

Η Βιωσιμότητα του Κυπριακού Συνταξιοδοτικού Συστήματος

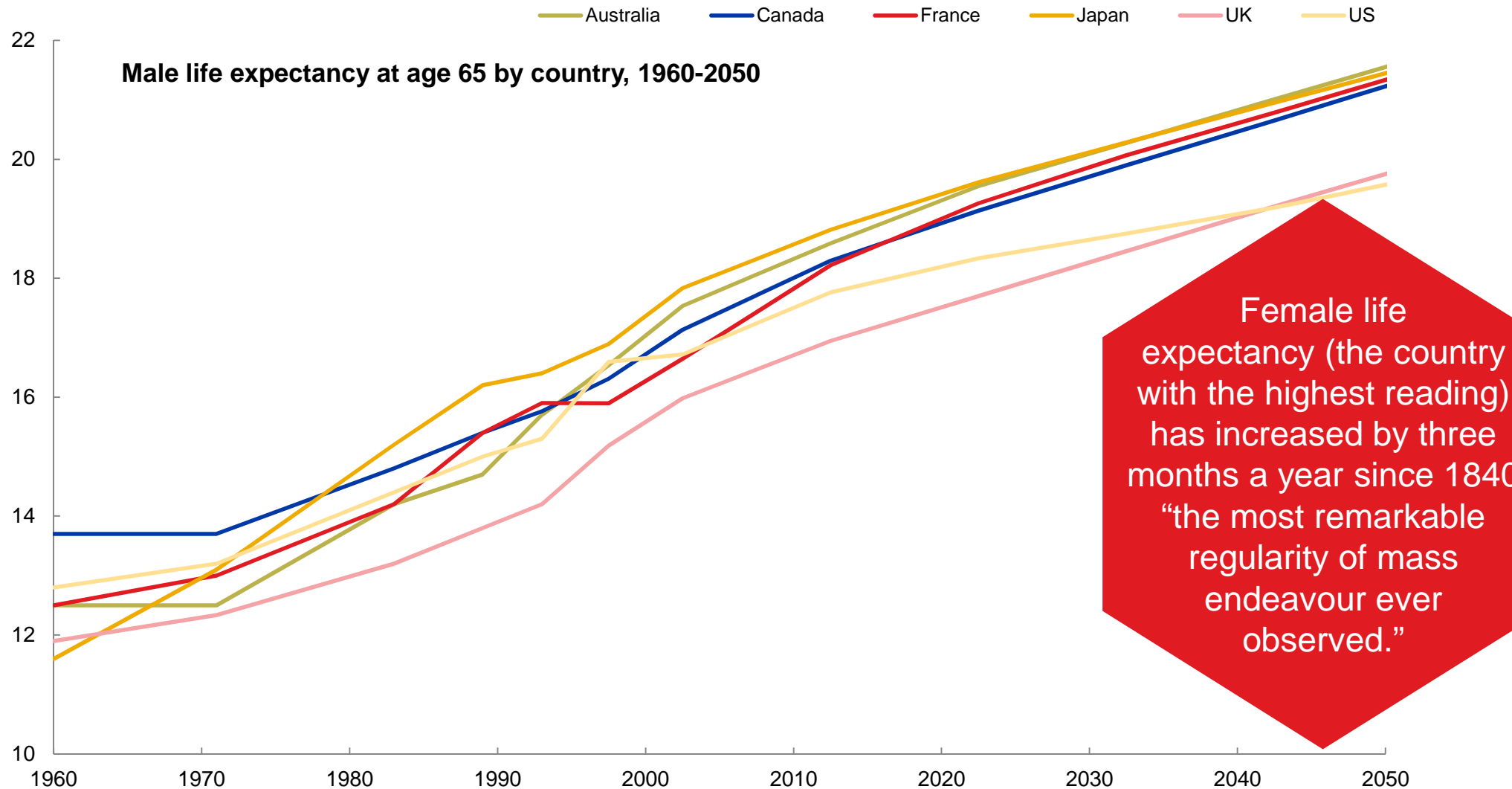
Συνέδριο ΟΕΒ «Προκλήσεις και Προοπτικές του Συνταξιοδοτικού Συστήματος στην Κύπρο»
18 Οκτωβρίου 2016

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The heart of the matter...



Female life expectancy (the country with the highest reading) has increased by three months a year since 1840 “the most remarkable regularity of mass endeavour ever observed.”

Source: Historical data on life expectancy OECD Health database 1960-95. Recent data and projections of life expectancy Future based on the United Nations Population Division database, World Population Prospects – The 2008 Revision.

