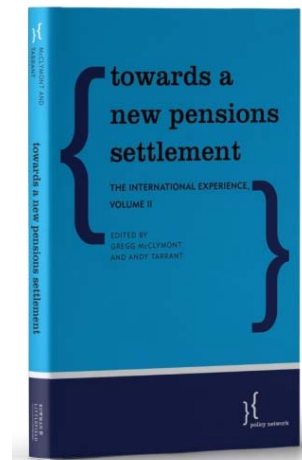


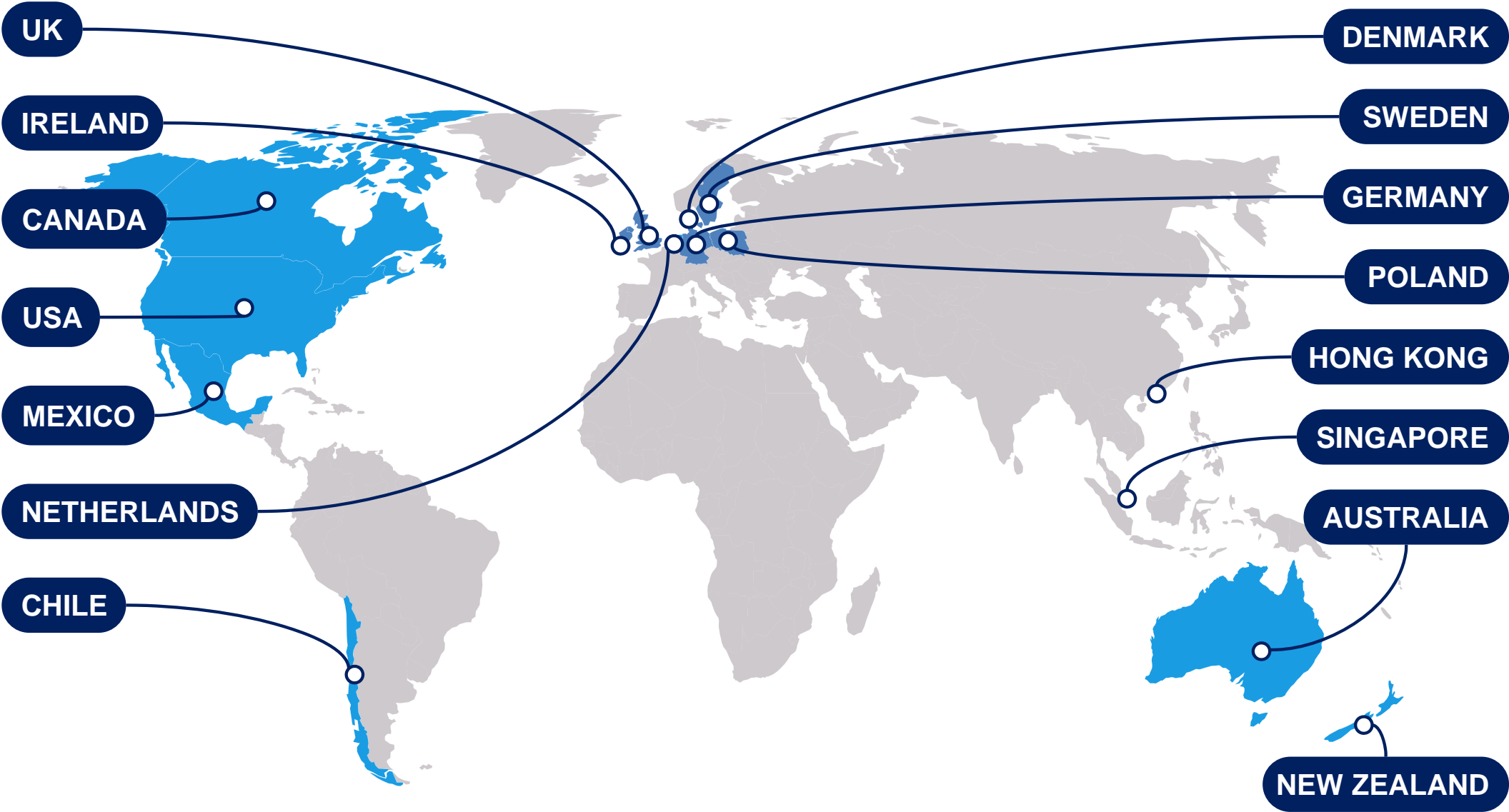
Towards a new pensions settlement: the international experience

