RECOMMENDATION ON GOOD PRACTICES FOR FINANCIAL EDUCATION RELATING TO PRIVATE PENSIONS

RECOMMENDATION OF THE COUNCIL

These Good Practices were adopted by the OECD Council on 28 March 2008.

OECD RECOMMENDATION GOOD PRACTICES
FOR FINANCIAL EDUCATION RELATING TO PRIVATE PENSIONS

THE COUNCIL,

Having regard to Article 5(b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

Considering that in its "Recommendation on Principles and Good Practices for Financial Education and Awareness", the Council invited the Committee on Financial Markets, the Insurance and Private Pensions Committee and its Working Party on Private Pensions to identify further good practices, inter alia, in the pension education field;

Considering that the "Good Practices for Financial Education Relating to Private Pensions" set out in the Annex to this Recommendation (hereinafter referred to as "the Good Practices") complement the Principles and Good Practices for Financial Education and Awareness as a part of the overall project on financial education and that these Principles fully apply to the private pensions field;

Considering that the Good Practices have also been structured to ensure compatibility with the "Good Practices for Enhanced Risk Awareness and Education on Insurance Issues" developed in parallel by the Insurance and Private Pensions Committee;

Considering that financial education is particularly important in the private pensions field due to the unique nature of these financial products – which are complex, exceptionally long-term contracts with wide social coverage;

Considering that various demographic and social changes - including increasing life-expectancy and the rise of defined contribution pensions allowing individual choice – accentuate the risks faced by individuals in relation to private pensions;

Considering that the private pensions are increasingly important as a source of retirement income, which enlarges their impact on financial markets worldwide;

Considering that not only do consumers consistently demonstrate low levels of financial literacy in general, but often lack a good understanding and knowledge of pensions and retirement savings plans;

Considering that government and relevant public and private institutions in both Member countries and non-Member economies may benefit from international guidance on financial education relating to private pensions;

Considering that the implementation of the Good Practices will have to take account, depending on national specificities, the differing needs for financial awareness and education in the private pensions field, initiatives already undertaken, the stakeholders involved in the financial awareness and education process and the pension regulatory and supervisory framework in place;

On the proposal of the Insurance and Private Pensions Committee, its Working Party on Private Pensions and the Committee on Financial Markets;

RECOMMENDS that Member Countries promote financial awareness and education relating to private pensions and that, in this regard, governments and relevant public and private institutions take due account of and implement the Good Practices for Financial Education relating to Private Pensions which are set out in the Annex to this Recommendation, and of which they form an integral part.

INVITES Member Countries to disseminate these Good Practices among public and private sector institutions involved in financial awareness and education and in pensions issues.

INVITES non-Members to take due account of this Recommendation and to disseminate these Good Practices among public and private sector institutions that are involved in financial awareness and education and in pensions issues.

INSTRUCTS the Insurance and Private Pensions Committee and its Working Party on Private Pensions to exchange information on progress and experiences with respect to the implementation of this Recommendation, review that information and report to the Council not later than three years following its adoption, and, as appropriate, thereafter.

ANNEX

GOOD PRACTICES FOR FINANCIAL EDUCATION RELATING TO PRIVATE PENSIONS

1. Financial education and retirement products: framework, definition and objectives

1. Taking into account national circumstances, financial education for retirement products should be encouraged generally, whether as part of the wider financial education effort or through distinct programmes. Such education programmes should be conducted in a coherent and transparent manner between main stakeholders.

2. Within this context, financial education specifically related to retirement products should help to promote understanding of the changing retirement environment, the need for long-term savings, and of investment products. Well-informed consumers can help to improve the performance of fiduciaries and financial intermediaries.

3. Financial education should be taken into account within the pension regulatory and supervisory framework and considered as a tool to enhance social and economic growth and well-being through reliable, transparent, efficient and competitive markets for pension products along with prudential regulation and consumer protection (including regulations on the provision of information and advice on pension and retirement products). Financial education does not substitute but rather complements prudential regulation and consumer protection. These are especially needed in the pension sector to protect pension beneficiaries who are particularly vulnerable consumers, with pensions often involving subsistence rather than discretionary savings. In addition, financial education can promote market efficiency and symmetrical information.

2. Main stakeholders' roles and responsibilities in enhancing public awareness and capability on retirement income issues

A. Governments and other Public Authorities

4. Governments and other public authorities have a significant role to play in financial education programmes on pensions through public awareness campaigns and should provide a strong lead, coordinating projects with a range of other partners. Specific websites or a specialised structure or agency should be considered.

