

A Three-Step Approach to Global Retirement Challenges

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By Dan Waters

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Countries of every size and economic situation face difficulties related to retirement: ageing populations, tight budgets, and policy complexity, among others. Viewed globally, the challenge of retirement security is large and daunting, indeed.

Yet, examining this challenge through a global lens can also serve as a powerful way to find solutions and approaches for moving forward. To tame its more daunting aspects, we can take a simple, three-step approach: honestly assessing our problems, exchanging ideas about solutions, and staying focused on the needs of savers and investors.

Step one: assess realistically what is working and what isn't. A key starting point should be an examination of all components of the retirement system, whether offered by government or private enterprise, whether mandatory or voluntary, whether pre-funded or pay-as-you-go. The importance of each component of the retirement system varies across countries, and many countries are grappling with the financial sustainability of their government systems in the face of the demographic trend of increasing life expectancies.

Fortunately, ways to cope with these strains are becoming clearer, not least of which are efforts to promote more individual retirement savings accounts. Around the world, we see the emergence of pre-funded, defined contribution retirement plans as more substantial components of countries' comprehensive retirement systems. For example, here in the United Kingdom, a significant step has been taken in the direction of individual accounts with the National Employment Savings Trust (NEST) programme.

Step two: exchange ideas. One fact of the global retirement challenge is that there is a staggering amount of policymaking taking place around it. We should leverage all this activity by furthering a robust global dialogue on policy developments and options.

Fostering this dialogue is all the more important because countries, with unique cultures and priorities, are necessarily following different paths to confront their retirement challenges and to encourage private retirement saving. A mandatory defined contribution programme like NEST may be a good fit for the United Kingdom, but other countries might have a preference for a more voluntary, employer-led approach, such as the 401(k) plans in the US. In sharing ideas, countries can learn from one another.

Step three: focus on the needs of savers and investors. While a country can choose from several alternatives in creating a retirement system that best meets the needs of its population, it is crucial that all policymakers focus on the key principles that underpin successful efforts to encourage retirement saving and investing. Foremost among these principles are investor protection, transparency, disclosure, education, portability, and cost-effective investing. Regulated funds have an impressive track record in advancing these principles for the benefit of shareholders and can play a critical role in addressing the global retirement challenge.

Assessing problems, exchanging ideas, and focusing on investor needs—these are essential steps in addressing retirement challenges across the globe. To move forward with each of these steps, ICI Global is convening retirement leaders from around the world at an event—the Global Retirement Savings Conference: The Role of Investment Funds—taking place in Hong Kong in June. We're inviting regulators, experts from non-governmental organisations, economists, commentators, and private sector executives to discuss the way forward. We welcome all to join in the conversation.

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