Rethink the possibilities

Jeanne
Calment
French lady



Rethink the possibilities

Jeanne
Calment
French lady



Aubrey de
Grey
English
Gerontologist



Rethink retirement

Can't
afford to
retire



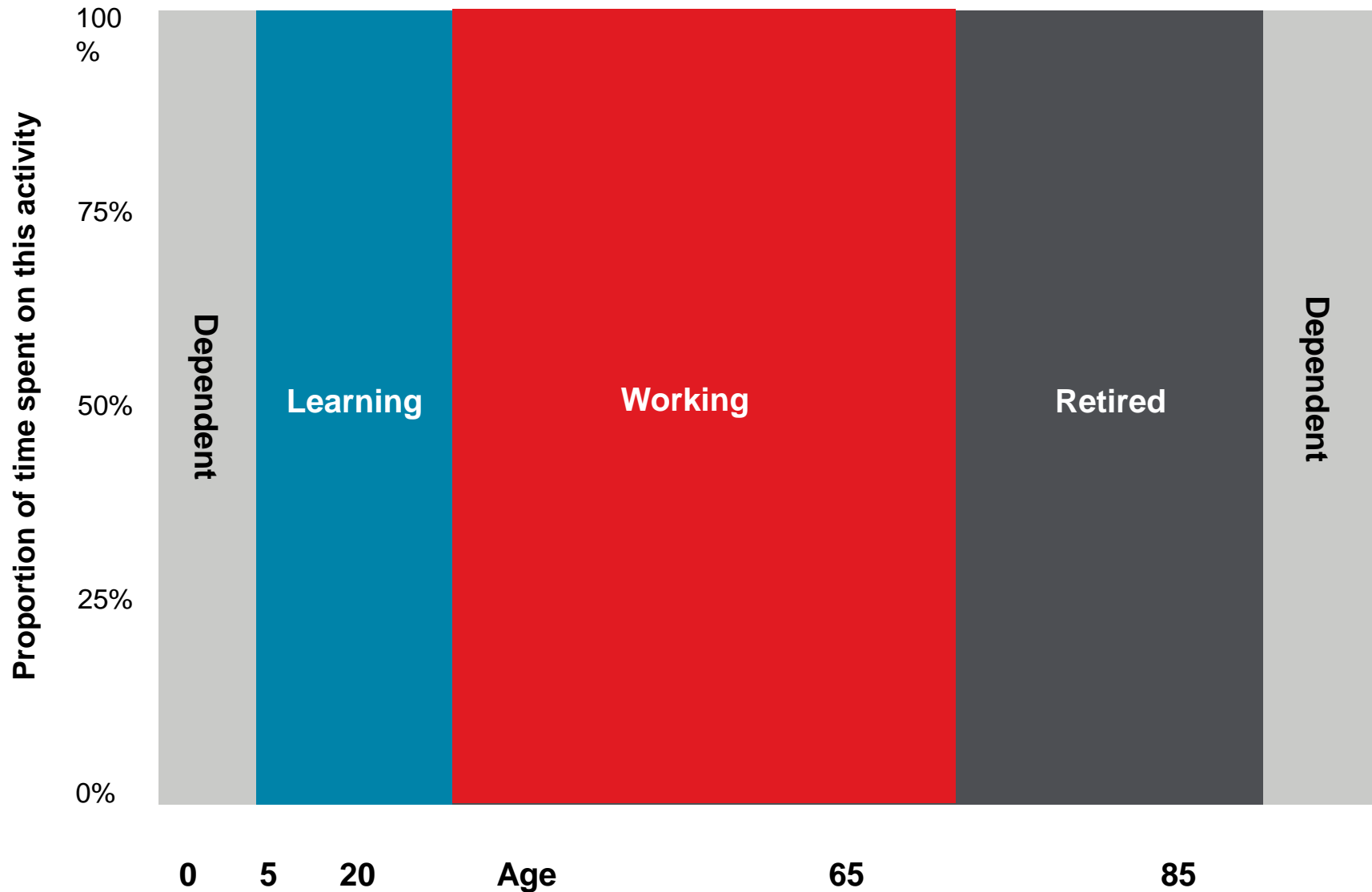
**Work till
you drop**

Neverretirees

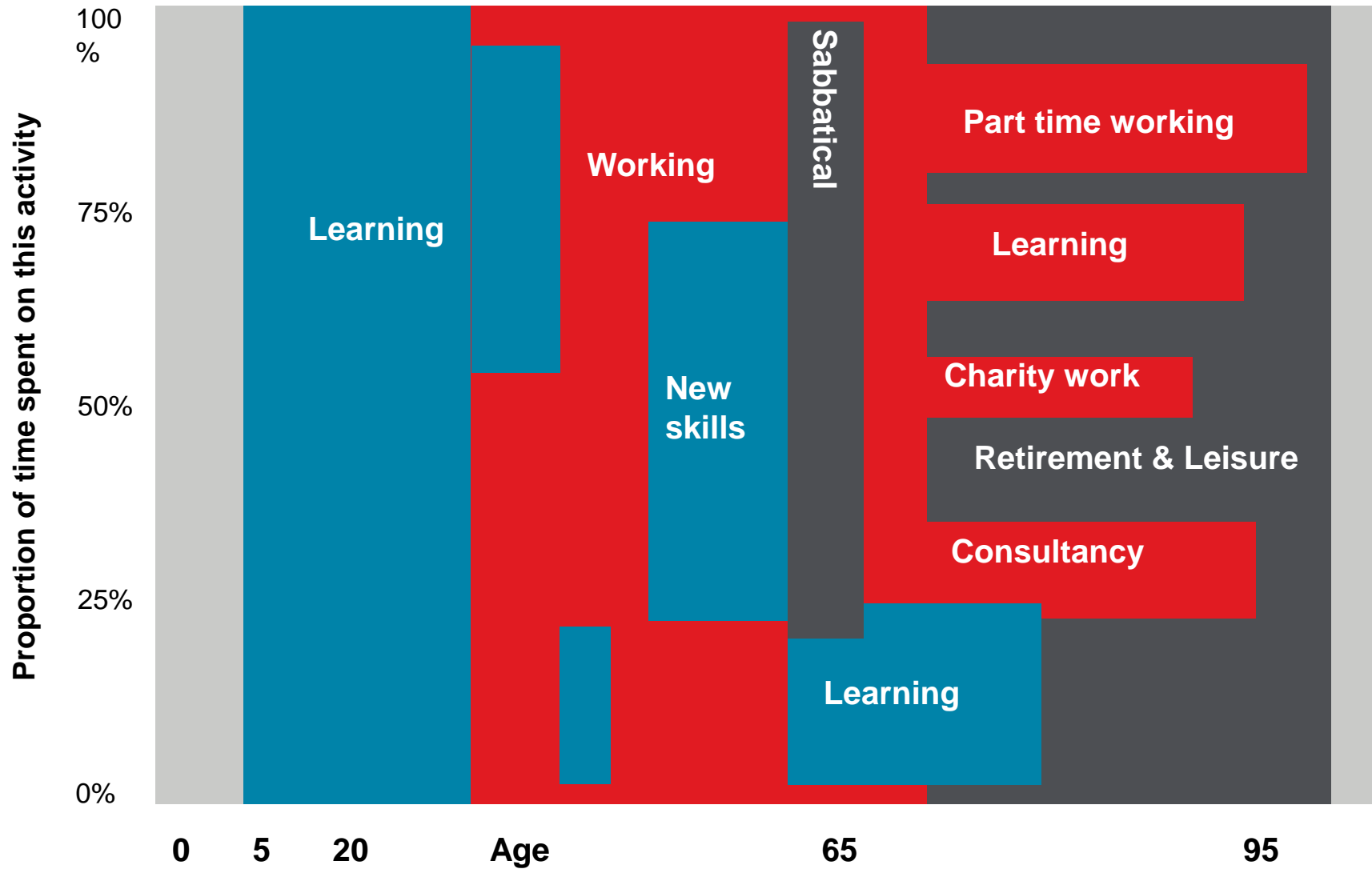
**Sixty per cent of people
say they plan never to
retire**, according to a
survey by Barclays' Wealth.

Don't want
to retire

Move away from linear and sequential...

