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***Session C3.4 – Global retirement Update***  
**Changing Risks, Expecting the Unexpected**

***17<sup>th</sup> Global Conference of Actuaries & 2015 AGFA***

***2<sup>nd</sup> & 3<sup>rd</sup> February, 2015 Mumbai - India***

# What is in store?

**Different geographies** Different challenges

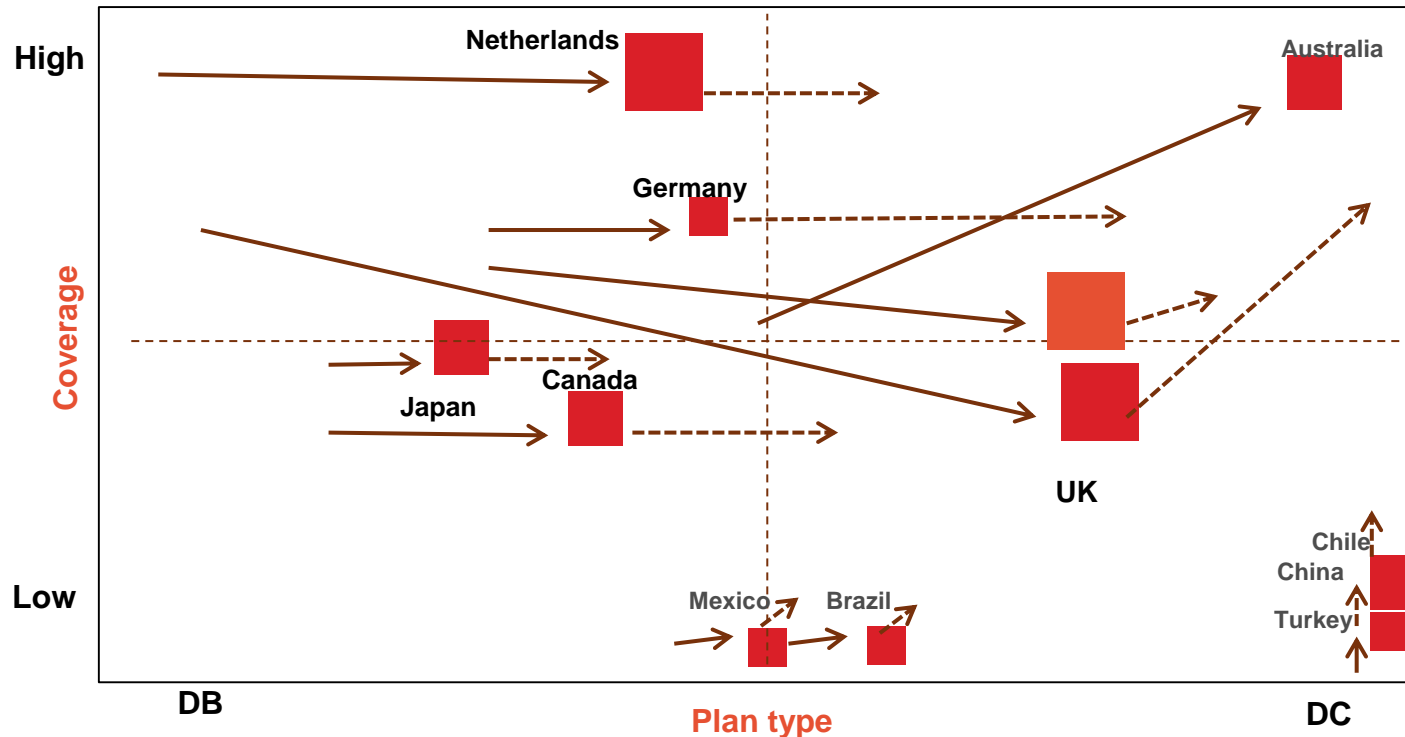
**What are people thinking about retirement savings** Employee Opinions

**Around the Pensions World in 80 seconds** Some recent developments



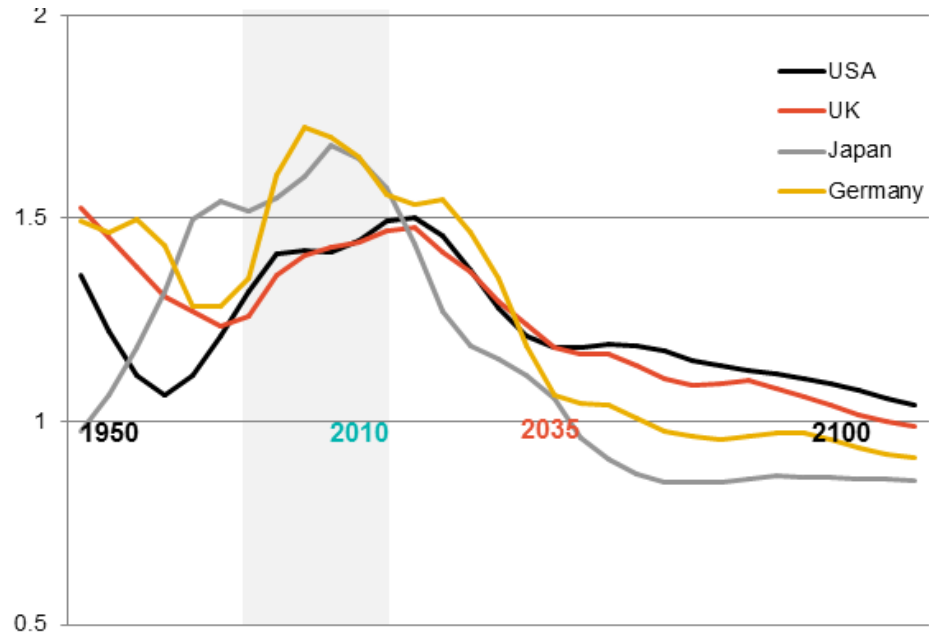
# Occupational plans are moving towards higher coverage and DC type

