



THE GOOD DESIGN OF DEFINED CONTRIBUTION PENSION PLANS

Berlin, 16 November, 2023



Background to the recommendation



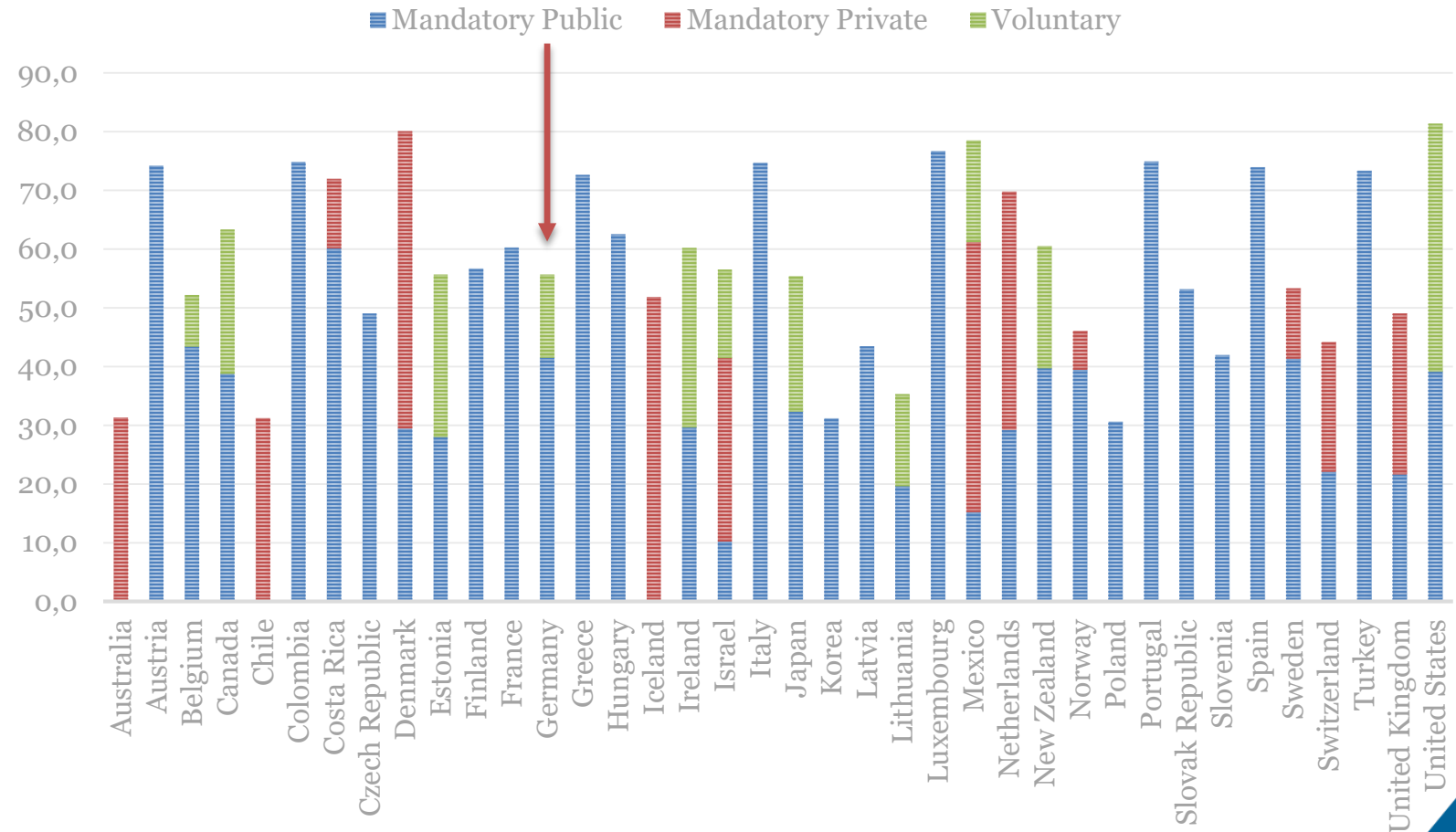
- 10 Principles for the good design of defined contribution plans
- Aims to assist governments in designing a framework for defined contribution plans
- Contributes to the robustness of retirement systems
- Evolves over time to incorporate new learnings and developments