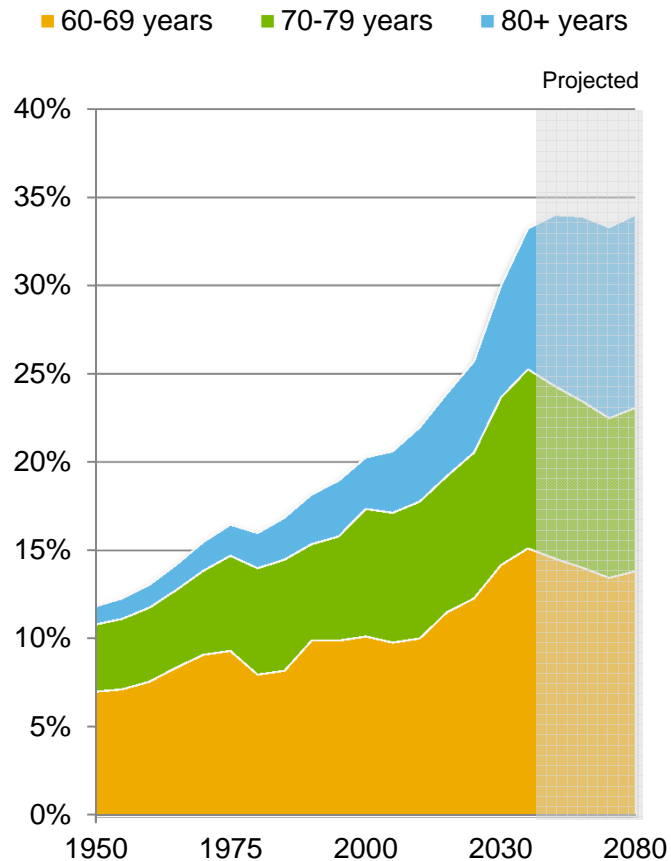


...to mosaic and parallel



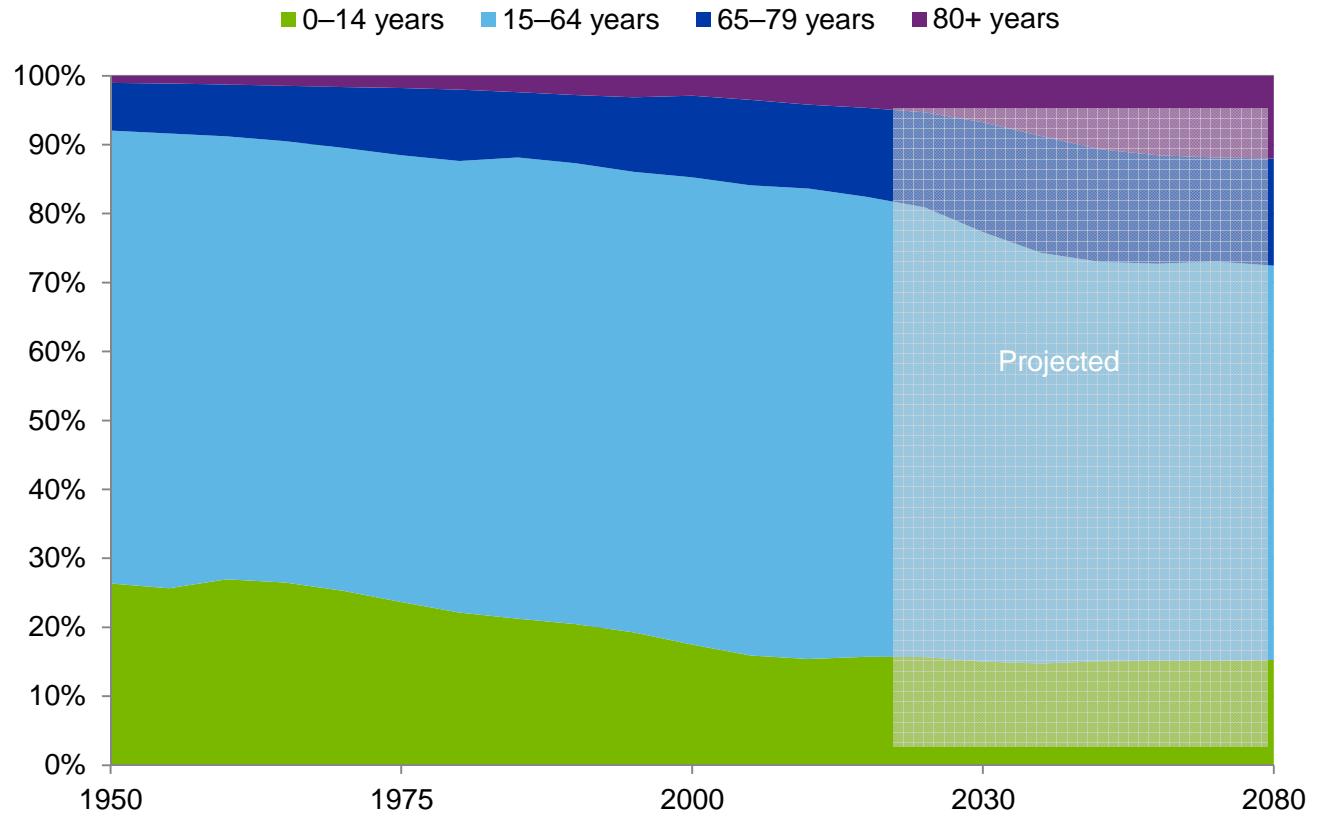
Europe is in a demographic timebomb

Europe is getting old



Sources: UN Data and EuroStat

Dependency ratio becomes terrible

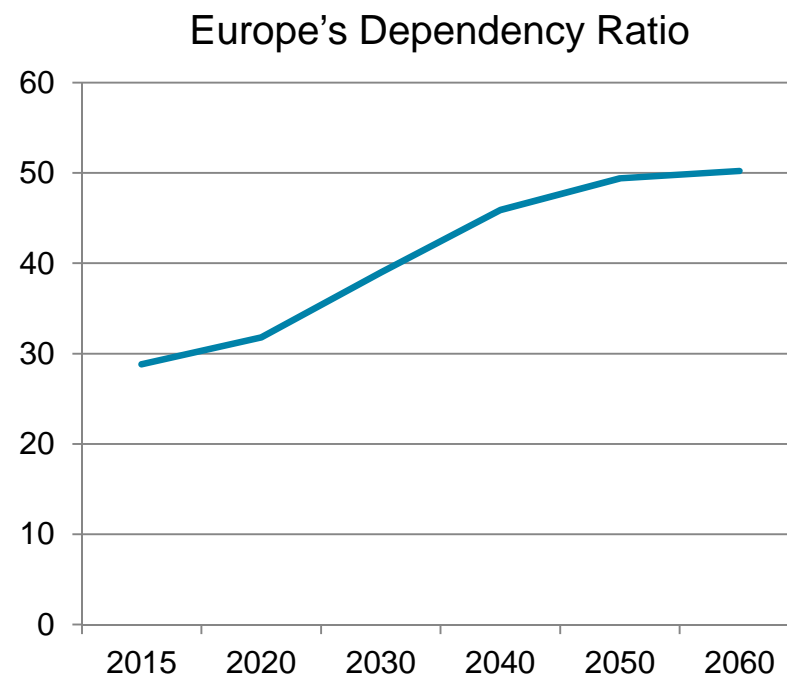
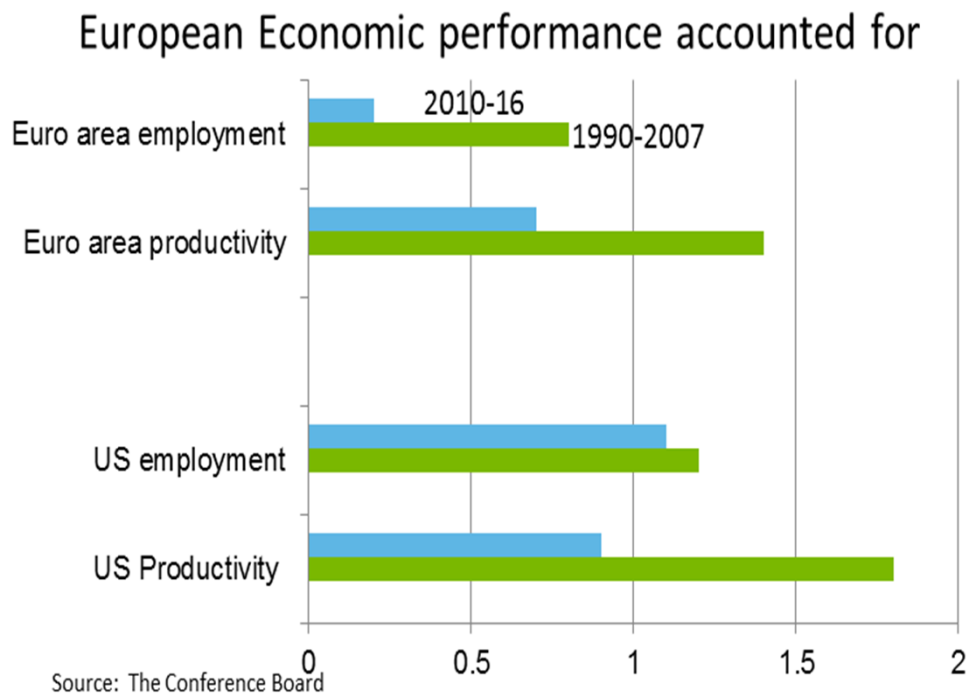


The population of working age is shrinking continuously in absolute size for the first time since the Black Death

Source: The Economist: Forever Young March 2004 8

Europe's economy: longer-term weakness is the key issue

Looks fragile



- Longer-term weakness is the key problem – demographics, productivity and aftermath of the financial crisis of 2008-9 and the Eurozone crisis in 2011-12
- Other: Brexit related 'existential' risks – integration or disintegration?

