

Stichting Micropensioenen

Stichting Duurzame (Micro-)Pensioenen Ontwikkelingslanden



International pension developments and the role of micro pensions

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First International Course Advanced Reflective Education
and Training on Micro Pension, 2 December 2014



- **SDMO = Foundation for Sustainable (Micro) Pensions in Developing Countries**
- **Joint initiative of Association of Insurers and Pension Federation in the Netherlands**
- **With support of the Dutch Ministry of Foreign Affairs**
- **Goals:**
 - Improve quality of life of elderly in developing countries through sustainable supplementary pension provisions
 - Stimulate creation of and access to collective private sector or second pillar provisions
 - Stimulate self-activation of local organisations in managing (micro) pension systems
 - Enhancing knowledge of managing supplementary pension provisions
- **Currently two projects:**
 - DHAN project in India
 - Feasibility study in Ghana



VERBOND VAN VERZEKERAARS





Pension systems are under pressure

Across the globe pensions are under pressure:

- **Higher life expectancy**
- **Increased government debt in many countries**
- **Funding problems for corporate plans**
- **Uncertain economic outlook**
- **Extremely low interest rates in many countries**





The best pension systems in the world

- **Melbourne Mercer Global Pension Index 2014**
- **Ranks pension systems based on 3 criteria**
 - Adequacy, sustainability, integrity

Country	Overall	Adequacy	Sustainability	Integrity
1. Denmark	82.4	77.5	<u>86.5</u>	84.5
2. Australia	79.9	<u>81.2</u>	73.0	87.8
3. Netherlands	79.2	75.3	76.3	89.4
4. Finland	74.3	72.2	64.7	<u>91.1</u>
5. Switzerland	73.9	71.9	69.7	83.1
6. Sweden	73.4	67.2	74.7	81.6
7. Canada	69.1	75.0	58.6	74.3



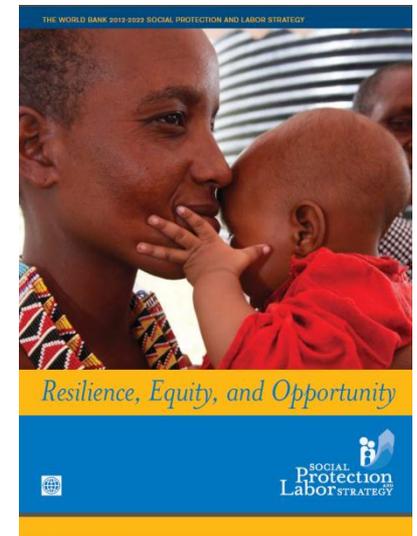
Global trends

- **Shift to defined contribution plans**
 - To replace defined benefit plans
 - Increased costs of DB
 - Companies want pension plans off their balance sheet
 - To replace or supplement PAYGO systems
- **Rise in life expectancy**
 - Increased retirement age
 - Higher contributions
 - Changes/innovations in pay-out phase
- **Call for greater flexibility**
 - More frequent job changes, flexible contracts, greater mobility
- **Generational solidarity is under pressure**
- **Integration of pensions, healthcare and housing**
- **Need to increase pension awareness and literacy**





- **Move away from fragmented approaches to more coherent systems**
- **Three overall goals**
 - Improve *resilience* against different types of shocks
 - Improve *equity* by reducing poverty and promoting equal opportunities
 - Promote *opportunity* by building human capital, assets, and access to jobs
- **Three key themes for pensions**
 - Coverage
 - Adequacy
 - Sustainability





Pensions in OECD countries

- **Government policies have been successful**
 - Reduction in old age poverty from 15.1% in 2007 to 12.8% in 2010
 - Income of people of 65+ is 86% of disposable income
- **Reforms in many countries**
 - Postponement of retirement in PAYGO schemes
 - Some countries (e.g. Czech Rep, UK and Israel) introduced DC schemes, others (Poland and Hungary) abandoned them
 - Reforms aimed at restoring financial sustainability
- **Major challenge: how to balance financial sustainability and income adequacy**
 - Most countries have safety nets for lowest earners, but middle income groups are at risk
 - Public support is needed to prevent old age poverty among people requiring health and long-term care services





Micro pensions

- **Micro pensions: long-term savings by low income, informal sector workers to obtain income security during old age**
- **Micro finance is growing rapidly; micro pensions still in early stages of development**
- **Small, frequent contributions to defined contribution plan**
- **Plans need to address longevity, investment and inflation risks**
- **Need for proper regulation to protect interests of participants**
 - **Not just supervision but also promotion of professionalism and financial literacy**
- **Social entrepreneurship to reduce operating costs is vital**
- **Use of technology such as mobile phones to increase operational efficiency**





Voluntary savings can work

- **Mandatory participation is one of the reasons for the strength of the Dutch pension system**
- **But voluntary savings can be a good solution too**
- **Three examples:**
 - Third-pillar in Turkey
 - Pension scheme for self-employed professionals in the Netherlands
 - DHAN Micro Pensions project in India



Turkey stimulates 3-pillar pension savings



- Turkey has no 2nd pillar
- **Government promotes voluntary savings in 3rd pillar**
 - Government matches up to 25% of contributions until gross minimum wage
 - Not only for employer-sponsored plans, but also for individual plans
 - Matching contributions from government become available at retirement, partial vesting before that time
 - Employers can claim deduction up to 15% on corporation tax for pension contributions
 - Friendly tax treatment upon retirement
 - More freedom to invest assets with outside fund managers
- **Strong growth**
 - 5.6 million contracts to date
 - Total contributions USD 12.2 billion



Dutch fund for self-employed professionals



- The Netherlands has 800,000 self-employed professionals
- Many of them have no pension plan and no disability insurance
- Organisations of self-employed professionals and pension provider of largest Dutch pension fund start fund as of 1 January 2015
- Flexible contributions
- Life cycle investments
- Choice in benefit period
 - Temporary
 - 10, 15 or 20 years
 - Life-long
- Possibility to take up capital in case of disability
- Similarities with DHAN micro pension project



DHAN/SDMO micro pension project



- **Goal to reach 25,000 participants achieved ahead of schedule**
- **All participants remain in the system**
- **Amazing how people with little income manage to save for their retirement on a voluntary basis**
- **DHAN proves that it is possible to build a successful micro pension project if it:**
 - is part of a well-developed plan
 - the right infrastructure for collecting the contributions is in place
 - professional and reliable partners take care of the administration and fund manager
 - pension literacy is emphasized
 - trust is built





In conclusion

Make good use of this seminar to:

- **Learn from success of the DHAN project**
- **Learn from experiences in other countries**
- **Network and share views with other participants**
- **Define which lessons can be learned for starting micro pension initiatives in other countries**

