DCIIA/SPARK 2021 Public Policy Series: Virtual Conference Summary

June 2021 – Global Themes

Contributors

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In May and June 2021, more than 800 members and guests registered to attend the second-annual DCIIA/SPARK Public Policy Series, coming from 25 states and 13 countries (Australia, Canada, China, France, Germany, Hong Kong, India, Luxembourg, Netherlands, Slovenia, South Africa, USA, UK). The event series featured almost 90 expert speakers from around the world.

Following is a recap of the June event, including agendas and descriptions of key themes that emerged. We also invite members to access session replays, related slide decks, speaker details and more on our website – look under Events / DCIIA/SPARK 2021 Public Policy Series. Sessions included:

DAY ONE

Opening Remarks: Kevin Collins, T. Rowe Price

Views from the Founders of the World's DC Systems
A conversation with two leading visionaries in DC savings in Australia and the United Kingdom.
Speakers: Nick Sherry, Sherry and Associates International; Helen Dean, NEST Corporation; John Mitchem, JM3 Projects (Moderator)

O' Canada: Everything You Wanted to Know About Canadian DC Plans But Were Afraid to Ask
This session provides an introduction to some of the unique features and acronyms prevalent in the Canadian DC market and contrasts the Canadian market with the US market.
Speakers: Kathryn Bush, Blakes; Brent Godson, Co-operative Superannuation Society Pension Plan; Derek Dobson, CAAT Pension Plan; Neil Lloyd, Mercer (Moderator)

Who's the Fiduciary?
This panel discusses how Canada and Australia approach the question of who should be responsible for managing retirement plans.
Speakers: George Turpie, Canada Life Assurance Company; Anthony Serhan, Pendal Group; Michael Kreps, Groom Law Group (Moderator)

DAY TWO

Opening Remarks: Greg Long, Alight Solutions

DC Savings in Europe – Guarantees vs. Glidepaths
This panel explores the pros and cons of asset allocation strategies in an era of ultra-low interest rates.
Speakers: Simon Colboc, CMI Strategies; Bernard Delbecque, EFAMA; Arnaud Schwebel, BNP Paribas Asset Management; Jorik van Zanden, Utrecht University (Moderator)

How in the World Should We Address Retirement Income?
This panel discusses the U.S., Australia, and U.K. retirement systems with a focus on retirement income.
Speakers: Mark Foley, TIAA; Mark Thompson, Consultant; Jacki Ellis, Aware Super; Bruce Ashton, Faegre Drinker Biddle & Reath (Moderator)

Workplace of the Future
This session examines what changes are likely to remain after the pandemic and how the workplace of the future is expected to change.
Speakers: Catherine Collinson, Transamerica Institute; Ashra Jackson, KPMG; Warren Cormier, DCIIA Retirement Research Center (Moderator)

DAY THREE

Opening Remarks: Aron Szapiro, Morningstar

What Will Drive the DC Systems of the Future?
This panel explores how the drivers of the DC systems of the future may create opportunities or challenges, looking at the intersection of employer-voluntary and employer-mandatory retirement systems in Europe, the U.K. and U.S.
Speakers: Ziga Vizintin, Pokojninska družba A; Mary Morris, Commonwealth of Virginia; Judy Nelson, TCS; Lisa Massena, Massena Associates (Moderator)

Global ESG Regulations
This panel discusses the drivers of EU sustainability policy and legislation, the structre of required disclosures and the changing naure of client and product provider communications and strategy.
Speakers: Nathalie Dogniez, PwC Luxembourg; Bob Collie, Collie ESG; Anna Driggs, Investment Company Institute; Judy Mares, Mares Financial Consulting (Moderator)

Insights on Retirement Security in China
A discussion about the unique retirement security needs China faces. How might the Chinese government meet the retirement needs of the most populous country in the world? What are China's future goals in the pension and asset management space?
Speakers: Ben Ma, McKinsey; Xiyuan Fang, McKinsey; Preston Rutledge, Rutledge Policy Group (Moderator)

INTRODUCTION

Workplace savings plans are mature and exceed 100% of GDP in assets under management in a few select countries – the United States, Australia and Denmark chief among them. Many other nations are establishing new DC savings systems in response to growing demographic and actuarial stress on traditional government pension systems. These emerging DC systems are at various stages of legislative, regulatory and operational rollout all over the world – Europe, Asia and elsewhere.