Outlook: Low growth with risks to the downside

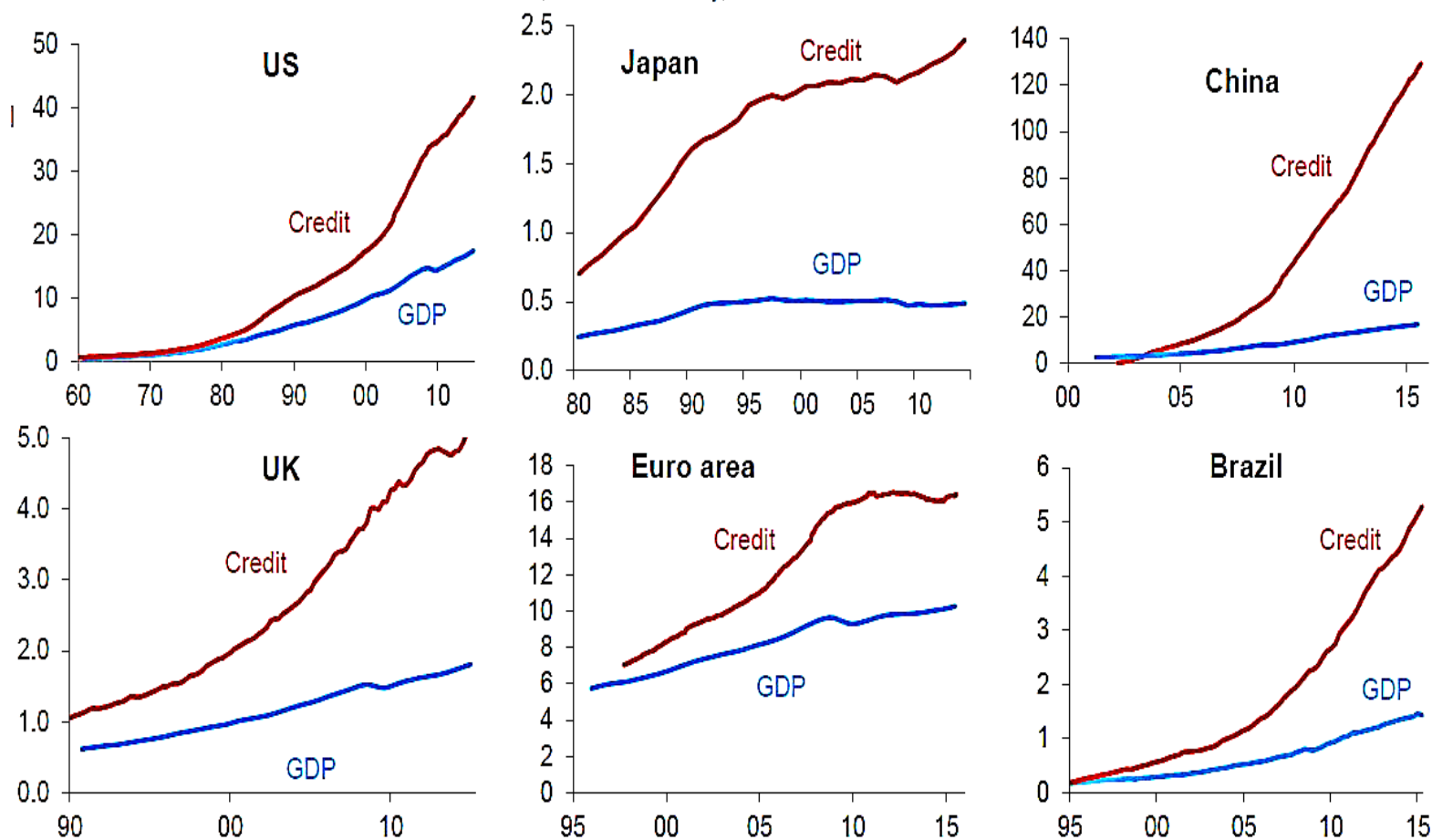
A key source of global economic fragility: *Debt*

Debt levels are a problem in two ways.

- They may now be holding spending back because debt burdens are becoming too high.
- They make it more difficult for central banks to raise rates because servicing higher debt levels would become more expensive

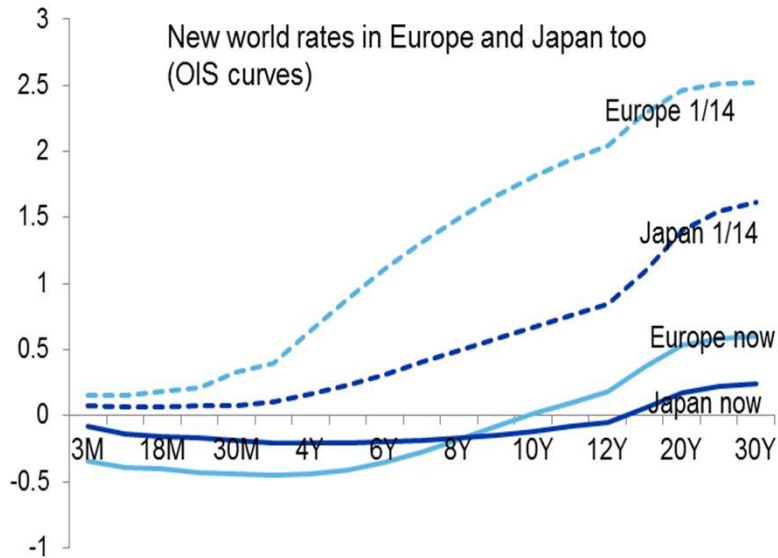
Different take-off time, same trajectory

Stock of debt across non-financial sectors vs GDP, tn local currency, nominal

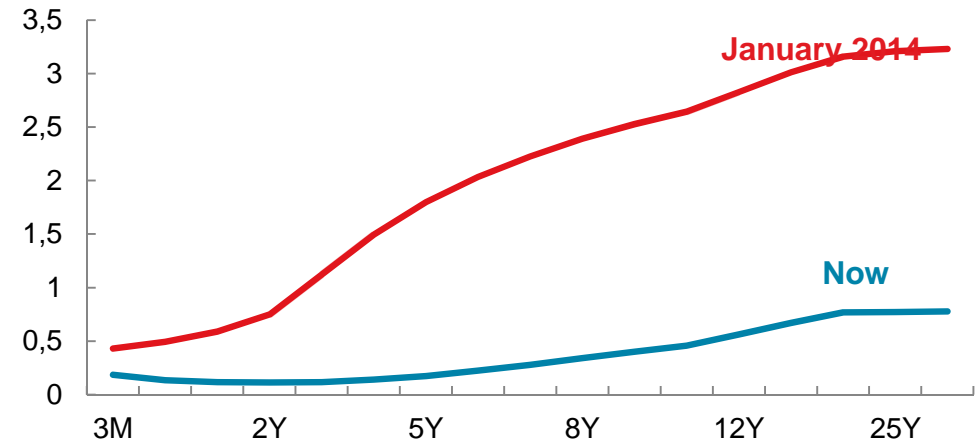


Source: Citi Research, Haver Analytics.

