RETIREMENT SAVINGS AND COVID-19: RESPONSES AND GUIDELINES FOR POLICY

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BETTER POLICIES FOR BETTER LIVES

Structure of the presentation

- Challenges facing retirement savings schemes
- Measures implemented to address the impact of COVID-19 and the economic lockdown, on funded retirement arrangements
- OECD policy guidelines

Challenges: Several impacts on retirement

- COVID-19 and the economic lockdown have led multiple impacts on funded retirement arrangements and on retirement savings
  1. A fall in the value of **assets** comprising retirement portfolios
  2. An increase in the **liabilities** of retirement arrangements that include retirement income promises
  3. Lower **capability to contribute** to retirement saving plans from individuals, as they see their wages reduced or lose their jobs, and employers, suffering financial distress

Challenges: Several impacts on retirement

- Individuals, regulators, supervisors and providers, are also expose to
  - Cyber-risk, frauds and scams
  - Operational disruptions as a result of working remotely
- Countries have implemented measures aimed to improve people's situation and their retirement savings, providers and the pension system in general
  - Some countries have implemented measures to provide relief in the short-term that could have a negative impact in the long-term, especially on retirement income adequacy

Main policy responses affecting RS

Policy response	Countries
✅ **Limit the materialisation of investment losses** (e.g. communicating the consequences of switches and withdrawals)	• Australia, Canada, Colombia, Chile, Germany, Hungary, Latvia, Mexico, New Zealand, United Kingdom, United States
✅ **Secure the solvency of retirement plans and the business of providers** (e.g. lengthening recovery periods of DB plans failing to meet funding requirements)	• 29 OECD countries + Croatia, Kazakhstan, Kenya, Mauritius
✅ **Subsidise contributions** (e.g. providing wage subsidies covering pension contributions)	• Iceland, Netherlands, New Zealand, North Macedonia, Slovak Rep., Sweden, Switzerland, United Kingdom
✅ **Address operational disruptions** (e.g. improving online procedures)	• Most OECD countries
✅ **Protect from scams and cyber attacks** (e.g. warning plan members and giving them tips to avoid them)	• Australia, Austria, Luxembourg, Mauritius, New Zealand, Slovenia, Sweden, United Kingdom
❌ **Provide short-term relief with potential long-term risks** (e.g. facilitating early access to retirement savings)	• Australia, Belgium, Canada, Colombia, Denmark, Estonia, Finland, France, Iceland, Peru, Portugal, Slovak Rep., Spain, United Kingdom, United States

The value of the assets in retirement portfolios

- Covid-19 and the economic lockdown have led to a sharp fall in the value of the asset comprising retirement portfolios
- The tendency is sell as soon as the value of the assets starts to fall. Unfortunately, this leads to materialising the loses. As long as the assets are not sold, loses are on paper
- In the event that markets recover, the losses could disappear in a large extend if not completely, as it occurred after the financial and economic crisis of 2008-2009, and in Q2 2020

Guidelines

- Stay the course
- Avoid the materialisation of losses by selling
- Saving for retirement is for the long haul
- Investment strategies and retirement portfolios are designed to face markets ups and downs
- Avoid switching between funds and investment strategies that could lead to a materialisation of losses
- COVID-19 and the lockdowns are temporal, although the economic impact may last longer, especially in certain economic sectors (e.g. restauration, travel, tourism)

Measures to limit the materialisation of loses

- During retirement: Reduction (AUS, CAN) or suspension (USA) in the amount of assets retirees have to draw down from their plans.
- Just before retirement:
  - Deferring the beginning of the pay-out phase (CAN, LVA)
  - Transferring the amount of pension assets to a temporary account while carrying out the process to start receiving benefits (CHL)
- During the accumulation phase:
  - Suspending transfers between plans (GBR)
  - Providing advice to members so that they make sound and well-grounded investment decisions (NZL)
  - Flexibility with respect to investment limits for pension funds (e.g. real estate investments of Pensionskassen in DEU)

Increase in liabilities, solvency problems

- The fall in interest rates (discount rate on liabilities) => pressure on the solvency of defined benefits retirement plans (retirement income promises) and insurance companies offering life annuity products
- Retirement income promises increase in value as discount rates fall, this coupled with the fall in the value of the assets, leads to worsening of solvency ratios (the percentage of liabilities that the current value of assets cover)

Guidelines

- Allow for more flexibility in recovery plans to address liability problems
- Funding and solvency rules for retirement plans with promises should be counter-cyclical => introduce flexible funding requirements to avoid pension funds act pro-cyclically, allowing them to act as long-term investors and potentially stabilizing forces within the financial system
- Supervision oversight should be proportionate, flexible and risk-based