Volumes I & II

April 2018

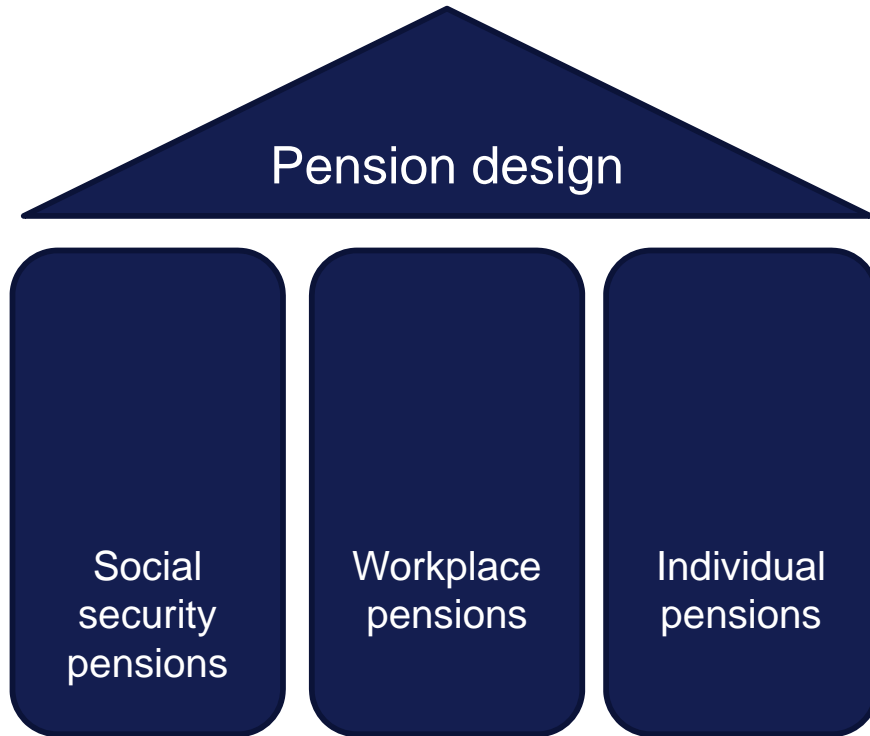


Across 2 vols. a study of 15 countries...so far



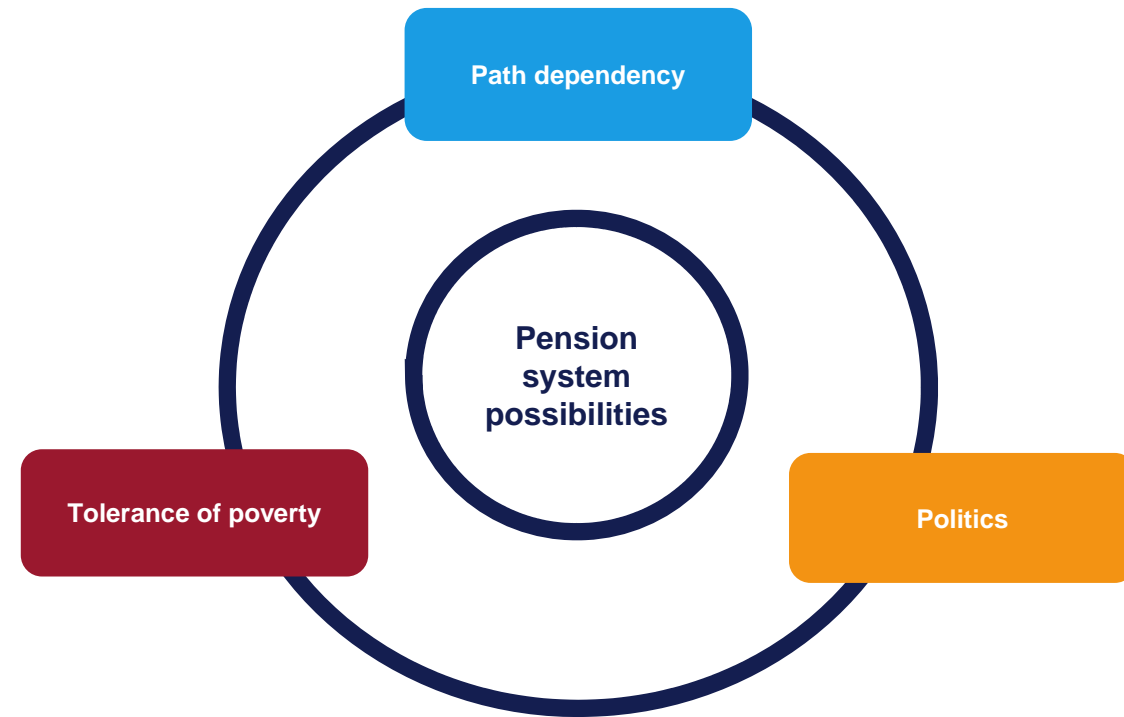
Global pension system design context : Structure