In addition to considering this emerging geography of global DC savings, the conference also addressed key themes that seem transnational in their significance – the policy architecture of emerging systems, the changing global workplace (particularly amid the COVID pandemic) and ongoing conversations around plan taxonomy and regulation for environmental, social and governance (ESG) funds. Sustainable economic growth – and sustainable retirement financial systems – appears to be a global challenge and opportunity.

A GLOBAL DEFINED CONTRIBUTION ECOSYSTEM

Speakers from multiple countries, describing the origins and evolution of their DC systems, made clear that national workplace savings systems do not develop in isolation. Innovations in individual countries both inform and inspire innovations elsewhere. As DC systems rise around the world, the policies and solutions developed in individual markets inform policymakers and practitioners in multiple countries, thereby "cross-pollinating" creative public policy and industry best practices.

1970s-1980s – U.S. 401(k)s AND IRAs

The United States workplace savings system famously emerged when enterprising tax attorneys noted that paragraph 401, sub-paragraph (k) of the Revenue Act of 1978 allowed employees to defer taxes on a portion of income, provided that they direct assets to a workplace savings plan compliant with the Employee Retirement Income Security Act of 1974.

The purely voluntary system was originally thought of as the third leg of a "three-legged stool" composed of Social Security, private corporate pension plans and individual savings. And while the current U.S. DC savings system covers 55-60% of workers, in its early decades the system was modest in its ability to replace income.

1980s-1990s – AUSTRALIA

In the late 1980s, most Australians in conventional jobs were covered by a modest state pension, while only 30 percent of workers – mostly in civil service or working under union contracts or in large companies – were enrolled in private defined benefit (DB) pension plans. Anticipating the long-term decline of support ratios between Australian workers and retirees, elected officials resolved to expand funded retirement solutions. Noting the closure of private DB plans in the U.S., it was decided that Australia should create a workplace DC "Superannuation" system to cover a wide range of workers.

Panelists noted that the U.S. workplace system circa 1980s only covered a small minority of workers. (Certainly no one anticipated the DC system to supplant DB as the primary platform for private retirement finance.) Australian policymakers believed that they needed a bold policy to achieve more robust coverage than the Americans had yet achieved. Behavioral finance and recommendations around automatic enrollment and escalation would not emerge for another decade or more, so it was decided to make the Superannuation system mandatory for virtually all workers. Following five years of studies and planning, the system was launched in 1992 with a mandatory 3% employer contribution that would rise to 10% by 2020.

1990s-2000s – UNITED KINGDOM MASTER TRUSTS

In the 1990s, U.K. government ministers overseeing the traditional state pension system also understood the rising demographic and actuarial pressure foreseen by the Americans and Australians in previous decades. Interestingly, the U.K. felt the need to initiate a workplace DC savings system despite that fact that the country had a long tradition of substantial private DB pension industry covering many workers, feeding deep and liquid local capital markets (two things Australia never had).

Believing that a purely voluntary system like that of the United States would likely result in coverage shortfalls and discovering that a mandatory DC savings system like that of Australia would not achieve consensus political approval from employers, unions and multiple political parties, the U.K. chose a middle ground. Working with American academics deploying the new tools of behavioral finance that were then emerging to great effect in the U.S., the U.K. embarked on a system of automatic enrollment with a worker opt-out.

While developing its master trust system of multiple employer plans in private business, the U.K. also created a government-sponsored non-profit DC plan, the National Employment Savings Trust (NEST) aimed at small- and medium-sized enterprises and workers with low-moderate income. Initial planning around NEST anticipated a 35% opt out for the automatic enrollment system. However, two decades later in 2020, worker opt-out would stand below 8 percent and below 5 percent for young workers. Still growing with more than 11 million members, NEST is the largest pension plan in the U.K. as measured by number of plan participants.

THE 21ST CENTURY – CANADA, EUROPEAN UNION AND CHINA

Today, new DC systems are rising in multiple countries.