Characterization of pension plans by type, coverage and importance

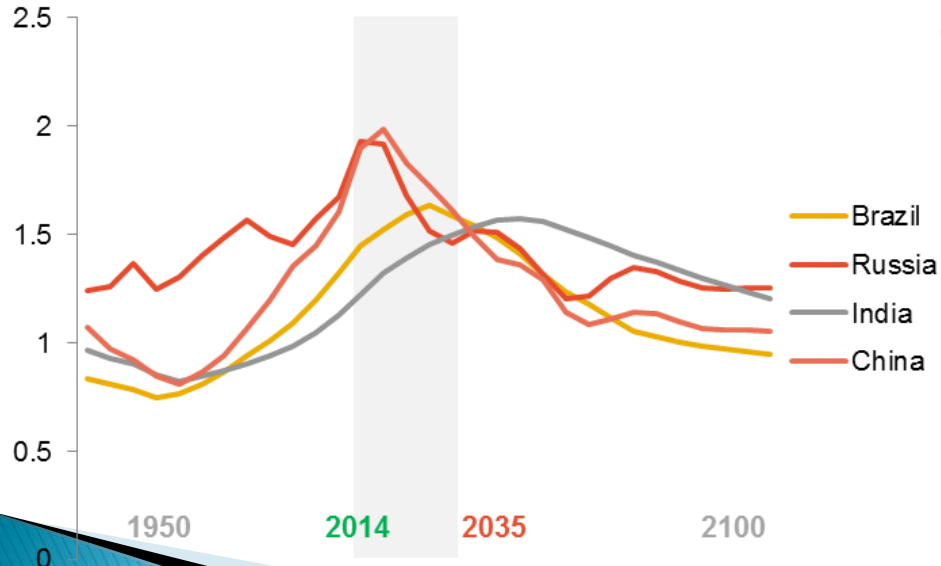
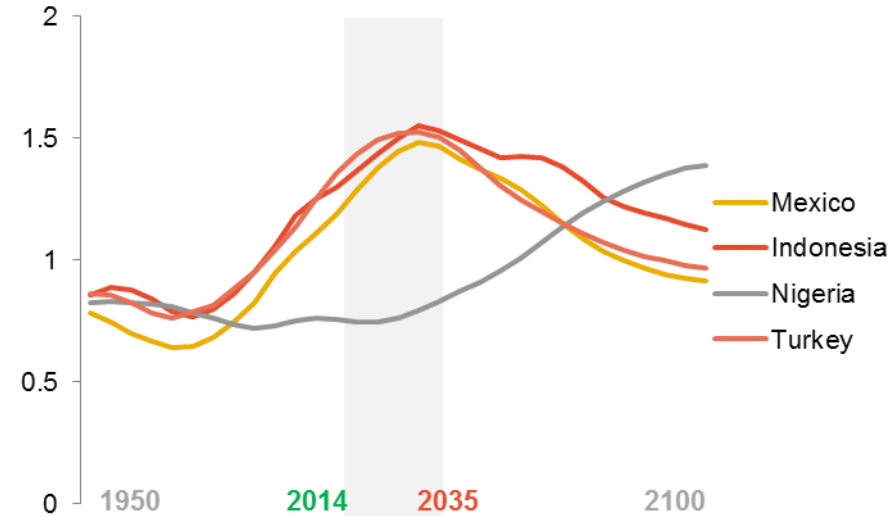


Source: Developed by Towers Watson based on analysis of publicly available databases. Coverage data for OECD countries based on OECD data for 2011.  
Notes: Square size indicates the importance of occupational pensions in income retirement for the average wage (low, moderate, high)  
As per OECD definition, occupational plans include those pension plans that are linked to an employment or professional relationship.