Each system combines three pillars...



... but not equally.

The size of each pillar reflects...

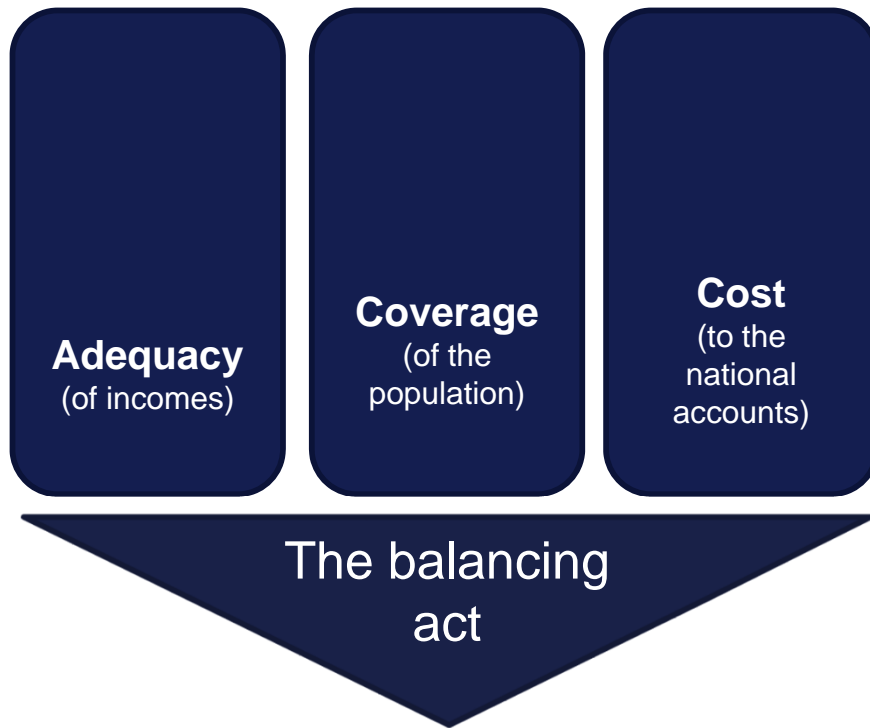


... making each system unique.

Global pension system design context : Good for whom?