1. Coherence in design

- Purpose
- Role
- Adequacy objectives

Gross Pension Replacement Rates, 2021

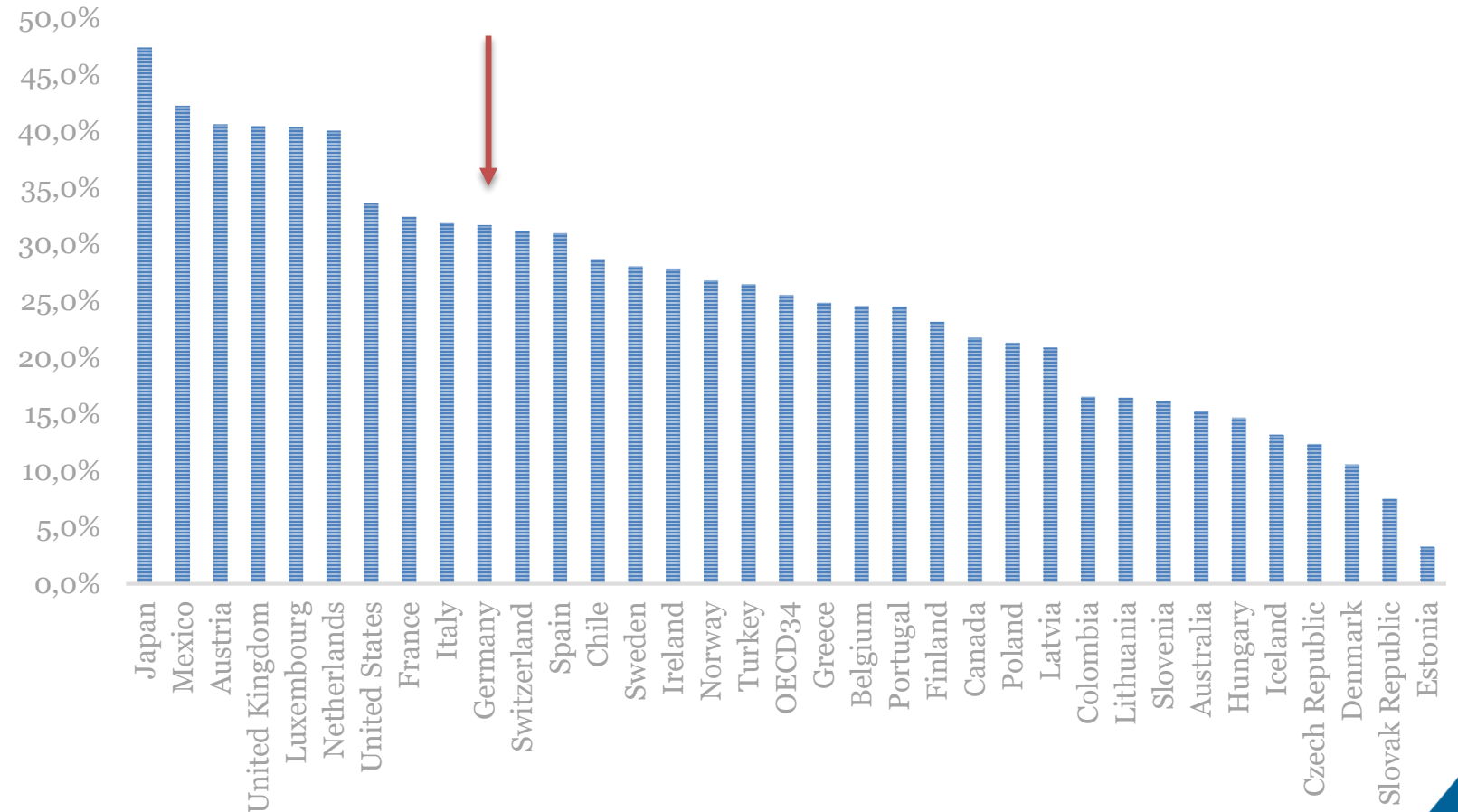




2. Inclusive participation

- Easy enrollment
- Financial incentives
- Simplified options
- Universal eligibility
- Affordability

