

Building Sustainable Pension Systems in the 21st Century

Lessons Learnt from Reform Experiences



经济科学出版社
Economic Science Press

Written by **David J.W. Hatton, Fang Li, Kevin K.H. Ng**

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Preface

Pension reform has become a hot topic around the world. According to the World Bank, most public pension schemes were not designed to deliver benefit levels that will be sustainable in the face of today's major demographic and economic changes. Therefore, North American, European and Asian Pacific countries, both developing and developed, grapple with the long-term affordability of their pension systems. These reviews are forcing them to undertake urgent pension reforms.

Why do we care about pension reform? Reforms help individuals to become self reliant in old age. They create retirement dignity, reduce financial liabilities for governments, relieve financial obligations for the younger generations and shift responsibility from the state to employers and employees. Reforms also support the development of capital markets.

However, the reform process, whenever it takes place, is not easy. Reform not only requires the government's guidelines and framework but also needs public support. Part of the process is to educate the public to understand the reforms and to help build up confidence in the new system. Cooperation between the public and private sector can help to build such confidence and contribute to finding sustainable retirement solutions. Hence, ING Group (Global Retirement Services and Asia/

Pacific Region) have funded the writing and publication of this book.

The book is intended to provoke thought about pension issues and identify possible solutions. Through the authors' research from many sources, they overviewed pension systems around the world and examined the reforms in Asia/Pacific, North & South America and Europe, identified several components that have proven to be successful in pension reforms and pension scheme management. The conclusions drawn from this book offer several important lessons and indicate how reform countries can benefit from what has happened in other places. The research was exciting and interesting. I hope and trust that after reading the book the authors will have provided you with new insights and useful advice.

We hope that pension reforms will carry on smoothly and that more sustainable pension systems will be built in the 21st century. Most important, people will benefit from the reforms. Being one of the largest pension providers in the world, ING Group is proud to contribute to these aims to offer sustainable pension solutions.

Dr. Violeta Ciurel,
General Manager
Public and International Affairs
ING Group

Acknowledgement

This book was developed as a result of several research projects we did on behalf of various organizations in the Asia Pacific region and pension study trips to the Netherlands and Poland. Therefore, I wish to acknowledge, at least, some of the countless number of people who have made contributions to our research. We want to recognize those with the most significant influence.

Foremost, we must recognize pension regulators and fund providers in the Netherlands and Poland. They have provided us first hand information and helped us to have a better understanding of their pension systems, issues and reforms. Especially, the institutes and individuals that we would like to thank are:

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- President Ewa Lewicka, Chamber of Pension Funds, Poland
- Director Agnieszka Chlon-Dominczak, Department of Economic Analyses and Forecasting, Ministry of Economy, Labor and Social Policy Poland

We would also like to recognize our ING Polish colleagues: *Mr. Michal Szczurek; Mr. Karol Rajewski; Mr. Grzegorz Ferski; Dr. Jaroslaw Jamka* and *Mr. Mateusz Szczurek* who have provided us invaluable materials and comments on Poland's pension reforms.

The research was conducted in various forms and in different countries, so that we could participate in several seminars and conferences in the Asia/Pacific region, including "Asia Development Bank Annual Meeting" in Shanghai; "Asia – Pacific Risk and Insurance Association Annual Conference" in Hong Kong, Perth, Bangalore, Bangkok, Seoul and Shanghai; "LIMRA/LOMA Strategic Issues Conference" in Kuala Lumpur. Other than that, there were many seminars and conferences in China – Beijing, Guangzhou, Guilin, Shenzhen and Wuhan and in the Asia/Pacific regions – Bangkok, Hong Kong, New Delhi, Seoul, Singapore, and Taipei. We give thanks to all attendees at these conference and seminars for their thoughtful comments.

In addition, we must send our sincere thanks and gratitude to *Mr. Jacques Kemp, CEO, ING Insurance Asia/Pacific; Mr. Patrick Poon, former CEO of Greater China Region; Mr. Jan A. Nijssen, former Head of ING Global Pensions and Dr. Violeta Ciurel, General Manager, Public and International Affairs of ING Group in Amsterdam*. They have all given us their guidelines, directions and financial support.