A good system must take into account...

Balancing stakeholder interests ain't easy!

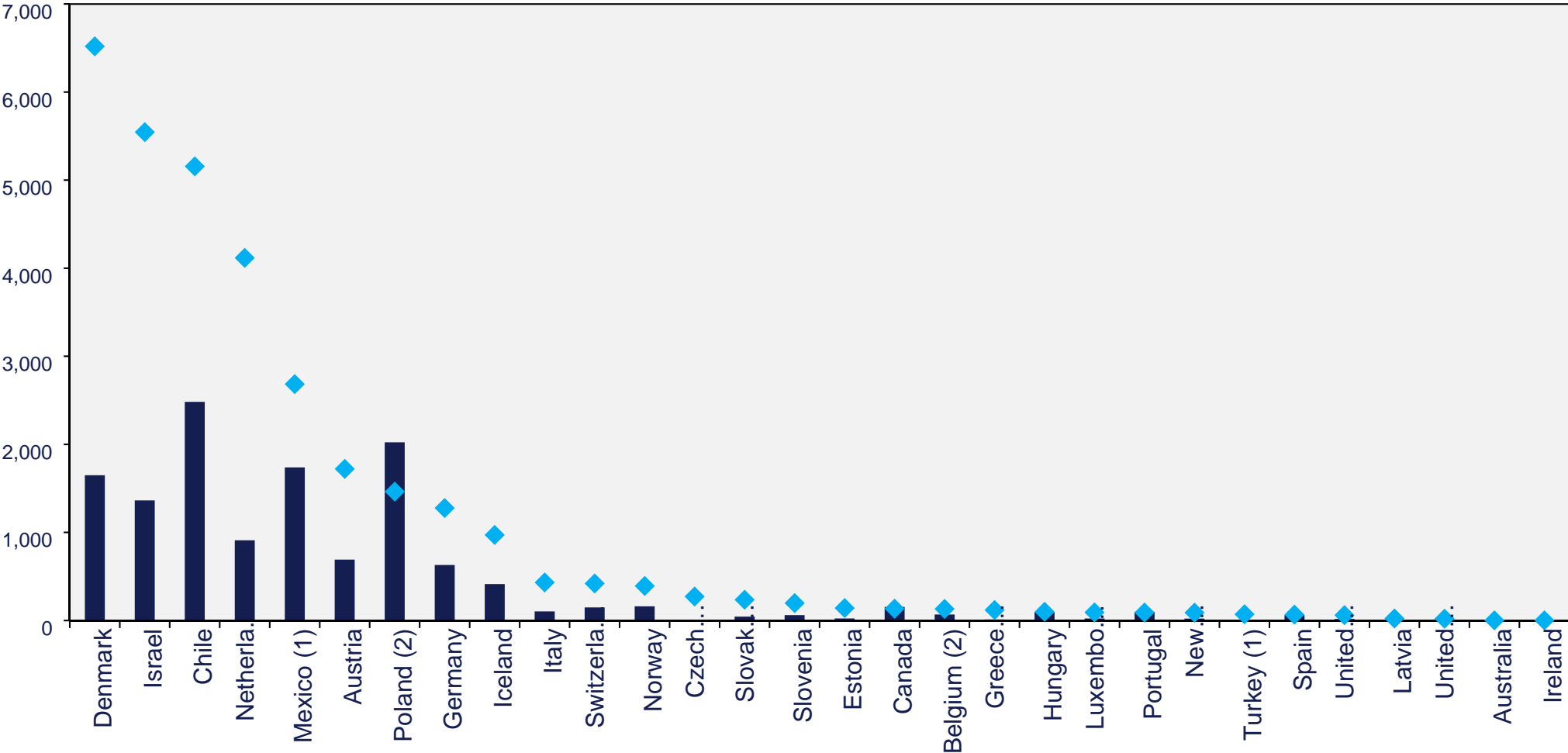


... and balance appropriately.