CANADA

In another of the world's great traditional DB pension powers, Canadian policymakers are undertaking a complex exercise leading the country toward defined contribution. The complexity arises from a mix of multiple different savings formats and a multiplicity of pension laws in each Canadian province. Some 60 percent of Canadian workplace savings contributions today are oriented toward DC savings and many plans are experimenting with DB/DC hybrids of various types.

EUROPEAN UNION

A new savings format – the Pan-European Personal Pension (PEPP) has been approved by legislators in Brussels and will be launched in early 2022. The PEPP is not so much a "product" as a set of standards for which a wide variety of investment products in multiple markets can qualify, thereby clearing the path for distribution throughout the EU. A major debate today now turns on asset allocation, with banks and insurance companies holding some $10 trillion euros that individual European workers are saving for retirement. To achieve optimal investment benefits, these allocations should be converted into higher-return public and private capital market investments as is the practice in the U.S., Australia and U.K. Policymakers and practitioners are also eager to drive savings toward workplace (rather than individual) plans, so as to take maximum advantage of behavioral finance and "automaticity." Glidepath target date strategies will be the preferred investment format.

CHINA

Should China's more than 750 million workers avail themselves of workplace savings plans, the resulting surge in DC assets under management would be nothing less than historic. And this seems to be the plan. Expert panelists made clear that policymakers in China had studied the experience of the United States, Australia, Canada, and Europe and that they were determined to create a Chinese DC savings architecture. Similar to Europe, Chinese policymakers are looking to "unlock" some $15-$20 trillion of assets in bank accounts and insurance products and divert them to productive capital market investment. Describing the savings market as similar in scale to that of the U.S. 30 years ago, they anticipated rapid growth in Chinese DC and commercial partnership between Chinese financial firms and experienced DC practitioners from Australia, the United States, the U.K. and other territories.

EVOLVING THEMES

Investors in U.K. DC plans are proactive and vocal in their support of **sustainable investment strategies**. Retirement savings is for the long run; sustainable finance is likewise an investment process measured in decades, suggesting that the strategies are "in tune." ESG is also extremely popular in continental Europe, but further development of this market will be challenging. Consistent with Europe's Sustainable Finance Action Plan, European policymakers are struggling to define taxonomy, regulation and taxation of ESG investment strategies.

European policymakers would like to develop a consistent framework for ESG investment, particularly with a view to handling market risks associated with environmental and social impacts such as climate change or the challenges of migration. But banking, insurance and investment regulations vary between member states, making it difficult to develop continent-wide strategies. ESG factors are increasingly material to investment outcomes, raising the stakes and spurring policymakers.

Related to the **future of the workplace and savings**, experts noted that the COVID pandemic had accelerated the evolution of workplace benefits and investment patterns around the world. Employers express concern for their employees' welfare and consider retirement plans, work-life balance, "alternative work arrangements" and financial security as important motivators of stakeholder engagement. As many workers enjoy greater geographic flexibility, being able to work remotely, employers face new challenges as to work permitting, professional licensing and compensation and taxation. In many cases, workers may live in jurisdictions where their employers do not have registered offices, raising difficult questions about enrollment in workplace benefits and retirement savings plans.

As the world's DC savings systems evolve, **assigning and enforcing fiduciary responsibility** is essential. In every global DC savings system – whether government-managed; a unitary structure with asset management, administration and record-keeping under one roof; or a 401(k)-style open market in which multiple private firms play various roles, fiduciaries must be clearly identified and given well-defined responsibilities.

In Canada, the US $1.5 trillion DC savings system is divided into multiple savings formats – the Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF), Tax-Free Savings Account (TFSA) and the Canada Pension Plan/Quebec Pension Plan (CPP/QPP). This situation is rendered more complex by multiple provincial and federal regulators. Guidelines from the Canadian Association of Pension Supervisory Authorities has clarified fiduciary responsibilities and forged consistency among provinces. In **Australia**, fiduciary rules for the US $2.3 trillion Superannuation system govern trustee management of contributions, investments, fees, administration, pension payments, mortality credits and advice.