# The demographic dividend – Developed vs BRIC vs MINT



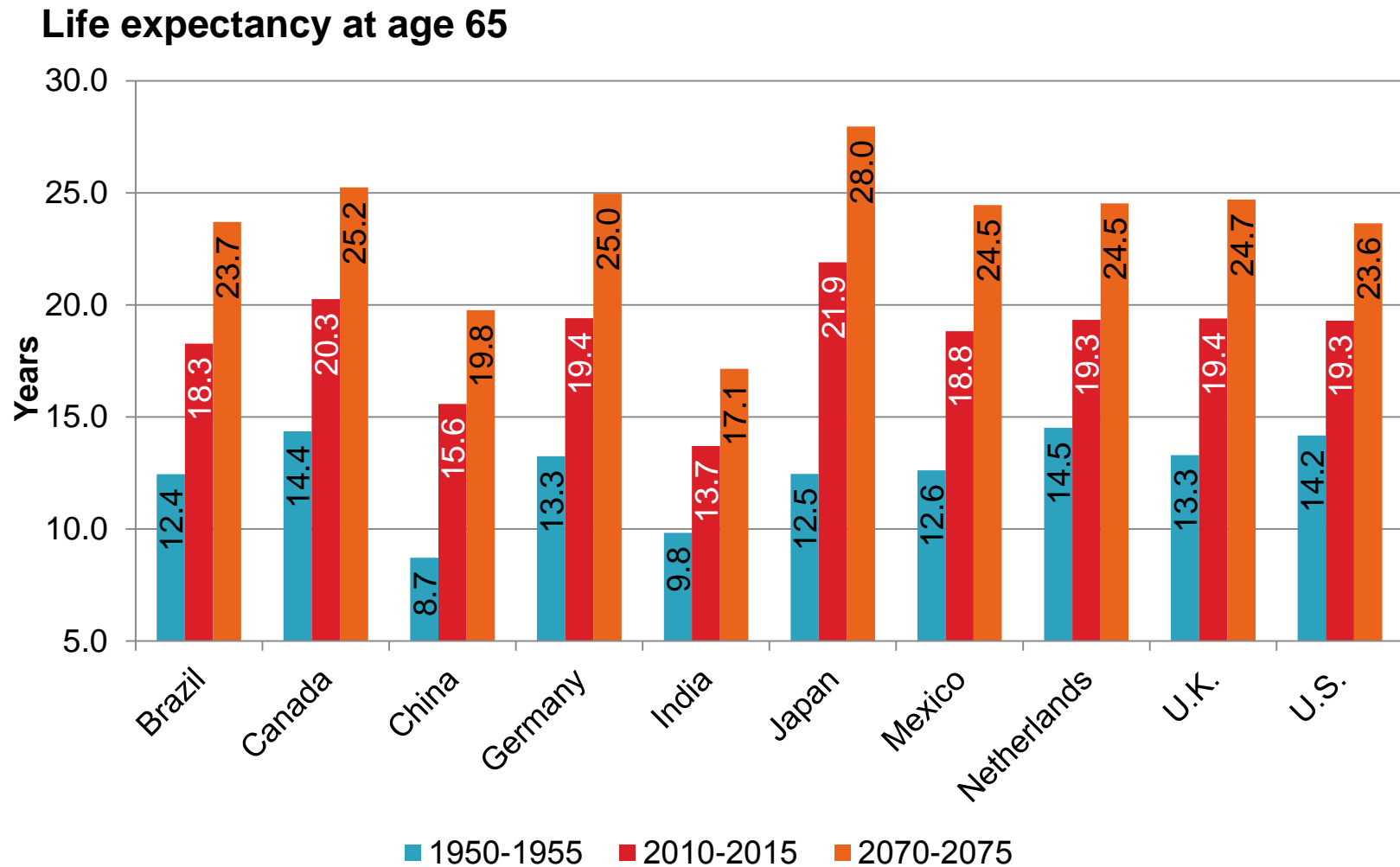
Ratio of Working Age Population (Aged 20-64) to Dependent Population (Aged 0-19 & 65+)



**Developed economies are in the period where the demographic dividend becomes a liability**

**Demographic advantage of BRIC countries is beginning to wane while MINT countries are in prime favorable years – may soon evaporate**