Scale matters for effective funds...but not exclusively

Average size of pension fund (ratio of investment to the number of funds) in selected OECD and non-OECD countries, 2005 and 2015

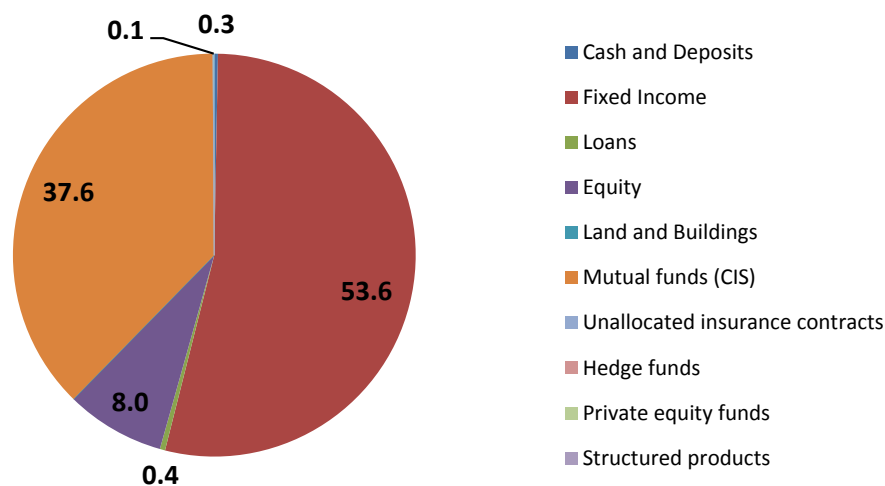
2005 2015



Source: OECD Global Pension Statistics.

Chile DC since 1980...

Asset alloc GM12



Costs

- Shift from PAYG to DC was hard and fast with budget surpluses run to cover initial transition costs

Adequacy

- High pensioner labour market participation rates reflect lower than OECD average replacement rates

Coverage

- (As defined by regular contributions) just c.50%

Competition measures

- Sealed bid auctions for new member cohorts

At retirement

- Annuities or programmed withdrawals on retirement

Design notables

- Mandatory participation (excludes self-employed)
- 10% fixed individual contribution (no employer contribution)
- 5 equity risk graded lifecycle fund choices
- Age-based default allocation
- Few limits on overseas investment but equities capped
- Guaranteed minimum returns

Largest provider (AFP) by AUM (Dec' 17)

Habitat	27.40%
Provida	25.20%
Cuprum	19.60%
Capital	19.30%
Modelo	5.10%
PlanVital	3.40%

1yr returns (highest risk fund)

Habitat	19.02%
Provida	18.45%
Cuprum	19.11%
Capital	18.92%
Modelo	17.94%
PlanVital	17.74%

Monthly commission on contributions

Habitat	1.27%
Provida	1.54%
Cuprum	1.48%
Capital	1.44%
Modelo	0.77%
PlanVital	0.41%

Source: Superintendencia de Pensiones (diciembre 2017)

Slide 6

GM12

need to check to whom this asset allocation refers' different risk grade funds have different investment restrictions