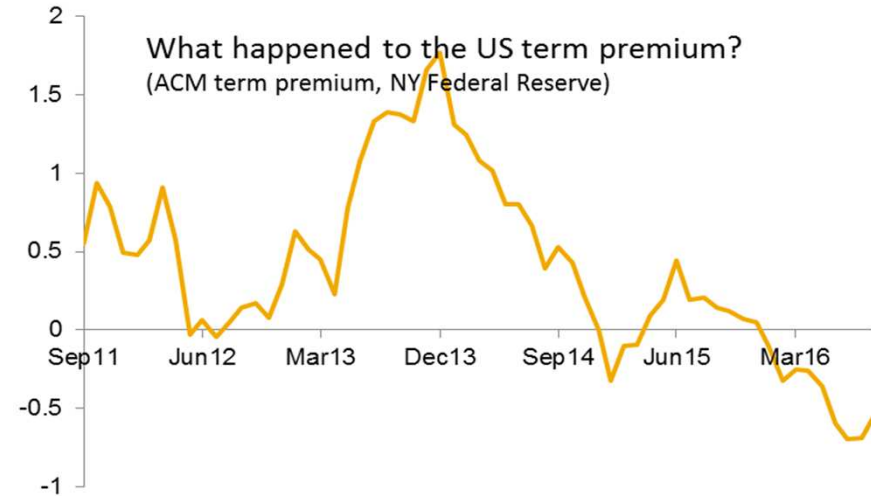
Low policy rates now... and forever



UK's new world rates go European (OIS curves, %)



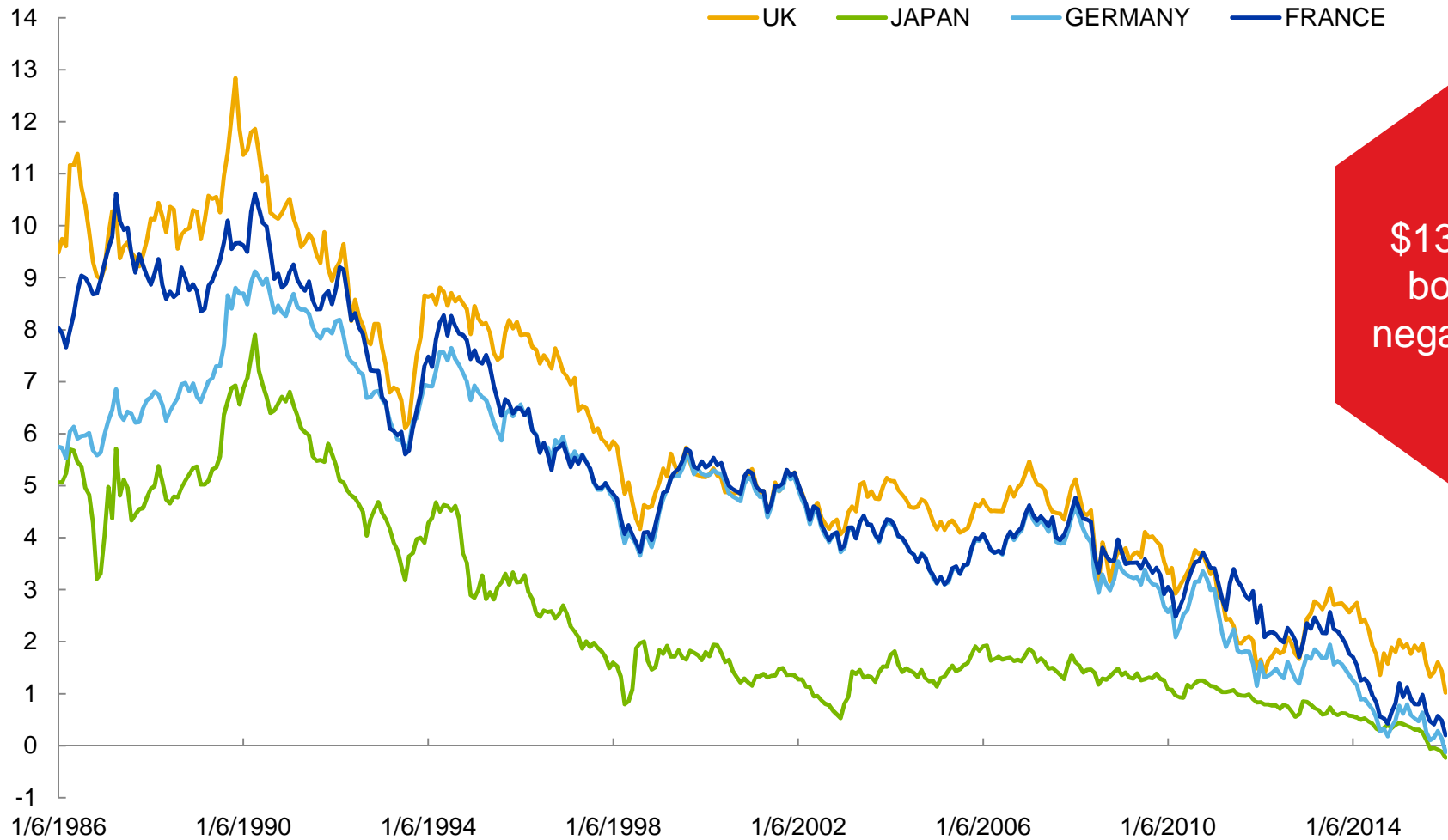
What happened to the US term premium?
(ACM term premium, NY Federal Reserve)



Source: Bloomberg/US Federal Reserve

Challenging investment times ahead

10 Year Government Bond Yields



\$13 trillion of bonds with negative yields

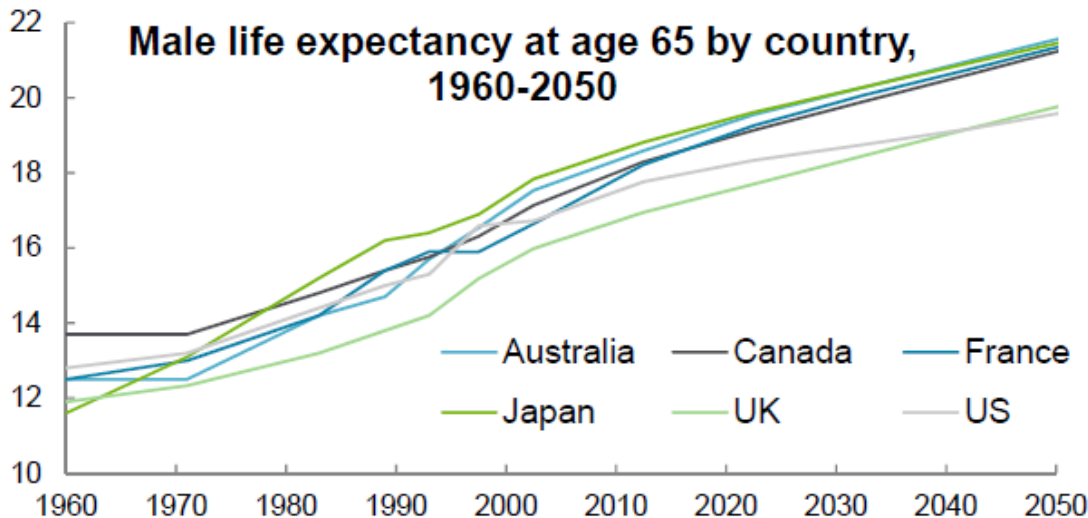
Source: Bloomberg, Datastream

...future returns and longer lives are making the problem worse.