# Increased life expectancy



Source: UN World Population Prospects: The 2012 Revision

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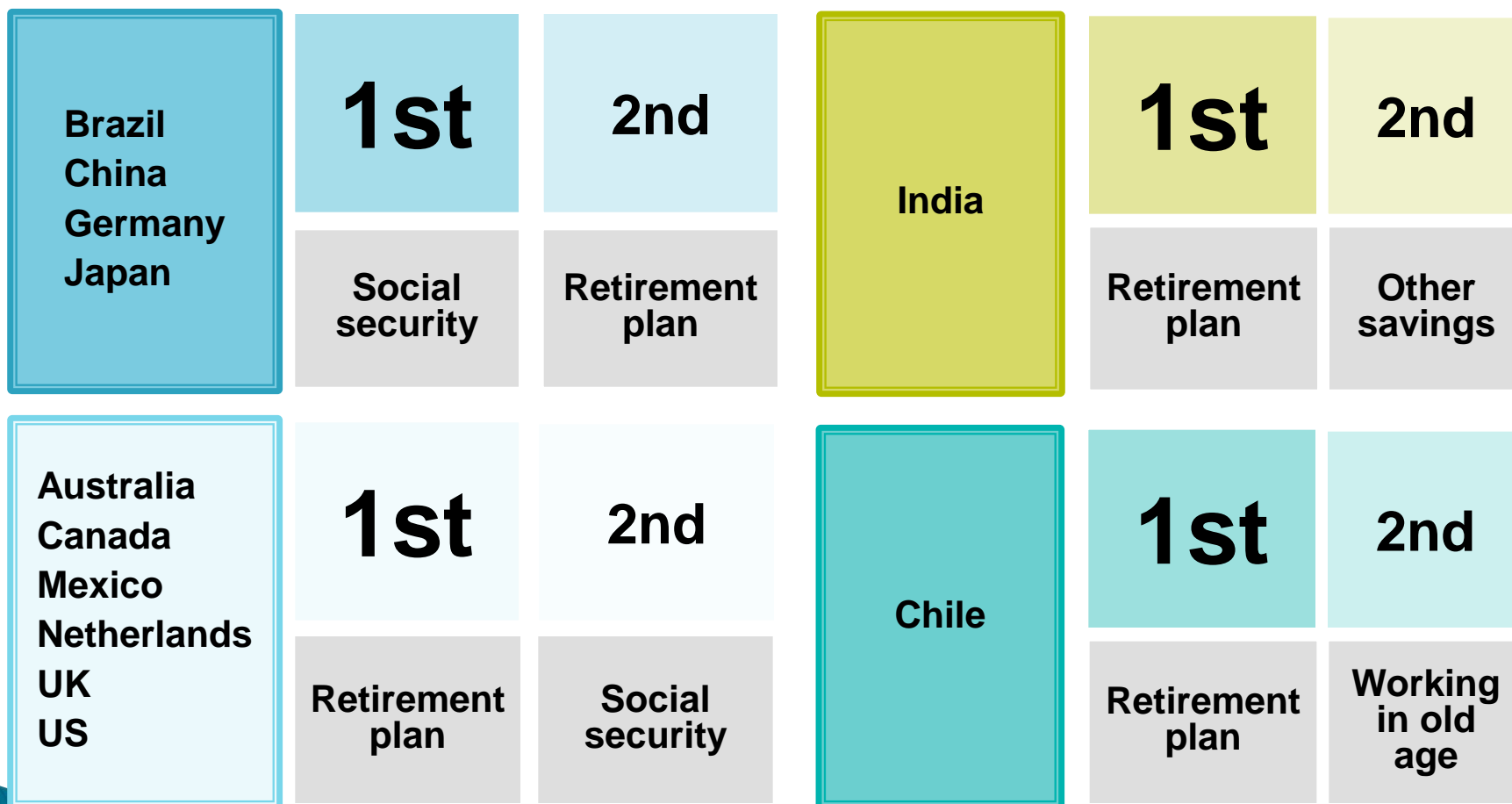
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# Occupational plans play a key role

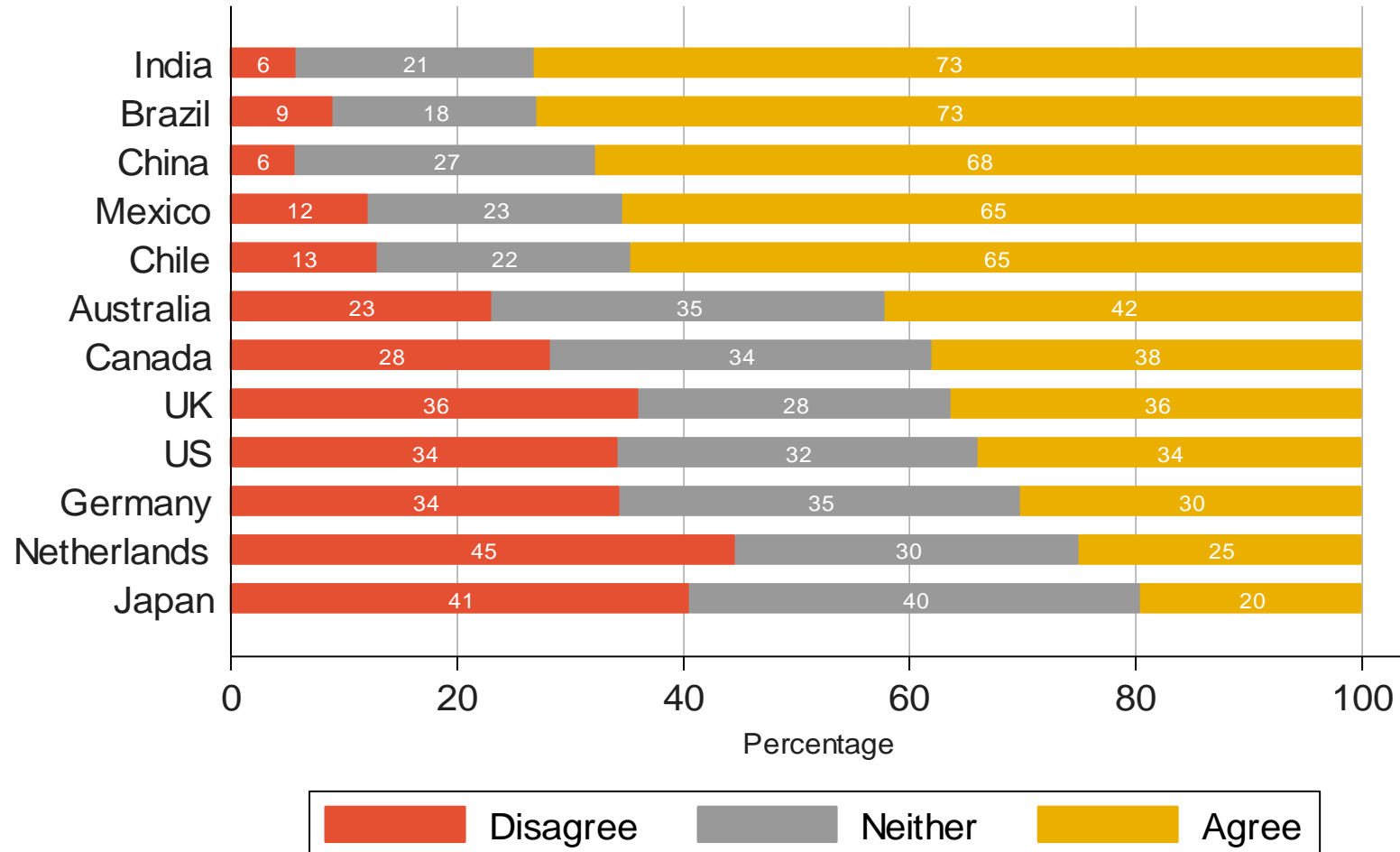
What do you think are likely to be the most important sources of income for you during your retirement? Top two sources