Gender Gap, 2020 or latest available

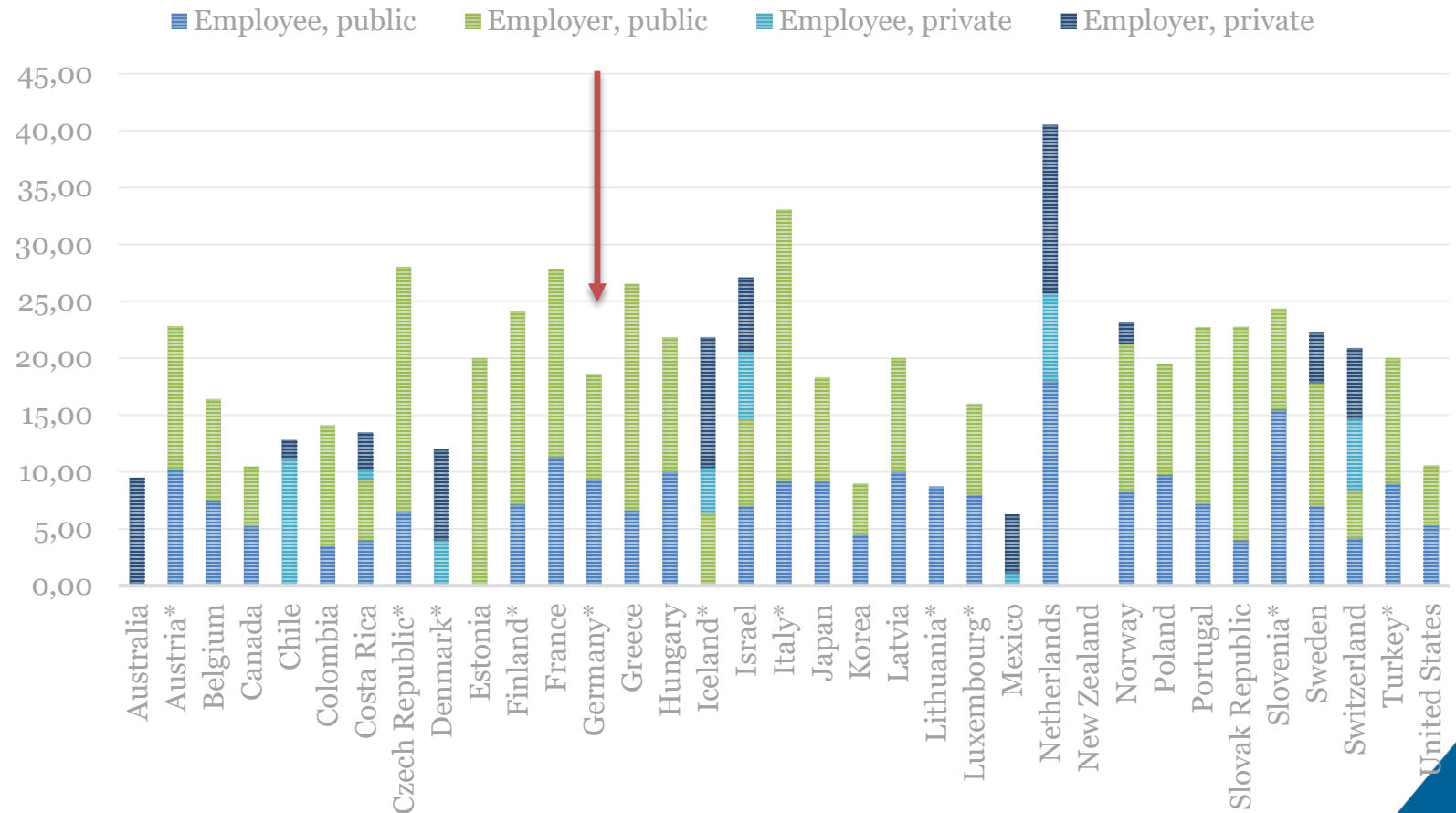




3. Adequate contributions

- Gradual increases
- Flexibility
- Matching contributions
- Leverage technology
- Contribute longer

