



Occupational Pensions Stakeholder subgroup on ”Occuapotional DC”

Task 3: Investement decisions in occupational DC schemes

Charlotta Carlberg,

Ellen Nygren,

Jan Sebo,

Alberto Floreani



Task of the subgroup

Workstream to the subgroup on Occupational DC

Task:

Research into effective methods of helping individuals with investment decisions in occupational DC schemes

Delimitation

- Definition of occupational DC
- Definition of investment decision

Goal

Highlighting possible *effective methods for helping* individuals to make investment decisions



Occupational pension

- “An occupational pension scheme where the only obligation of the scheme sponsor is to pay a specified contribution (normally expressed as a percentage of the employee’s salary) to the scheme on the employee’s behalf. There are no further promises or guarantees made by the sponsor.”



Investment decision

- There are different possibilities to invest, and decisions to be made prior to the investment.
- The individual investment decision may concern
 1. the choice of the pension provider,
 2. the product and/or
 3. the investment portfolio,

In some member states some options are up to the employer or may be granted or restricted by specific regulation (Rozinka, Tapia (2007)). These three different choices involve different methods for helping individuals to make investment decisions and/or the ways to receive advice/information.



Starting points

- Before decision
- Available options
- Tools for decision making
- Ways of receiving advice/information



Before decision

- What typical occasions are there for a member of a (DC) occupational pension scheme to make an investment choice in general? (when he enters the scheme, during the savings phase, when family changes take place, some years before retirement, close to retirement, after retirement?)
- Responsibility for the investment decisions – the individual will have to live with the output, not the employer
- Occupational pension is in some member states also insurance, i.e. savings and insurance in combination. This might also have an impact on the investment decision



Different investment options

- existence of passive pension funds allowing clear comparison with market benchmarks,
- Default options, how are they normally designed and who decides they are to be the default options (pensions provider, employer alone or parties to collective agreement or other?)
- Selection of investment options (who decides on the possible choices, existence of legal limits?)
- Existence of quantitative regulations on how risky options are allowed, how much can be invested in high-risk products or similar limitations?
- Existence and use of life-cycle investment products
- how to align pension fund investment decisions to long term retirement objectives
- Information about low-cost pensions funds,
- Ability to understand the connection between the market development and the pension fund performance



Tools for decisionmaking

- existence of quantitative tools allowing to support comparison, backtesting and decision-making for the savers.



Ways of receiving advice/ information

- General knowledge and information level about pensions as a background for investment decisions (a step before “financial literacy”) Basic knowledge about the possibility to make a decision, the effects a decision would have on their future pension
- Advice to the scheme member from social partners or other, third, parties?
- Advice from intermediaries, employer, authorities, others
- Legal responsibility for advice?
- Information requirements, if no advice is provided