Measures: ensure the solvency and business of providers

- Allow leeway to providers of DB retirement schemes with funding problems in order to avoid the need of additional contributions from plan sponsors during difficult economic times.
  - Extension of deadline to submit recovery plans (GBR, DEU) or start them (FIN).
- Advice for pension providers to withhold paying dividends to their shareholders (in line with EIOPA's recommendations)
- Flexibility with respect to reporting requirements (e.g. additional time to submit annual reports in many European countries)
- Protecting the health of staff and plan members by changing processes (MEX, NZL)

Lower capability to save for retirement

- People that see their income fall or they lose their jobs cannot save for retirement and thus stop contributing to their retirement saving plans.
- Employers suffering financial distress as their business fall or stop altogether cannot contribute either
- The State may not have funds to continue matching contributions
- The solution could be to **subsidise wages and contributions**
  - Grants to employees temporally unable to work (ISL, NZL, GBR)
  - Grants to employees continue working reduced hours (ISL, NLD, NZL, SLV, GBR)

Protecting pension providers and members from frauds and scams

- Increase of the risk of cyber attacks, fraud and scams through a variety of mechanisms (e.g. email, social networks, telephone calls to access personal information and savings)

Measures implemented

- Disclosure of the type of scams of the website of national authorities (AUT, LUX, SVN, SWE).
- Advice to the trustees and advisors to send regular and clear information to plan members as scammers may exploit misunderstandings and people’s fears (AUS, GBR)
- Dedicated webpage with FAQ or tips to help members deal with scams

Avoid measures for short-term relief but with potential long-term negative effects

- Covid-19 and the economic lockdown has led to job and employment loses, business loses and large reduction in income
- There is an obvious temptation to implement measures to provide relief against the short-term fall in income. However, certain measures can have a potential negative impact in the long-term, especially in the adequacy of retirement income
- Therefore, evaluate policy measures providing short-term relief in light of their potential long-term impact
- Measures like contribution holidays (exempt workers, self-employed and employers from contributing) or access (even if partial) to retirement saving

Short-term relief measures implemented

Measures favouring short-term relief and well-being, with a potential negative impact on retirement income and its adequacy:

- Deferral of pension contributions (FIN)
- Reduction in contribution rates (FIN)
- Suspension of contribution payments (EST)
- Easier access to retirement savings (AUS, ISL, PER, PRT, ESP, USA with conditions)
- Facilitating loans to employers (FIN) or employees (USA) from pension plans

Long-term problems of short-term relief measures

- Contribution holidays lead to large reductions on accumulated retirement savings at the time of retiring.
- Access to retirement saving pots would also lead to lower accumulated retirement savings and lower retirement income. The impact is larger the closer the individual is to retirement
- Moreover, access to retirement savings have additional negative impacts
  - Pension funds may lack enough liquidity to face such surge in liquidity => sell assets and materialise temporary market loses
  - Pension funds may also need to undo long-term investment strategies

Guidelines

- Countries have other mechanisms to provide relief when income falls: state subsidies, furlough and especial unemployment programs
- Certain countries may lack those mechanisms and enough resources. They should look for alternatives that avoid risking the future adequacy of retirement income
- Avoid measures that grant general access to retirement savings (e.g. access because reduction of income due to Covid-19)
- There are already, in the regulatory framework of most countries, stipulated conditions under which people suffering from certain exceptional circumstances, can have access to their retirement savings
- **Access to retirement savings** pots should be a **measure of last recourse**

Main messages and guidelines

- Policy makers should make sure that people saving for retirement stay the course: (1) maintain investments in retirement portfolios to avoid selling and materialising loses (2) continue saving in their retirement plans (transfers, subsidise income)
- Policy makers, regulators and supervisors should
  - Allow for regulatory flexibility in recovery plans to address funding problems resulting from retirement promises and the shock to interest rates as a result of Covid-19
  - Make sure that funding and solvency rules for DB plans are counter-cyclical. Introduce flexibility in meeting funding requirements, thereby allowing pension funds to act as market stabilizers
  - Provide proportionate, flexible and risk-based supervisory oversight coupled with adequate communication to reduce frauds, and facilitate efficient operations.
- Allow access to retirement savings only as a measure of last resort and based on individual specific exceptional circumstances.
- Develop cooperation and relationships between different stakeholders, providers, managers, employers, members, regulators and supervisors at both national and international level, to share experiences, coordinate solutions, and develop effecting ways of addressing the crisis

THANKS
Questions?

OECD work on pensions
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