Mandatory pension contributions in 2020
% of gross earnings

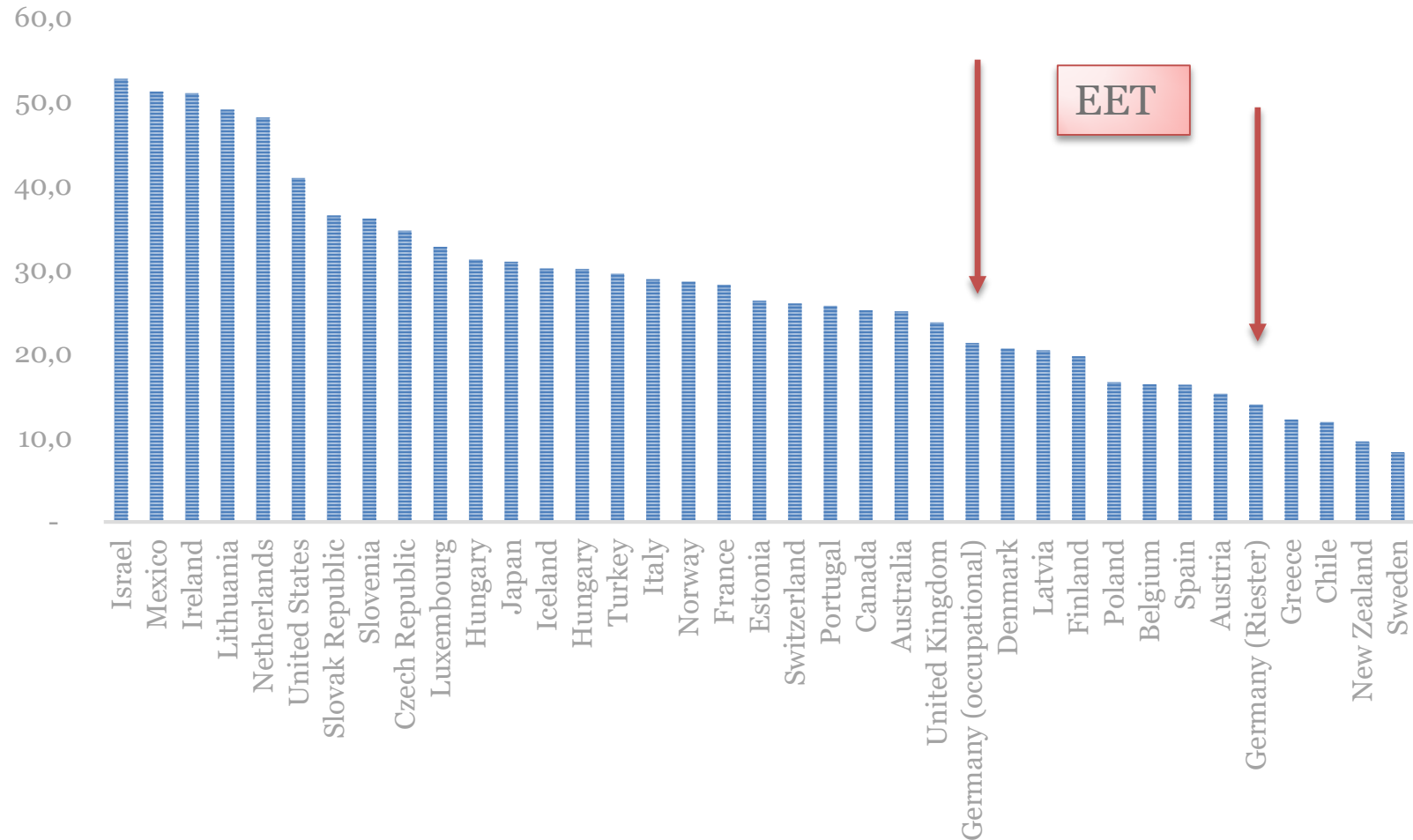




4. Effective financial incentives

- Simple
- Stable
- Targeted
- Updated

Overall tax advantage for the most common funded pension plans

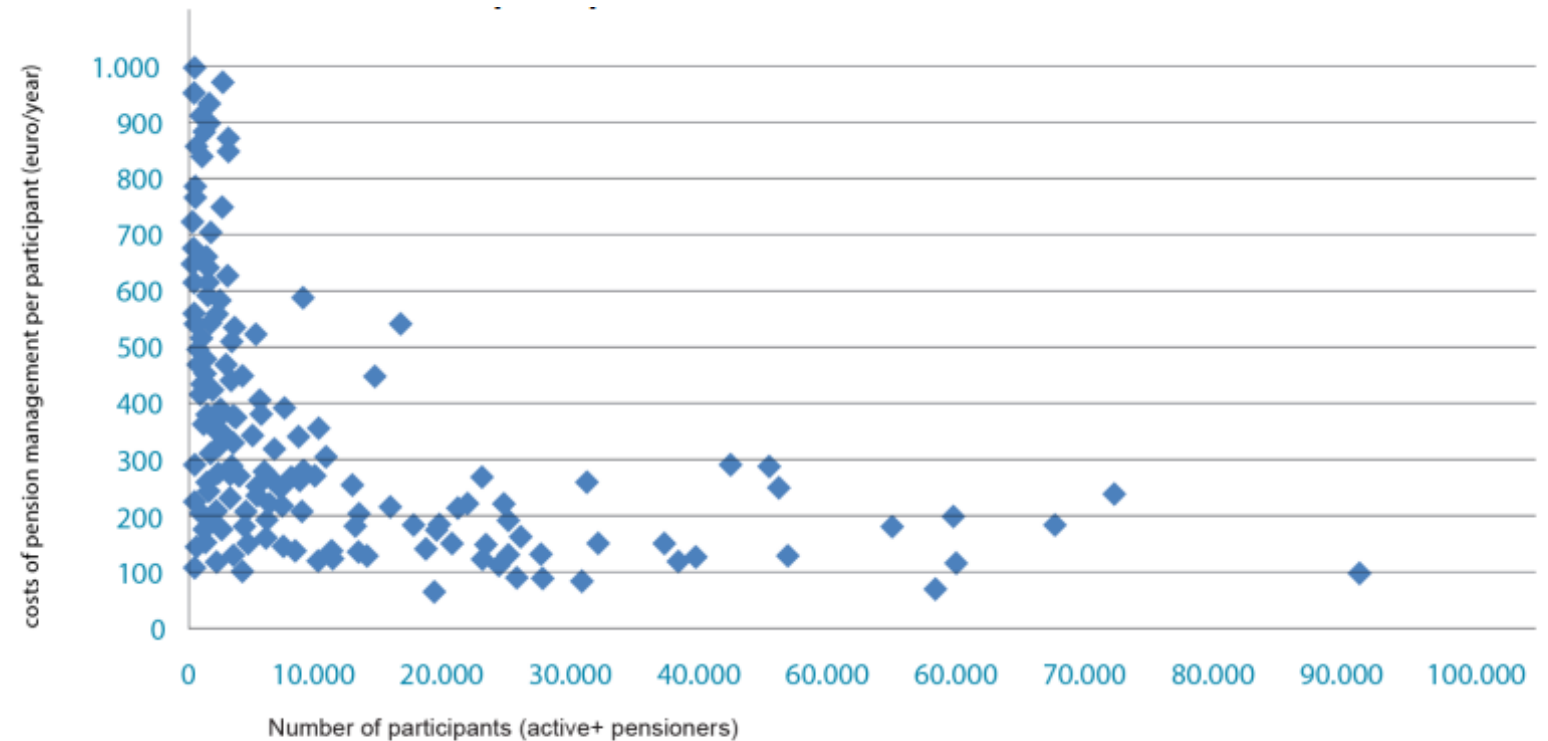




5. Cost efficient plans

- Balance between healthy competition and economies of scale
- Comparable and transparent fees
- Well-designed pricing regulation or structural solutions
- Value for money

Example of the cost benefits of economies of scale



Note: Excludes pension funds with > 100 000 participants; all such funds had administrative costs below EUR 120 per year per participant.