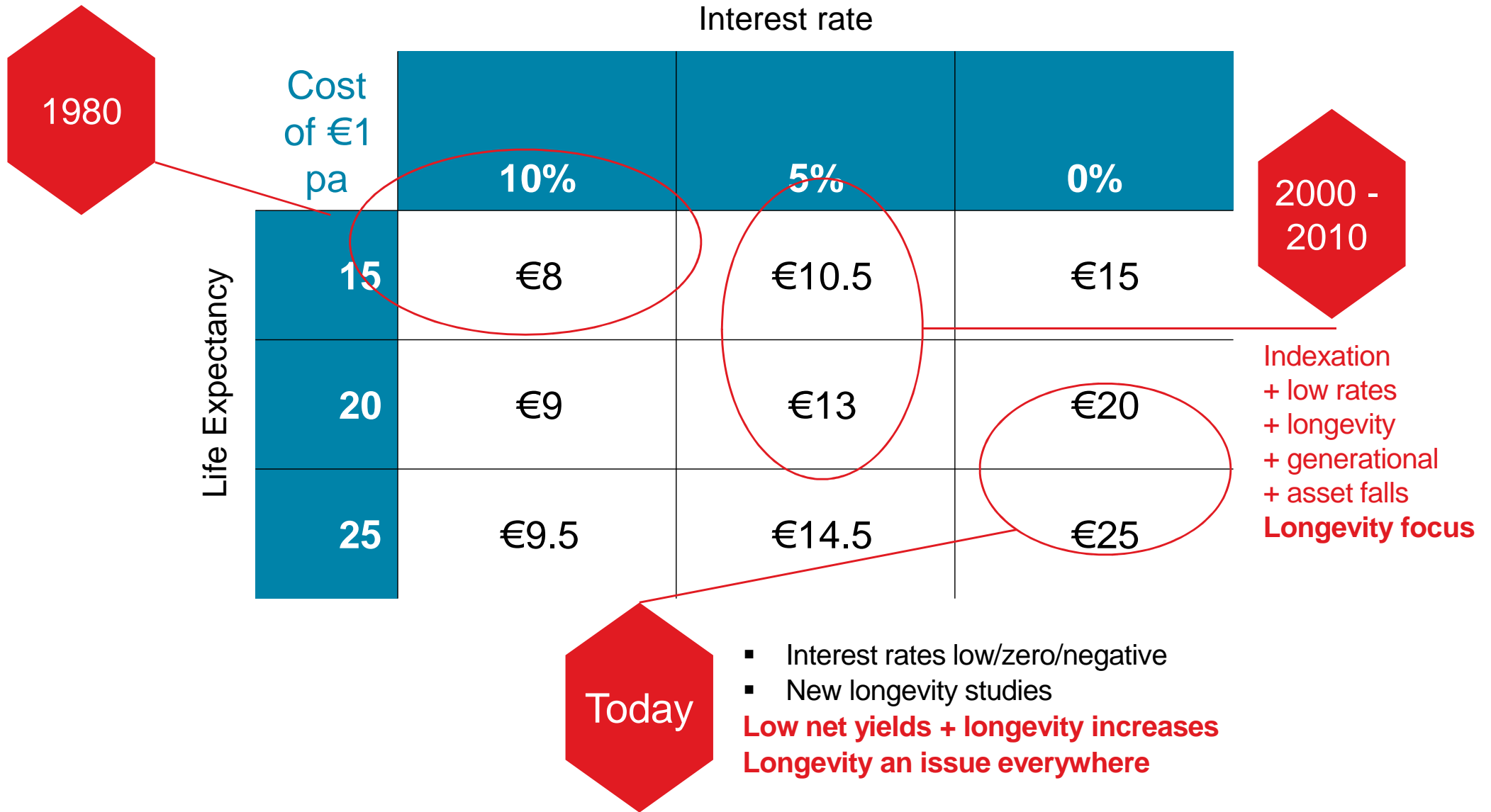
Compared to the last 30 years, real returns in global equities and bonds over the next 20 years are predicted to be materially lower...

Source: McKinsey Global Institute: Diminishing returns: Why Investors may need to lower their expectations