Source: 2013/14 Global Benefits Attitudes Survey.  
Based on employees enrolled in a retirement plan.

# Sources of concerns ... a decline in living standards expected

I am likely to be better off in retirement than my parents are/were



Source: 2013/14 Global Benefits Attitudes Survey.  
Based on employees enrolled in a retirement plan. 8



# Working longer is the option most choose to manage inadequate savings for retirement

## Save more

The young tend to suggest they will save more if faced by inadequate resources at retirement.

China, India and Japan – the most popular response even among older workers. How effective can this be?

## Work longer

In most countries for the over 50s working longer is the most common solution.

Possibly as few individuals have significant extra funds to save.

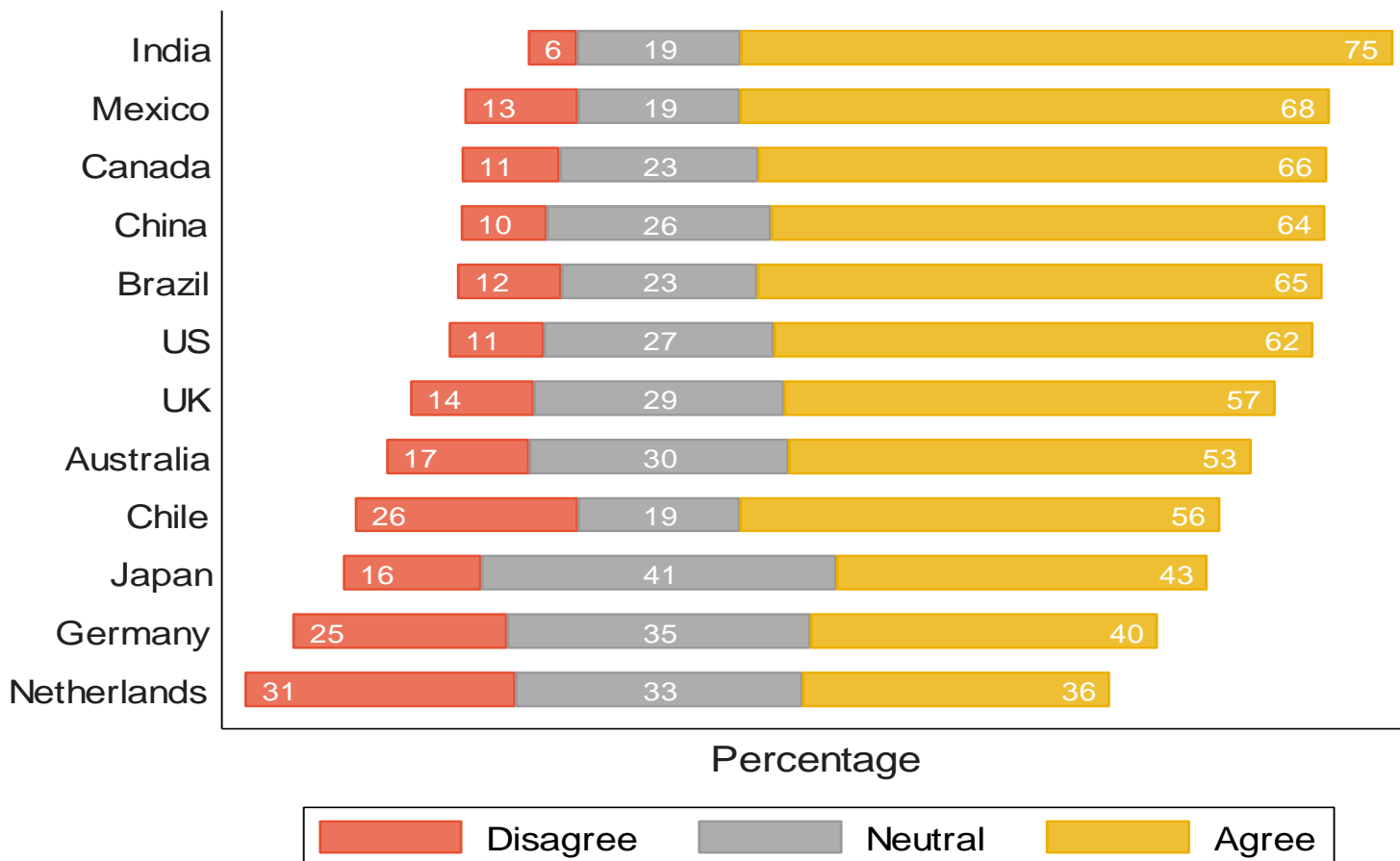
## Retire on less

In the Netherlands and Germany the over-50s are more likely to say they will retire on lower incomes.

Possibly due to limitations on ability to work past retirement ages or save more.

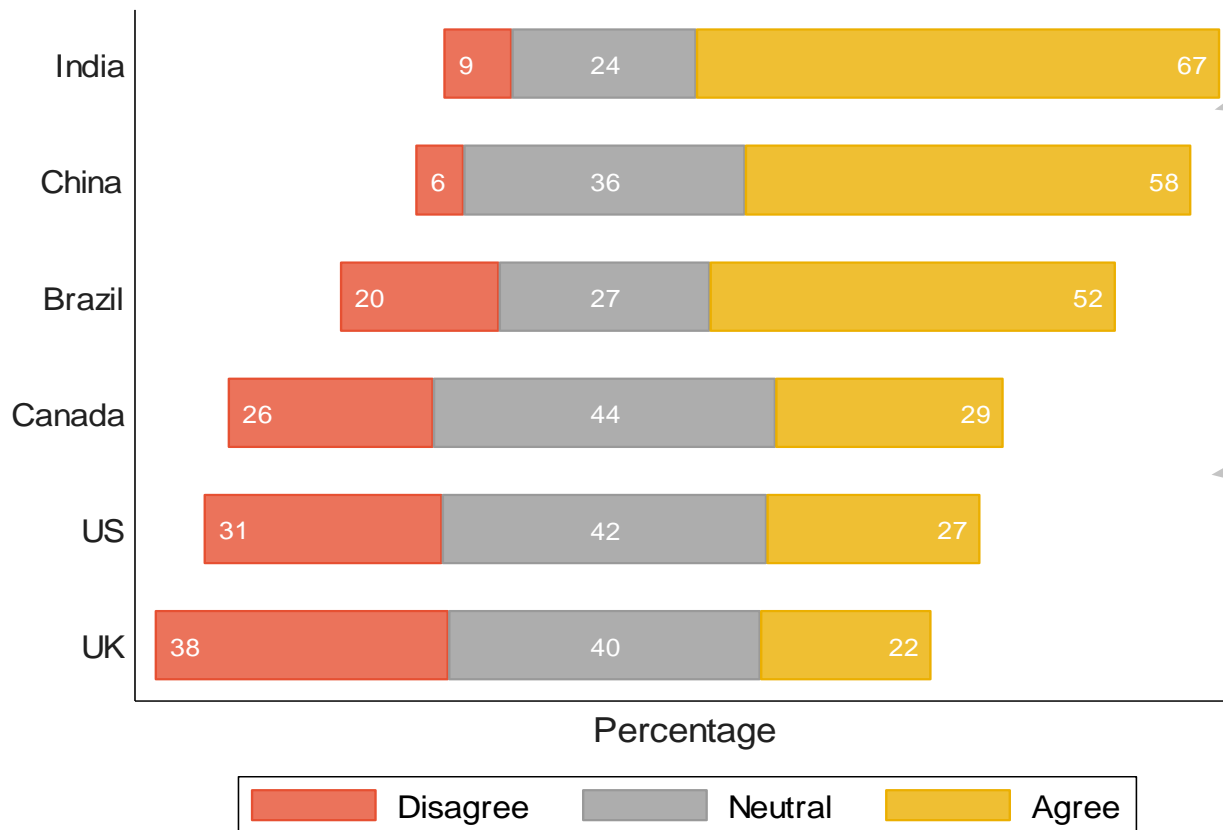
# Large numbers willing to pay for retirement guarantees

I would be willing to pay a higher amount out of my pay each to ensure I have a guaranteed retirement benefit



