FINANCIAL INSTITUTIONS – HELP OR HINDRANCE IN RESOLVING THE PENSION PROBLEM?

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Objectives of pension system

- Adequacy of retirement income
- Security of retirement income
- Fiscal sustainability

and ideally also

- Aid to economic performance (notably capital and labour markets)

Adequacy of retirement income

- Are there adequate contributions (employer and employee)?
- Is investment too conservative especially where compulsory?
- Do institutions charge excessive commissions, reducing return?
- How much competition is there between institutions – can foreign firms enter the market?
- Do products cater for investor needs?
- Do investors have knowledge and incentives to choose the right product?
- Are there adequate annuities markets?

Security of retirement income

- Do institutions diversify/match assets and liabilities sufficiently?
- Do guarantees have sufficient capital backing?
- Is there a risk of institution – or systemic - failure harming pension claims?
- Do asset managers generate unnecessary asset price volatility?
- Is there vulnerability to fraud or capital market abuses (churning, front running)?
- Is there still a risk of misselling? – Can consumer education help?
- Is there a risk of a “baby bust” crash in asset prices?

- What is the right balance of regulation and market forces in dealing with retirement income issues? Note justifications for regulation:
  - Asymmetric information
  - Monopoly
  - Systemic risk
- Are costs of regulation excessive, reducing returns?
- Does regulation inhibit product marketing?

Fiscal sustainability

- What is the burden of transition for cases of pension reform?
- Are there explicit or implicit guarantee schemes for insurance and pension problems that could face moral hazard?
- Can pension saving via institutions still face political risk if the fiscal position tightens (forced investment in public bonds, taxation of asset returns)
- What burden could the public finances face if promised returns fail to materialise?

Economic performance

- Does saving via institutions raise aggregate saving – or saving in long term assets?
- Does saving via institutions improve allocative efficiency? (asset prices, corporate governance)
- Can pension saving be made actuarially fair so as to benefit labour supply?
- Are there other ways in which pension systems can ameliorate the adverse effect of ageing on growth?

- Can institutions invest internationally and diversify out of the performance of the domestic economy?