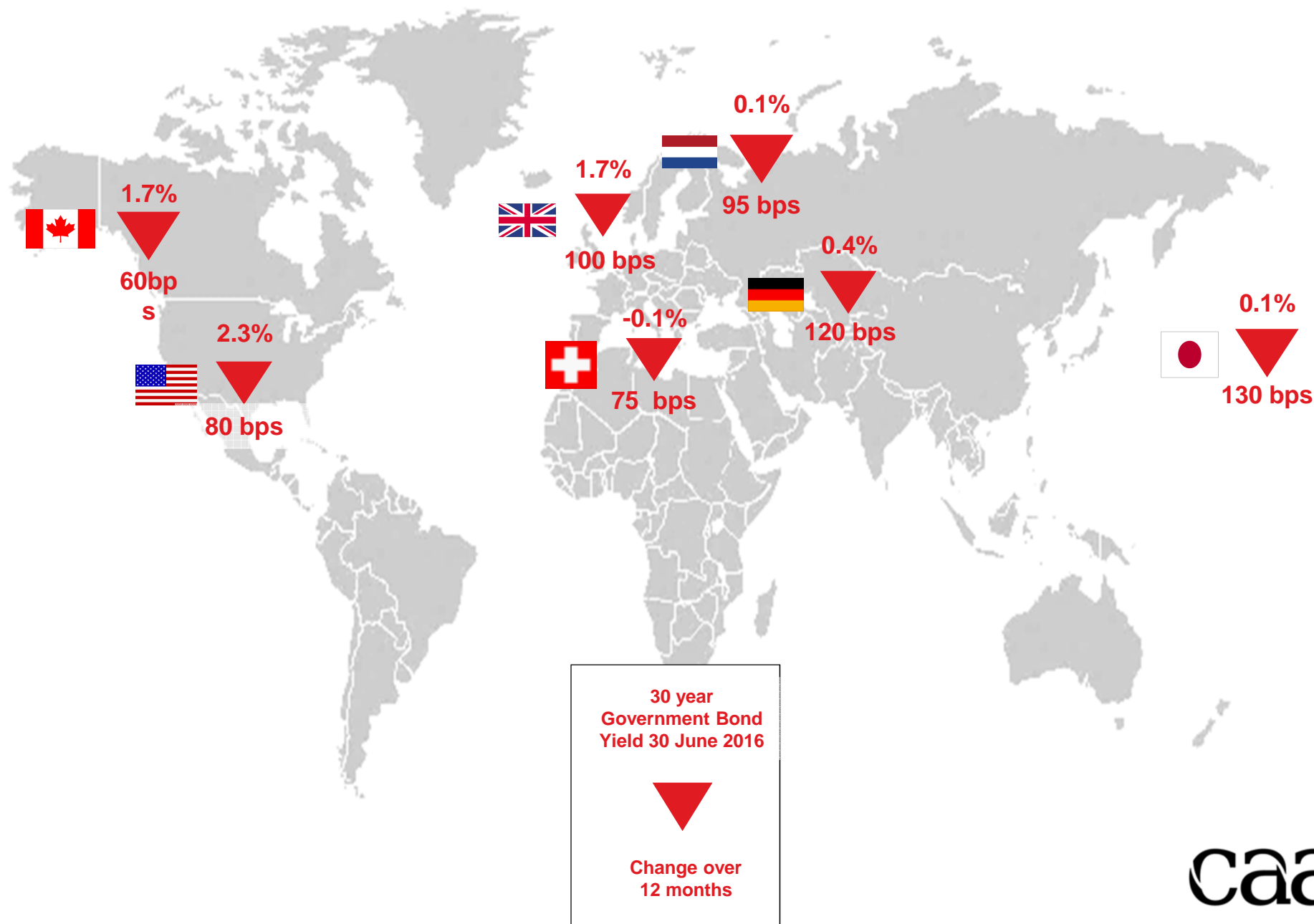


...while life expectancies in many countries continues to climb, creating the need for pension dollars to stretch even further.

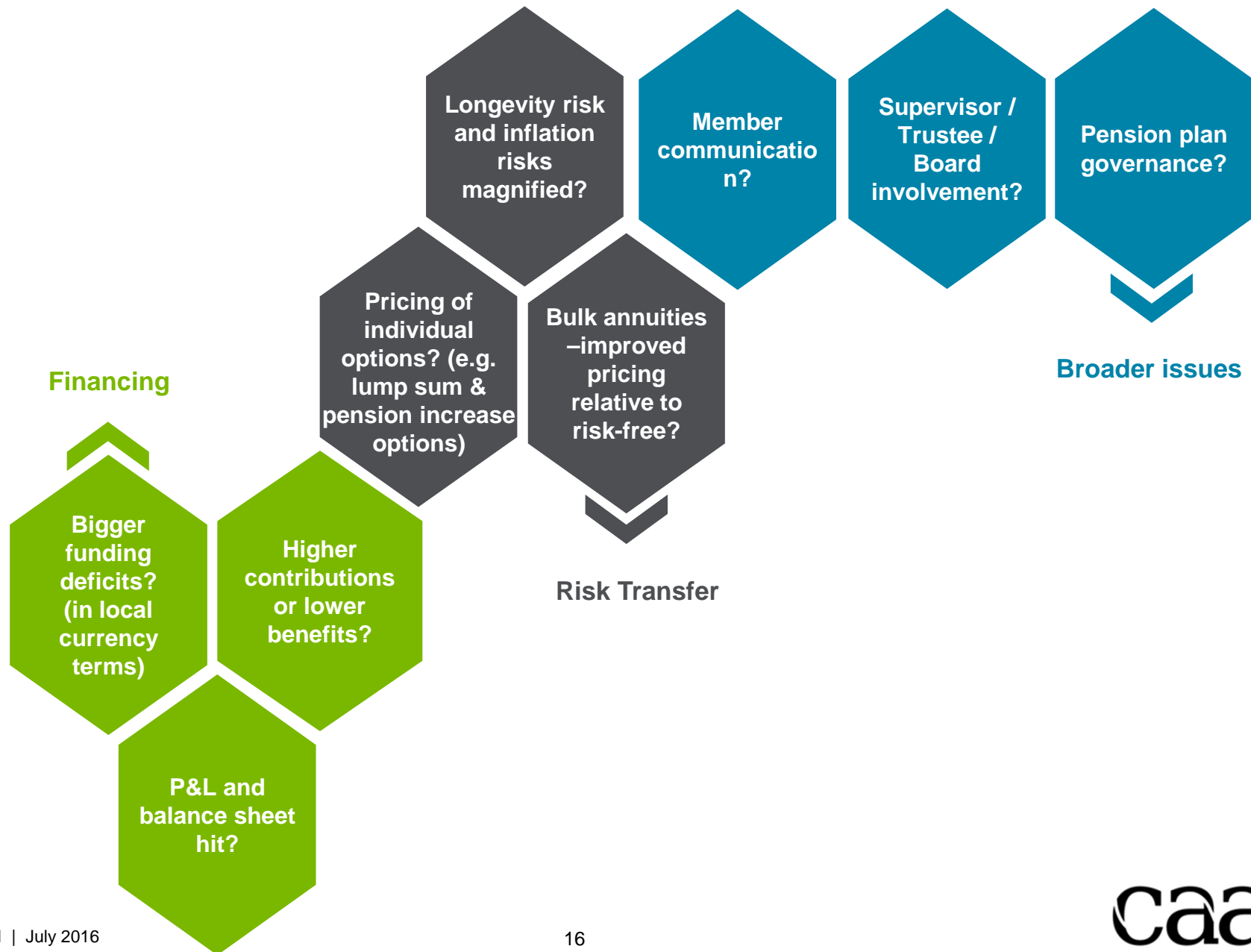
Low interest rates increase the impact of longevity risk



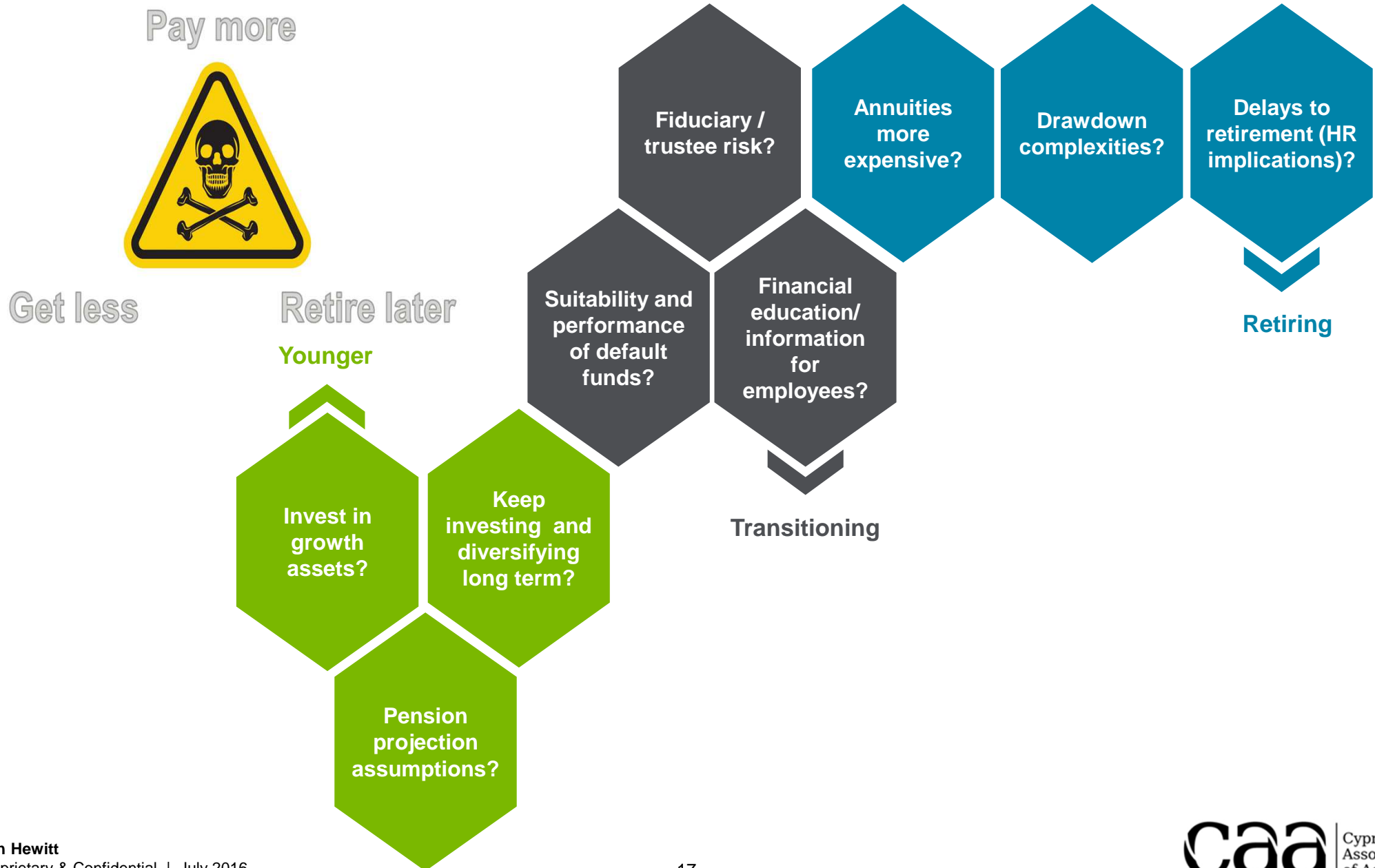
Economic volatility and low interest rates are driving funding deficits, pension contributions, and concerns regarding adequate savings