5. Governments and other public authorities should promote awareness and education of financial and regulatory issues that bear on pension financial education such as information disclosure guidelines and corporate and financial governance guidelines.

6. Governments and other public authorities should explain public policy clearly (particularly where mandatory savings are involved) – including any pension reforms taking place, the changes in the pension environment, increased individual responsibility and demographic and other changes requiring individuals to save more for their retirement – in order to maintain transparency and confidence in the pension system and thereby encourage individual saving for retirement. Care should, however, be taken in public

campaigns to distinguish between financial education and political advocacy for a particular form of pension or retirement income system.

7. Governments and other public authorities should direct public awareness campaigns as broadly as possible, given the widespread lack of understanding of pension issues. In addition, specific programmes targeted at the most vulnerable groups (migrants or those with the lowest income and savings levels) can also have a significant impact.

8. Governments and other public authorities should work towards making individuals aware of their limited knowledge of financial matters, and pension products in particular, stressing the risks of not having an adequate income in retirement, and should provide information on where to seek further information and advice on how to mitigate these risks.

9. Governments and other public authorities should strive to ensure that reliable information of projected public pension income is delivered on a regular basis by public pension providers in order for individuals to have a clear and prudent projection of potential retirement income.

10. Governments and other public authorities should work to ensure that financial education relating to pensions begins as early as possible – potentially as part of school curricula - in order to encourage individuals to start savings from as young an age as possible, which is particularly important in relation to defined contribution type pension plans. They should also ensure that financial education on pensions is available on an on-going basis, at key points in an individual's life (starting work, marriage, birth of child etc.).

B. Social Partners

11. Trade unions, employer associations, and pension fund associations, should contribute to financial education programmes, given their important role in negotiating pension plans and contracts. For example through conducting surveys of their workers or members - as appropriate – in order to ascertain their level and needs with respect to financial education and to find out how they would prefer to receive such information.

12. Social partners should also be encouraged to provide financial information or training, or should at least inform members about where they can receive help. They should also have a role in making sure that members know what pension and/or retirement savings arrangements are available to them.

13. Trade unions in particular could also sponsor materials for public education programmes, alone or in cooperation with other social partners, to promote, develop and deliver quality education on pension issues, including on financial issues, that are relevant to the interests and well-being of the plan members and the workforce in general.

C. Plan Sponsors[1]

14. Plan sponsors should inform employees of any pension plan offered to them, its broad structure, a projection of what benefits can be expected and any responsibilities which it entails for them[2].

15. Plan sponsors should be encouraged to provide financial education for pension plan members, or should at least provide plan members with information on where they can find such training. Seminars – which have been demonstrated to be a successful mechanism for raising retirement savings rates – could be used where costs permit, and should be targeted at lower income earners, where the impact of such activities has been shown to be greatest.

16. Where plan members take responsibility for investment decisions, such as in defined contribution type pension plans, plan sponsors should at least ensure that workers are aware of this responsibility and have access to information which can help them make informed investment decisions[3].

17. Where a plan sponsor's role in the provisioning of the pension plan allows, and where they are aware that employees' or members' contributions to their defined contribution pension plans are significantly insufficient to ensure an adequate retirement income, they should consider alerting employees or members to this risk.

18. Where employees or members are offered a range of investment options, plan sponsors should consider limiting, in a well-structured fashion, the number of investment choices available (or provide a 'two tier' choice between a basic system and a system offering more sophisticated investment choices) and should provide a suitably structured default option in order to help employees or members make optimal pension investment decisions.

19. Plan sponsors should be particularly mindful of potential conflicts of interest that may affect their judgement in designing financial education programmes and initiatives.

D. Pension Funds and Fiduciaries, Providers of Retirement Income Products and Intermediaries[4]

20. Pension funds, fiduciaries, providers and intermediaries should produce information for individuals on the design, operation and performance of pension funds and retirement products which is timely, accurate and accessible.

21. They should be encouraged to supply prudent projections of retirement income which can be expected from pension funds and retirement products.

22. Information should be in as clear and simple a format as possible; for example, avoiding 'jargon', ensuring comparability between products where possible, etc. Any institution providing information should check that the information has been understood.

23. Information should be provided to individuals on the choices open to them and their responsibilities in relation to retirement savings plans, for example, the individual choices with respect to participation and contribution levels existing in many defined contribution schemes. In such schemes, a single source with clear and comparable information on the types of investment, including risk and return profiles, and the costs involved is required[5].

