

ASIA-PACIFIC REGULATORS' AND INDUSTRY DIALOGUE

Session 7

Plugging the Gaps

Mr Akira Ariyoshi

Director, Regional Office for Asia and the Pacific, International Monetary Fund

The views expressed here are personal and do not necessarily represent the views of the IMF

SUMMARY PAPER

Some Initial Thoughts and Ideas

A. Public Policy Measures that Influence Private Pensions

1. Regulation and Supervision:

Traditionally focused on worker and pensioner protection, through for example segregation of assets, minimum funding requirement and 'prudent person' or formal limits/restrictions on investments. The rules have tended to be relatively unsophisticated in terms of financial risk management. Some APEC countries appear to need to tackle some basics. A reference point could be the OECD Recommendations on Core Principles of Occupational Pension Regulation (July 2004).

2. Taxation

Taxation of pensions could significantly affect the savings choice of individuals, as well as the behavior of firms providing occupational pensions. Taxation could also have significant distributional impact, depending on the access to occupational pensions and the degree of tax concessions provided for occupational pensions. Once entrenched, changes to taxation regimes can become difficult because of the impact on pension returns.

3. Accounting

Influences the management of pension funds, including the choice between scheme and asset management strategy. The move towards fair value accounting reduces the scope for arbitrary valuation, but at the same time could induce more volatility in the balance sheet of sponsoring institutions, thus shifting the choice to DB schemes with resulting risk for households.

4. Pension Guarantee Funds/Guarantees

Diversifies risks of pension failures among pension plans and individuals in different pension plans. Though it has the potential to reduce the role of the government as the provider of

safety net, it could also potentially create moral hazard and increase fiscal costs (as in deposit insurance).

5. Capital Market Developments

Offers wider range of financial instruments and provides greater opportunities to manage and risk, which would help pension plans in their asset liability management. Will on the other hand potentially increase the required sophistication and capacity of pension fund managers and supervisors.

6. Financial Education

B. Issues in design

- Overall design of retirement support scheme: mix between state, occupational and private pensions and private savings.
- Objectives for promoting/regulating pensions.
- Long horizons and difficulty in changing entrenched interest and managing transition
- Impacts:
 - On financial markets (through asset allocation behavior)
 - On macro-economy (through effect on savings)
 - On labor market (labor mobility)
 - Distributional effects and poverty reduction