# Employees are more likely to 'pay' for a more generous retirement than health benefit

**I would be willing to pay a higher amount out of my pay each month for more generous health benefits**

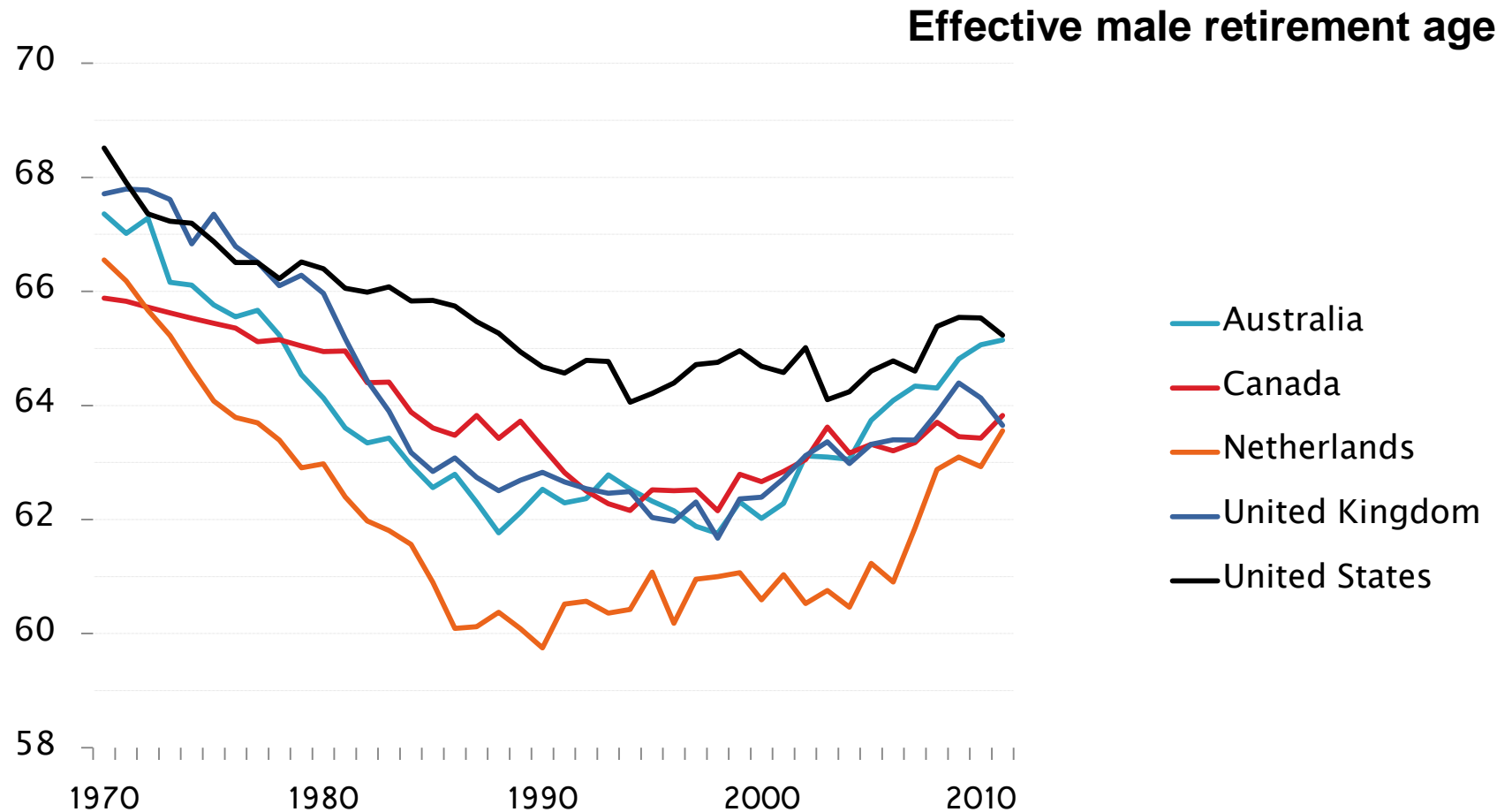


Desire for health benefits greater in emerging markets

Employees at least twice as likely to 'pay' for more generous retirement than health benefits in developed markets

Source: 2013/14 Global Benefits Attitudes Survey.  
Based on employees enrolled in a retirement plan.

# After years of decline, retirement ages are rising



A return to working in old age?

# Around the world large numbers now expect to work past 70 in the developed economies

**29%**

Australia

**16%**

Canada

**8%**

Germany

**13%**

Japan

**16%**

Netherlands

**23%**

U.K.

**32%**

U.S.