The conversion of accumulated workplace savings into **lifetime retirement income** is a challenge in all DC savings systems worldwide. In the **United States** pre-ERISA, the earliest DC workplace savings (notably for teachers) began as direct-to-annuity savings plans. Since the rise of the 401(k) system, DC plans have evolved toward age-appropriate allocations of stocks and bonds, with individual participants and advisors left to develop their own "drawdown" strategies.

In Australia, the government DB pension system is means-tested, which promotes equality but introduces complexity. In terms of converting accumulated wealth into income, most Australians (who tend to "over-invest" in housing) prefer to draw their income out of property rather than their Superannuation savings plans. The fact that Superannuation funds invest up to 25 percent of their allocations to illiquid private market assets also tends to complicate "decumulation". But several Supers are today experimenting with income strategies built around variable and deferred-income annuities. **In the United Kingdom**, low bond yields and rising longevity have inspired the closure of corporate DB pension plans for new workers in favor of DC master trusts. The UK introduced mandatory auto enrollment (with opt out) in 2012 and terminated a "mandatory annuitization" policy for DC in 2015. Currently, instead of purchasing annuities, workers generally prefer to use "drawdown providers" (specialty advisors), withdrawing 25 percent of savings in cash and leaving 75 percent in cash-like instruments. Four common strategies are deployed: leave assets in place for five years, annuitize in five years, begin cash withdrawals in five years or remove all assets in five years.

LOOKING AHEAD

The world's DC savings systems face the exciting prospect of **large numbers of new participants**, notably in the U.S., where state-facilitated auto-IRAs are drawing new kinds of workers to savings and multiple-employer plans (MEPs) may facilitate smaller companies' sponsoring new private plans.

In Europe, DC savings may see explosive growth because retirement systems are growing from a small base. Where countries like Netherlands, Denmark, Sweden and Switzerland have over 80% worker participation in private retirement finance structures, massive economies like Italy, Germany and France have less than 10% participation, suggesting substantial room to grow. Smaller emerging economies from the former socialist bloc like Latvia, Estonia, Slovenia and Croatia have DC enrollment of between 40-80%, depending on whether or not they use automatic enrollment.

Most DC systems in "New Europe" are taking full advantage of the experience of DC powers like the United States and Australia, deploying automatic enrollment and escalation; automatic allocation to age-appropriate glidepath strategies, digital participant interaction and behavioral "nudges." The growth of pan-European DC, consistent with the spirit of the European Union's PEPP investment format, is expected to take off once existing "third pillar" (personal) plans are joined by "second pillar" (workplace) plans and when all savings plans are made fully portable across the European Union.

ADDITIONAL RESOURCES

Access session replays, related slide decks, speaker details and more on our website – look under *Events / DCIIA/SPARK 2021 Public Policy Series*.

Visit the DCIIA Resource Library on our website (*Resources / Resource Library*) for thought leadership from DCIIA and DCIIA members on the following topics:

- Diversity, Equity and Inclusion
- ESG/Sustainable Investing
- Fiduciary Oversight, Legal and Regulatory Insights
- Financial Wellness and Participant Perspectives
- Investment Options and Best Practices
- Plan Design Matters
- Plan Sponsor Perspectives and Industry Surveys

Members interested in global retirement issues are encouraged to join the DCIIA Global Committee, one of several standing committees led by members that meet regularly to discuss timely topics and produce educational content for plan sponsors and the broader financial and retirement industry. To learn more, see *Committees / About our Committees* on our website.

ABOUT DCIIA

The Defined Contribution Institutional Investment Association (DCIIA) is a nonprofit association dedicated to enhancing the retirement security of America's workers. DCIIA's diverse group of members include investment managers, consultants and advisors, law firms, recordkeepers, insurance companies, plan sponsors and other thought leaders who are collectively committed to the best interests of plan participants. For more information, visit: www.dciia.org.

ABOUT SPARK

The SPARK Institute is a member-driven, non-profit organization and leading voice in Washington for the retirement plan industry. Our members include recordkeepers, mutual fund companies, brokerage firms, insurance companies, banks, consultants, trade clearing firms and investment managers. For more information, visit: www.sparkinstitute.org.

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