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Without their involvement, we could never have completed this task and would never have been able to deliver this book. For those who have made contributions and are not being mentioned, we would like to send our deepest thanks and best regards.

David Hatton

Regional Pensions Manager

ING Asia Pacific

Introduction _ _ _ _ _

This book is about pension reforms that have taken place around the world and implications for reforming countries. Globally, the demographic development is clear; people live longer and are becoming wealthier, with more individual life styles and smaller families. Although there are different nuances, the same underlying trends occur across the world. Social security systems, and more specifically pension systems, are suffering as a result of a smaller group of workers joining the workforce in the future to finance a larger group of pensioners. Pension systems mainly or solely provided by the government have increasingly become unaffordable. Some pay-as-you-go systems are collapsing.

Therefore, pension reform is unavoidable. The book intends to bring people into the pension debate on issues and the solutions, to point out the reform experience and lessons about what has gone on elsewhere, to provide readers with some insight, conclusions and useful advice.

The book consists of four parts and several appendices. It gives an overview of pension systems around the world, investigates the issues of existing pension schemes in Asia/Pacific, North & South America and Europe, examines the reforms in many countries, addresses attributes of successful pension systems and pension fund management. The

conclusions drawn include several important lessons and clearly indicate how the reforming countries can benefit from what has happened in other places.

Part I examines pension systems and issues around the world, indicates global trends of reform and the impacts these reforms have made on the economy, and the progress of pension reform in China, Poland and Sweden have been highlighted.

Part II is a discussion of attributes of successful pension systems. This includes public/private cooperation in pension reform, protection of the benefits and the rights of the members. The book also reviews the plan design, administration systems and the investment environment as important components that have proven to be successful in implementation of new and reformed pension systems.

Part III analyses the management issues surrounding the pension industry. It examines the importance of regulation and supervision of the roles and duties of the pension investment managers and an analysis of the pension funds investment performance in the public verses private sectors. It includes taking a look at pension funds managed in South America and pension fund investments worldwide, various investment vehicles and investment trends and styles.

Part IV covers the author's recommendations and conclusion. In the book, the authors have tried to provide for those countries with an interest in social security reform, some ideas about how to manage the change by learning from the experience of others.

At the end of the book, there are several appendices describing in further detail the South American models, i. e. Chile, Peru and Argentina and a description of the Hong Kong Mandatory Provident Fund System and Netherlands' well funded defined benefit system.

The appendices also cover the topic of the experience of financing

the implicit pension debt in Latin American countries; include information on the relevant laws and regulations in place in various markets and about ING experience in pensions around the world.

About the authors :

David Hatton has 35 years of insurance and pension experience with 20 years in Canada and the past 15 years in Korea, Taiwan, Indonesia, Hong Kong and India. His career has spanned life, health and pension businesses and he responsible for the ING Pension Trust business in Hong Kong. He also serves as Regional Head, Global Retirement Services Support of the ING Asia Pacific Region, and is responsible for the pension opportunity development and the supporting the establishment of a pension business in regional countries. He currently resides in Bangalore, India where he is working on a pension strategy for India market.

Dr. Fang Li, Ph. D. , Economist, studied in China, Japan and received her Doctorate degree in Economics in Australia. She had lectured at universities and worked in the financial industry in various roles in Asia.

Dr. Li is currently the Head of Research Center, ING Asia/Pacific Regional Pensions. She has managed research projects and is responsible for future pension opportunity development in the region, providing advice to governments where the countries may implement pension reform and is involved in the establishment of pension businesses in the region.

Kevin Ng is a Chartered Financial Analyst and holds a Bachelor degree in Arts from the University of Toronto. He has spent more than 16 years working in the investment and financial industry. Currently he is the Vice President for the International Wealth Management Practice of

ING Financial Planning located in Hong Kong.

The authors published a book “*Pension Reform around the World—Lessons for China*”, both English and Chinese versions, by Economic Science Press, Beijing in 2000.

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