**Retirement age expected to be higher than 65  
in Australia, Netherlands, U.K. and U.S.**

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# Recent trends in Asia

## Enhance pensions

Japan, Hong Kong

## Pension tax regulation

China, Vietnam

## Retirement plan funding

Japan, Korea, Indonesia

## Transition from DB to DC

Japan, Korea, Philippines, Taiwan

## Tax effective savings vehicles

India, Malaysia, Singapore, Philippines





## Japan: Expansion of eligibility for DC plans

- The government is moving to incentivise retirement savings by enhancing tax incentives for individual defined contribution (DC) plans and giving all citizens the ability to contribute to individual retirement accounts in early 2015.
  - DC plans were introduced in Japan 13 years ago as employer-sponsored arrangements or individual plans for those employees who do not have access to an employer plan. Employees were only allowed to contribute to employer plans in 2012. Under the new measure, the restriction on individual plans would be lifted, but the ability of employees to contribute to employer plans would be rescinded in favour of employees contributing to their own individual plans.
- Key details:
  - All employees participating in social security would be eligible to establish an individual plan. Monthly contributions would be tax-deductible up to JPY 40,000 for employees without access to an employer-sponsored plan, and JPY 20,000 for all others.
  - The contribution limits of employer-sponsored DC plans would remain the same (i.e. JPY 55,000 if no other defined benefit (DB) pension is provided; JPY 27,500 otherwise). However, employee contributions which are allowed under employer-sponsored DC plans would be abolished in accordance with the expansion of individual DC plans. Participant contributions would need to be paid into individual DC plans, instead.
  - Small employers (to be defined) would be able to contribute to their employees' individual plans.
  - Contribution limits would change from a monthly to annual basis when the change is put into effect.
  - Asset transfers to and from DC plans will be deregulated. For example, employers would be able to switch from a Small Enterprise Retirement Allowance Plan (a government-sponsored retirement plan for small employers) to DC plans.





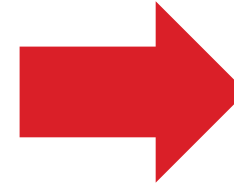
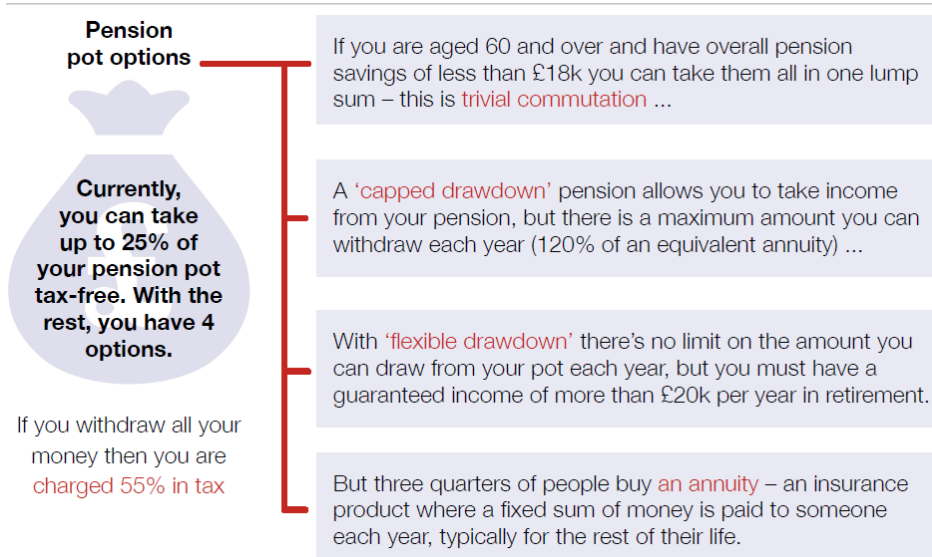
## Finland: Pension reforms on the horizon for 2017

- The Finnish social partners have agreed on reforms to the earnings-related mandatory pension plan (TyEL) to increase the retirement age from 68 to 70 and to encourage longer working careers. The agreement will be incorporated into draft legislation to be presented to parliament after the April elections.
- Beginning in 2017, the reforms would, among other things:
  - Increase minimum retirement age from 63 to 65 (for persons born after 1955) in three-month increments while simultaneously raising the maximum retirement age from 68 to 70.
  - Link retirement age to life expectancy (from 2027) to ensure that the ratio between the time spent in employment and the time spent in retirement remains at the 2025 level. Retirement age would be reviewed every five years, subject to further possible adjustments of three months.
  - Replace the 'part-time' retirement option with a partial, early retirement pension from age 61, based on 25% or 50% of the pension, subject to a 0.4% reduction per month taken prior to minimum retirement age.
  - Gradually phase out from 2017 to 2025 the higher annual pension accrual rates for members age 53 or older in favour of a standard accrual rate of 1.5% for all plan members regardless of age.
  - Calculate pensionable salary based on total salary rather than total salary net of employee contributions.
  - Apply the 0.4% per month increase in pension benefits for deferral of pension claims from the minimum retirement age (65) rather than the maximum age.

# Tax reforms “flexi-access drawdown” UK DC Pensions



## Existing Options



**6 April 2015**

## Completely Flexibility

- Any amount each year post age 55 been, 25% tax free
- DB to DC transfers allowed to unlock DB pension
- Certain circumstances pass pension tax free to beneficiary on death under age 75

## Other News

- *State Pension Age to be phased to 67 2026 to 2028*
- *Auto enrolment*

# Mortality Tables

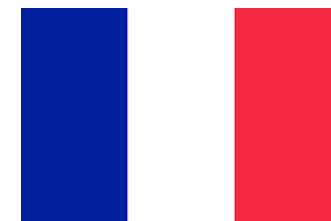
**Canada** – 2014 CIA CPM Study

**France** Updated tables INSEE TH TF 09-11 (which replace INSEE TH TF 08-10) are currently being certified.

**UK** The UK's CMIB has issued the "S2" series of SAPS 2004-2011 tables in early 2014.

**USA** The Society of Actuaries published new tables "RP-2014" with a new future improvements scale "MP-2014"

**Norway** New tables were issued 2013



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