

Private and Occupational Pensions Regulations: Comparative Lessons

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Types of Risks

- Myopia—individuals may prioritize present needs over future needs or simply undervalue the importance of old age income security .
- Volatility risks—market could be volatile both in the short and long terms in way that would undermine efficiency, equity and security of retirees.
- Choice risks—consumers are overloaded with information about investment products or simply lacked the knowledge to understand vocabulary and language investment market
- Administration charges—administrative cost especially in decentralized funded pension system could adversely affect benefit retirees receive.

Concerns

- What mechanisms exist for regulation/governance or mitigating these risks?
- Who are the major actors, and what role do they play?

Ideal Type Regulatory

	Social Dem Gov. Model	Social Lib. Gov. Model	Neo-Liberal Gov. Model
Myopia	Mandatory participation	Automatic enrollment (with possibility of opting out) and or state subsidies	Voluntary participation (individual must opt in).
Volatility risk	Defined benefit via intergenerational risk sharing	Guaranteed minimum return or automatic enrollment in life-cycle funds	Defined contribution
Choice risk	Pooling of members' assets in collective portfolio; no provider competition; collective voice via social partners	Individual choice is restricted to few broadly diversified funds chosen by a public regulator.	Unrestricted competition; unrestricted individual choice
Administration charges	Use of monopolist corporate funds or a public fund	Charges are capped below specified % of assets per account	Fostering Competition
Actors	Collective Actors—state and social partners	Individuals and the state (Shared responsibility)	Individual citizen
Model Country	Netherlands	United Kingdom	United States

Concluding Remarks

1. The **social democratic** governance strategy is usually designed to mitigate myopia through mandatory participation; market volatility risk through intergenerational sharing of financial market risks; and choice risks through collective voice expressed vested in the state/social partners.
2. The **social liberal** governance model attempts to mitigate all the above risks through automatic enrollment (with opting out options); guaranteed minimum return against volatility; individual choice is restricted to handful of chosen funds, and there is intermediate level of collective/state intervention.
3. The **neo-liberal** model relies on consumer sovereignty to deal with myopia and choice risks; there is low level of state/collective intervention; and it is believed that administrative charges would be forced down through competition, while the 'invisible hand' of the market is trusted to ensure sufficient transparency that would protect investments against market failures.

Sources

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