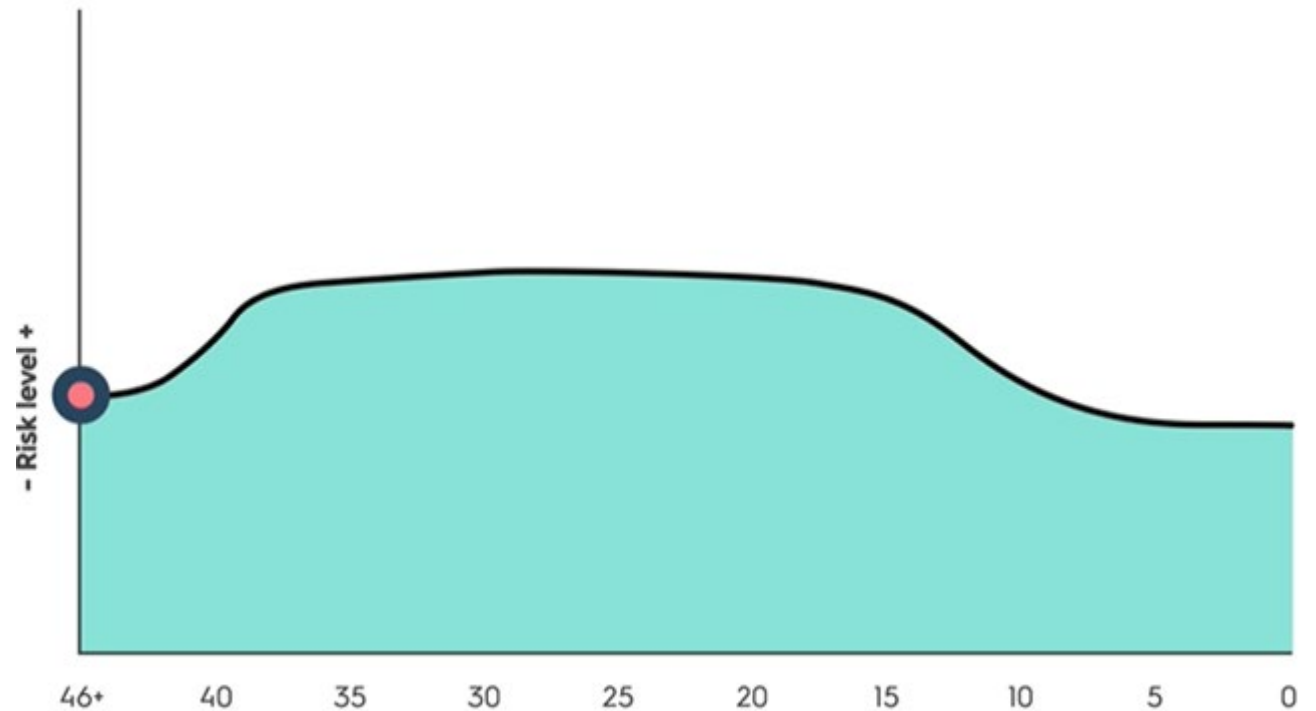
Source: Pensioen Federatie (2016_[22]).



6. Appropriate investment strategies

Example of a lifecycle strategy

- Default strategy
- Role
- Pay-out design
- Choice of risk profiles
- Sustainability

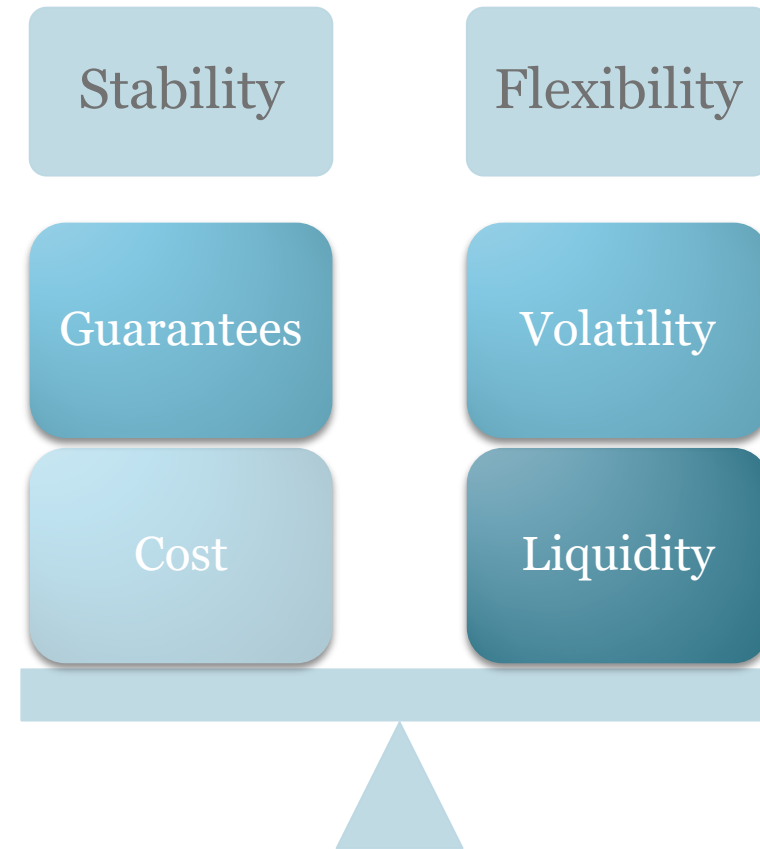




7. Longevity risk protection

- Protection from outliving assets
- Certainty vs. Cost
- Flexibility for individual circumstances

