers considering going back to DB plans. However, the details are not that promising as the primary reason for this consideration are accounting gimmicks and ultimately efforts to save money.

• There are marked differences in the type of plan available to workers in private and public sectors. For example, about 69 % of private sector workers have access to a DC plan. In the public sector 92 % of workers have access to a DB plan. • About 58 million workers (about 37 % of the workforce) do not have access to a retirement plan.
2. What types of pensions do your members represent? What is the most prominent form of occupational pension provision in your country?
• Members of National Conference on Public Employee Retirement Systems (NCPERS) consist of pension plans in the public sector. • The most prominent form of pension in the public sector is DB plans. In a few jurisdictions DB pensions were converted into DC plans but they have either converted or trying to convert back into a DB plan. • In the country as a whole predominant form of pension is DC plans.
3. Has there been an increase in the asset allocation in DC schemes over the past 5 years in your country? If yes, what are the main reasons behind the shift from DB to DC schemes? Are there any regulatory or legislative factors that have contributed to the shift towards DC schemes in your country?
• Yes. DC assets in the U.S. have increased from $8.9 trillion in 2019 to $9.9 trillion in third quarter of 2023 (the latest data available). • The main reason is decline in labour unions. • Another reason is the shift in economy from manufacturing to service. The companies that traditionally offered DB plans, including steel, manufacturing, etc., faced tough economic times and in the meantime companies in the service sector such as hospitality, retail that usually offered DC plans grew. • Establishment of well-intended funding, reporting, and fiduciary requirements as well as accounting changes have increased administrative burdens and costs of maintaining DB plans; and employer contribution volatilities that led most private sector employers to abandon DB plans and shift to DC plans.
4. What do you identify as the primary long-term risks for DC savers?
• Apart from investment, longevity, inflation risks borne by DC savers, long-term risk for DC savers is the hidden fees that financial institutions charge to maintain DC accounts. • Another risk is lack of expertise and knowledge among DC savers to manage their investments.

Finally, during tough economic times employees and employers may cut back on their contributions to DC plans. For example, during 2021-2022, average employee contributions dropped from 8.3 % to 7.4% of their pay. The same figures for employer contributions were 5.6 % and 4.8 %.
5. Could you please provide insights into the measures implemented in your country to manage long-term risks in DC schemes? Additionally, are there any best practices among your members for effectively mitigating long-term risks?
- Some DC plan sponsors are using auto-enrolment approach instead of allowing workers to sign up for DC plan.   - Some employers are asking financial institutions to provide date certain investment options for employees to invest in.   - More than a dozen states are at various stages in implementing NCPERS' Secure Choice plan which offers DC plan to small employers in the private sector through public DB plans.   - Congress in 2019 enhanced some options in DC plans through SECURE (Setting Every Community Up for Retirement Enhancement) Act. The legislation increased the age for triggering required minimum distributions (RMDs) from 70 1/2 to 72.   - Secure Act also allows participants to take a distribution of a lifetime income investment and roll it into another plan, without withdrawal restrictions, provided their plan no longer offers that investment option.
6. Are there any initiatives among your members aimed at informing members and beneficiaries about the long-term risks associated with their DC pensions? Furthermore, if available, could you provide examples of effective communication strategies implemented in this context?
- Most of our members – public sector DB plans – have communications programs.   - NCPERS holds regular education and communications programs to help pension plans communicate effectively with plan participants, public, and policy makers.
7. What are the responsibilities and obligations of sponsors in DC schemes?
- Sponsors of DC plans need to ensure that fees are reasonable and transparent.   - Ensure that plan participants have adequate investment choices and understanding of risks entailed in specific investment options.   - Provide educational program in retirement planning.

8. What are national supervisors' and policymakers' responsibilities and obligations in overseeing and regulating DC schemes? What types of policies can contribute to mitigating the long-term risks associated with DC schemes?

- National regulators and policymakers need to make sure that financial institutions that manage DC participants’ assets are held to the highest fiduciary standards.
- National regulators should ensure that employers do not cut back on their share of contributions to DC plans.
- Policy makers should explore and implement a national Combined DC plan (or something along those lines) that acts as a DB plan in which investments are pooled and professionally managed, losses are insured, and pensions are not only determined by a formula but are guaranteed with adequate cost of living adjustments.

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