

INTERNATIONAL BEST PRACTICES IN PENSION SUPERVISION

BY

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BEARINGPOINT

OBJECTIVES OF PENSION SUPERVISION

- Proper and prompt payments of contributions
- Compliance with the pension plan
- Prudent investment of funds
- Fund governance
- Disclosures and reporting standards
- Dispute resolution

Legal Foundations

- Regulator must be powerful and well-funded
- Law must require *all* private plans to be registered and comply
- Regulator must have jurisdiction over the employer
- Permit both DB and DC plans

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- DB plans must be guaranteed by the employer
- Law must strictly limit lump-sum payments
- Law must decide question of compulsory annuities versus quasi-annuities
- Law should exempt government plans from supervision

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- Provision for self-employed and uncovered employees
- Pension Funds must be separate trusts
- Decision on tax process:
 - Contributions and earnings tax deferred; employers' contributions deductible
 - Contributions taxable; earnings and payments exempt

Public Policy Considerations

- Voluntary or Compulsory
- Lump-Sum or Annuity
- Guarantee Funds
- Taxation
- Foreign Investments
- Actuarially sound or income redistribution

Technical Considerations

- Two-tiered solvency test (liquidation and going-concern)
- Investment regulations:
 - “Prudent man rule”
 - Anti-concentration
 - Diversification
 - Provision for sector-specific investments

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- Conflicts of interest
- Investment advisors/managers
- On-site and off-site examinations
- Accounting standards
- Foreign investments
- Plan may offer only pension benefits
- Liquidations and mergers

Real-World Cases

- Indonesia
 - Lack of the concept of “trusts”
 - Lump-sum problem
 - “Golden handshakes”
 - Group endowments
 - Foreign investments

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- Egypt
 - Lack of employer guarantee of DB plans
 - “Sweetheart deal”
 - Pension funds operated businesses
 - No jurisdiction over employers
 - Lump-sums
 - Benefits in addition to pensions

OTHER COUNTRIES

- Canada
 - Reliance on professionals (accountants and actuaries)
 - Phased-in foreign investments
 - Has both federal and province-based supervision
 - Uses tax-deferred contributions/earnings; taxable benefits model

United States of America

- Does not supervise pension funds
- Relies on accountants, actuaries and investment professionals (and their regulators)
- Has Pension Benefits Guarantee Corporation
- Pensions are separate from Social Security

LESSONS LEARNED

- Pension funds must be operated solely for the benefit of participants
- Regulator must be strong and politically independent
- Laws must focus on safety and soundness
- There is no “one size fits all” model – including the EBRD’s “Three-Pillar” model