Finding the balance in product design

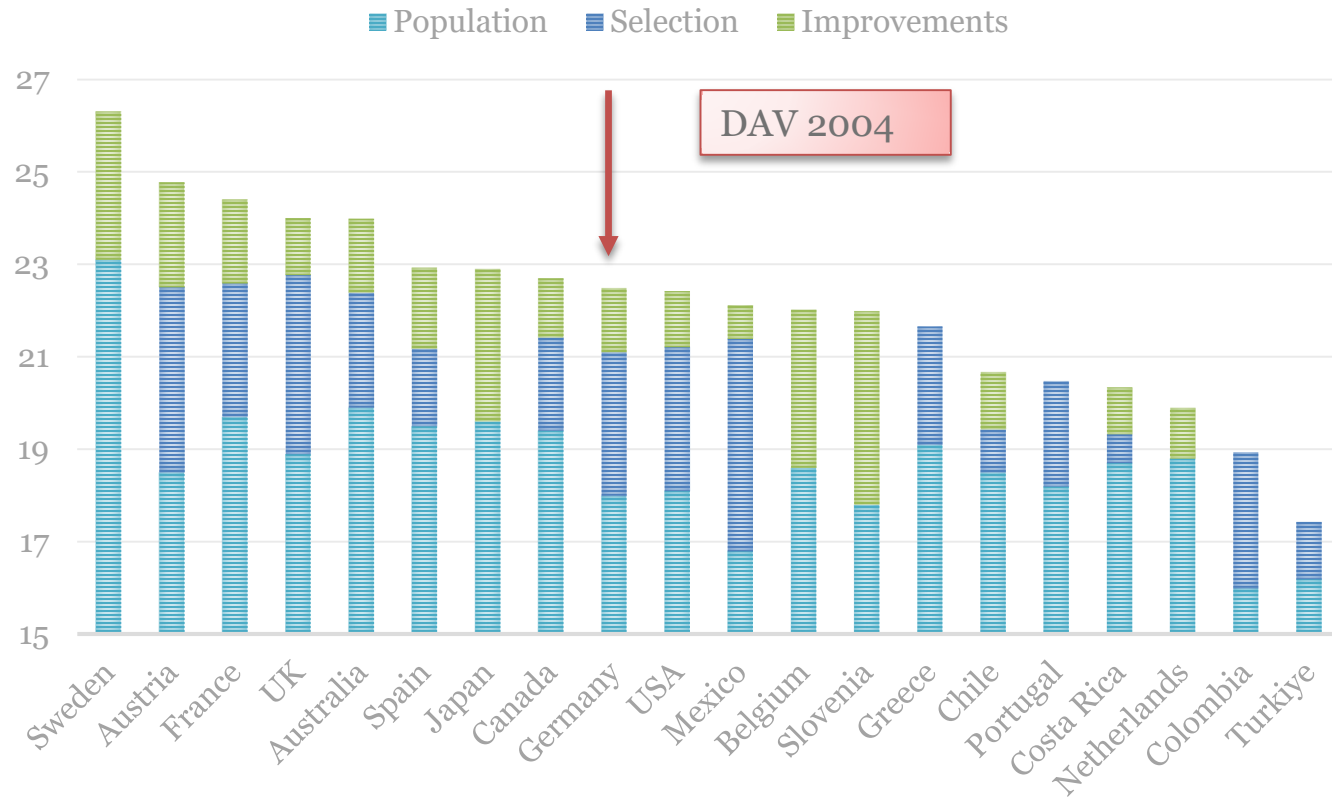




8. Longevity risk management

- Appropriate mortality assumptions
- Granular data
- Benchmarks

Life expectancy at age 65, male pensioners and annuitants





9. Effective communication

- Simple
- Timely
- Personalized
- Shows expected retirement income
- Conveys risk
- Comparable
- Accessible
- Unbiased