24. Intermediaries should be encouraged to engage in initiatives increasing the population's awareness of the need to save for retirement. However, clear distinctions should be made between financial education and commercial product recommendations. Any advice for commercial purposes should be transparent and disclosed.

25. Clear and consistent general legal obligations, standards or codes of conduct should be developed for intermediaries. Checking of clients' proper understanding by intermediaries - who should be adequately trained in this respect - should be part of their good governance, as pensions involve long-term commitments and can represent a substantial portion of the current and future income of individuals.

26. Those providing any of the above services should be suitably trained, qualified and regulated.

27. Requirements should be established specifying the types of information (including where to find information and the provision of general comparative and objective information on the risk and returns of

different kinds of pension products) that financial institutions need to provide to clients on pension products and services.

28. Financial education should be encouraged for trustees and other pension fund fiduciaries to ensure they have the necessary skills (over and above any ‘fit and proper’ requirements) to make suitable decisions and fulfil their fiduciary duty. Information and suggested questions could be provided to individuals to help overcome asymmetries of information and allow them to evaluate advice from financial intermediaries successfully.

3. Methodology: evaluation of needs, of programmes and of means at hand

A. Assessing needs and existing programmes

29. According to national circumstances, financial education initiatives relating to retirement products should make on-going efforts, *inter alia*, to develop methodologies and criteria to assess the needs of the population as regards financial literacy and capabilities with regard to retirement income issues as well as the impact and effectiveness of existing programmes in this respect.

30. According to the needs of the country in question, these processes should involve:

- Evaluation on a more systematic basis of the risks that could affect the retirement income of individuals and their relatives, along with analysis of risk and/or populations that are particularly likely to have low incomes in retirement;

- Evaluation and development of methodologies for improving the identification and assessment of the education needs of the population on retirement-related issues (especially in relation to certain more vulnerable groups, products which are a frequent source of misunderstanding or which involve a greater transfer of risk), and the reasons for any shortcomings;

- Evaluation of the population’s degree of financial literacy and more or less active behaviour as regards retirement income issues;

- Systematic evaluation of enforced measures and programmes aimed at enhancing financial literacy related to pensions having regard to a set of predetermined criteria and involving a cost and benefit assessment.

B. Mechanisms and tools

31. In the absence of other pension schemes and adequate levels of financial education and without limiting the freedom to contract, automatic enrolment in voluntary pension plans with appropriate default mechanisms and transparent opt-out procedures for contributions rates and for investment allocation should be considered.

32. Financial education in relation to pensions should be made available through as many sources as possible (internet, brochures, advice bureaus, etc.).

33. Broad media coverage (*e.g.* radio, television, print journalism, billboard advertising and internet), and the organisation of events to raise awareness of pension issues and of the importance of financial education in this respect should be encouraged. Another possibility would be to boost the awareness of the media actors themselves (*i.e.* journalists) and public opinion in general regarding the importance and role of individual saving for retirement.

34. The development of various tools – including financial calculators – for estimating retirement income needs and savings requirements should be made easily available and should be promoted.

ANNOTATIONS

1 A plan sponsor is an entity (e.g. a company, industry, employer, employee or professional association) that designs, negotiates and normally helps to administer an occupational pension plan for its employees or members.

2 For details on the information which should be provided to plan members, see '*OECD Guidelines for the Protection of Rights of Members and Beneficiaries in Occupational Pension Plans'*, available on the OECD website: www.oecd.org, - Guideline IV '*Disclosure and availability of information'.*

3 For details on the information which should be provided specifically to members of DC schemes see '*OECD Guidelines for the Protection of Rights of Members and Beneficiaries in Occupational Pension Plans'*, available on the OECD website: www.oecd.org, - Guideline V. '*Additional rights in the case of member-directed, occupational plans*.'

4 Providers are entities that administer pension plans and other retirement products. Pension plan sponsors may be providers, but most often providers are independent pension fund entities or financial institutions. In some countries this role would be taken up by the pension fund itself. Intermediaries are financial institutions or individuals advising consumers on decisions relating to their retirement income, including the choice of pension product.

5 For details on the information which should be provided specifically to members of DC schemes see '*OECD Guidelines for the Protection of Rights of Members and Beneficiaries in Occupational Pension Plans'*, available on the OECD website: www.oecd.org, - Guideline V. '*Additional rights in the case of member-directed, occupational plans*.'