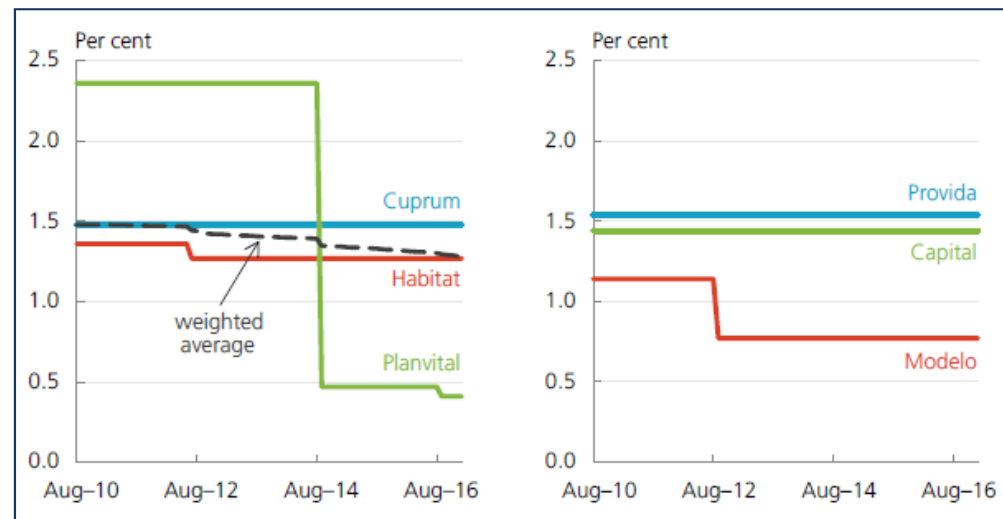
Gregg McClymont, 13/03/2018

Lessons from Chile II

AFP Auction process

- Providers submit sealed bids for all new participant monies
- Lowest bidder takes all
- Biggest providers not competing since focused on attracting existing participants with larger balances
- Successive tender rounds have increased risks for winning AFPs. Can they sustain this fee level?

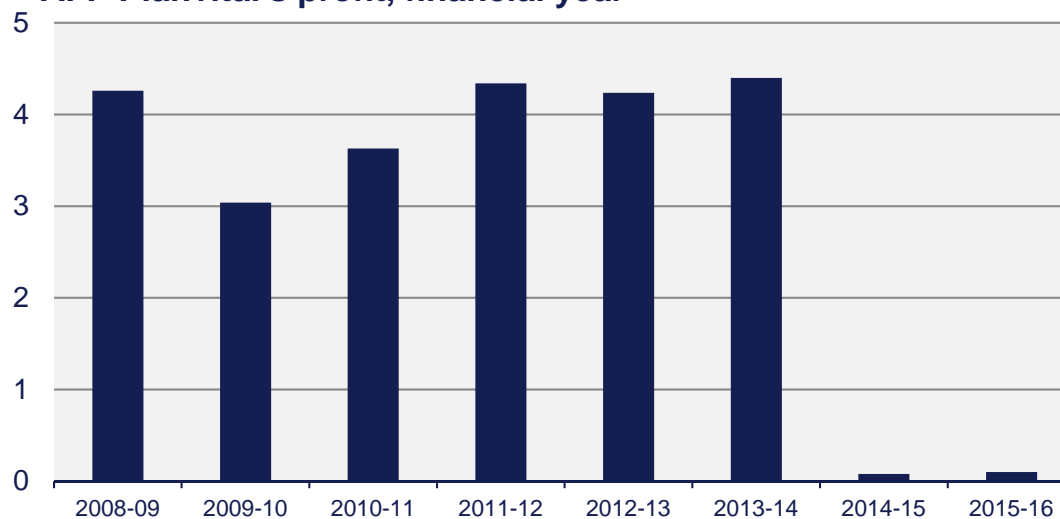
Administration fee charged by each AFP (% of monthly income)
Excludes insurance premia



Administration fee charged by AFPs that have won tender

		Aug-10	Aug-12	Aug-14	Aug-16
AFP Modelo	Fee (% of monthly income)	1.14%	0.77%		
	Share of AFP assets at start of tender period	0.0%	0.4%		
AFP Planvital	Fee (% of monthly income)			0.47%	0.41%
	Share of AFP assets at start of tender period			2.7%	3.1%

AFP Planvital's profit, financial year ■ Pesos, billions



The 4 stages of global DC system design

1. Pension savers as rational actors responding to tax incentivised deferred consumption vehicles

2. Mandatory pension saving in efficient markets

3. Transparency and education to empower rational decision making

4. Government interventions via

- Defaults

- Competition *for* the market

- Charge caps

- State mandated provider