Example of a pension projection model

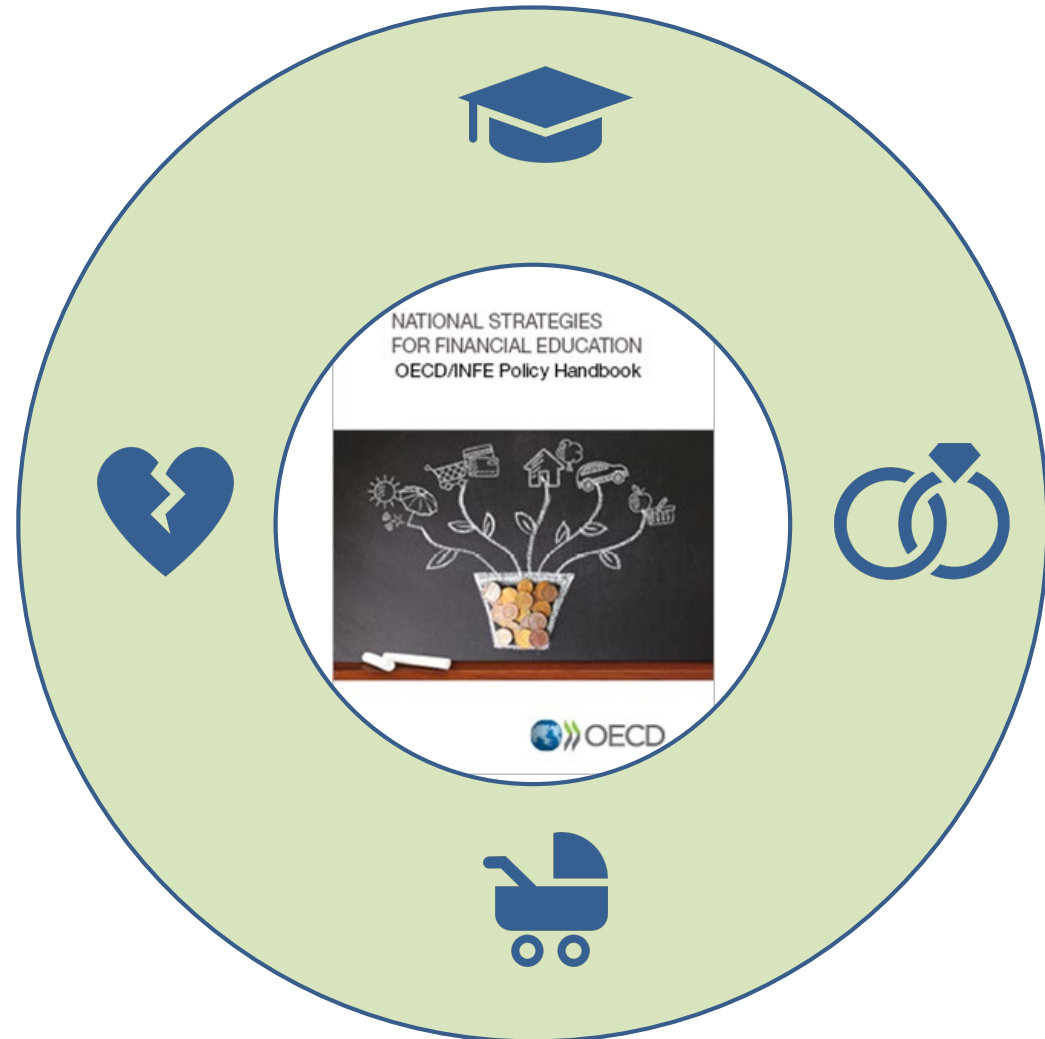


Source: Pension Simulator, Chilean Superintendency of Pensions,
<https://www.spensiones.cl/appsSP/simuladorPensiones/>.



10. Financial education

- National strategies
- Targeted for life stages
- Communication campaigns
- Regular evaluation





Concluding remarks

- These principles can help to ensure that all aspects are considered in the design of DC pension plans
 - Participation and coverage
 - Adequacy
 - Protection
 - Member knowledge and awareness
- The OECD continues to work on policies related to the good design of DC pension plans



DANKE !

Jessica Mosher, Policy Analyst and Actuary
Email: jessica.mosher@oecd.org

[Improving the design of retirement saving pension plans - OECD](#)