DB pension implications



DC pension implications



The coming retirement crisis...Cyprus

15%-21%

Contribution needed
for reasonable
pension outcome

2015 Aon Real Deal Study

12,5%?

Average contribution
rate to DC plans

(Aon, DC survey 2013)

7x

final pay
Needed for an
adequate retirement
at age 65

2015 Aon Real Deal Study


Only 30%


of Cyprus workers on
track for reasonably
adequate retirement

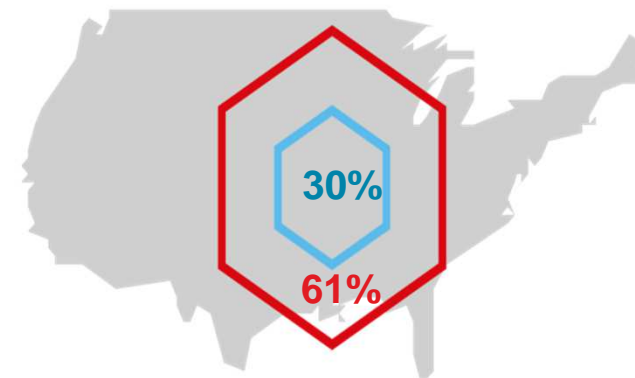
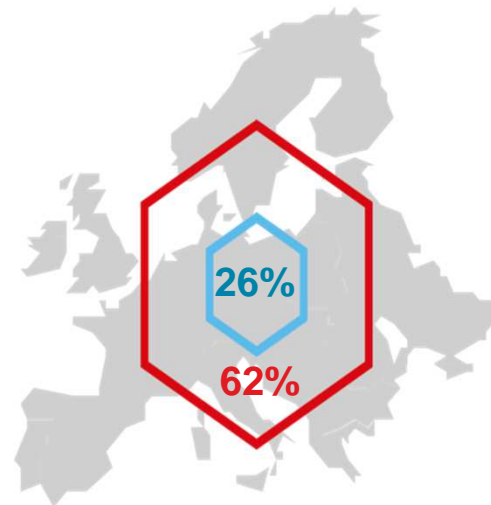
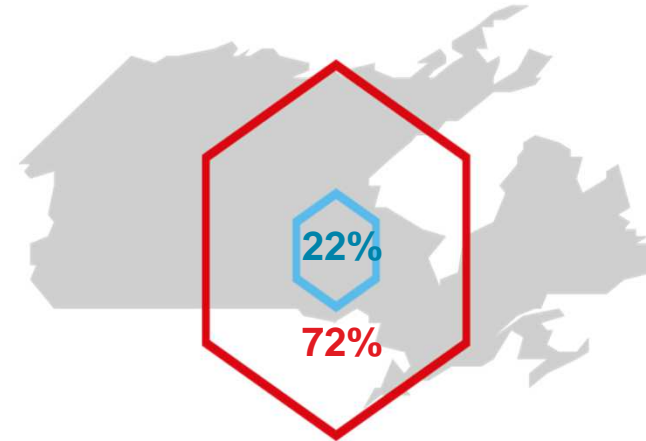
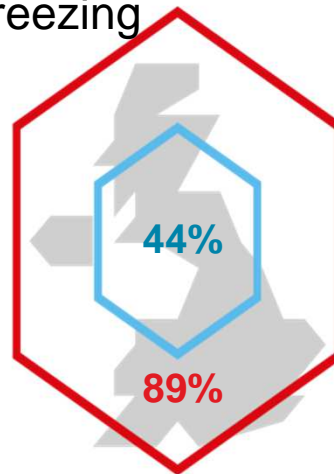
2015 Aon Real Deal Study

Pension Plan Design trends...the future is Defined Contribution

Defined Benefit Plan closure and freezing





 Closed to new entrants

 Frozen to all members




Source: Aon Hewitt Global Pension Risk Surveys 2015


Factors affecting DC Provident Fund outcomes

Factor	Description
 Contribution Levels	The level of Contributions paid by employees and employers has the biggest impact on outcomes in retirement
 Expenses & Fees	Members' Benefits are ultimately impacted by the Total Expense Ratio (TER) and members must be informed of the TER applicable to their accounts. The TER should disclosed should allow for all Direct and Indirect costs (such as administration fees, investment management fees, custodial fees, trading costs, audit fees, legal fees, etc)
 Investment options and rates of return	How members' assets are invested and how successful investments are in meeting objectives
 Decumulation	When members retire they need to have flexible options to decide how to best use the money they acclimated to support their life needs.
Policy Objectives	<ol style="list-style-type: none"> 1. Increase level of contributions / amount people save for retirement 2. Improve member outcomes – amount people receive in retirement 3. Increase transparency, trust and confidence in the pension savings system


1. Increase level of contributions / amount people save for retirement

Policy Objective	Policy Action
 <p>Increase level of contributions / amount people save for retirement</p>	<ul style="list-style-type: none">- Mandatory or Auto-enrolment to a DC plan with minimum Employer contribution with at least matching employee contribution (e.g. 1% in 2017, 3% in 2020 and 8% in 2023)- Introduce automatic escalation of contribution rates- Tax incentives: increase tax limits and/or additional tax relief. Relax restrictions on level of contributions. e.g. revise tax-exempt limit from 1/6 of gross salary to 1/5 or 1/4, given the gradual increase of SIS contributions, NHS contributions etc.- Introduce the voluntary member status, i.e. a member that elects to stay and continue to contribute in the fund, even if he/she decided to withdraw from the participating employer

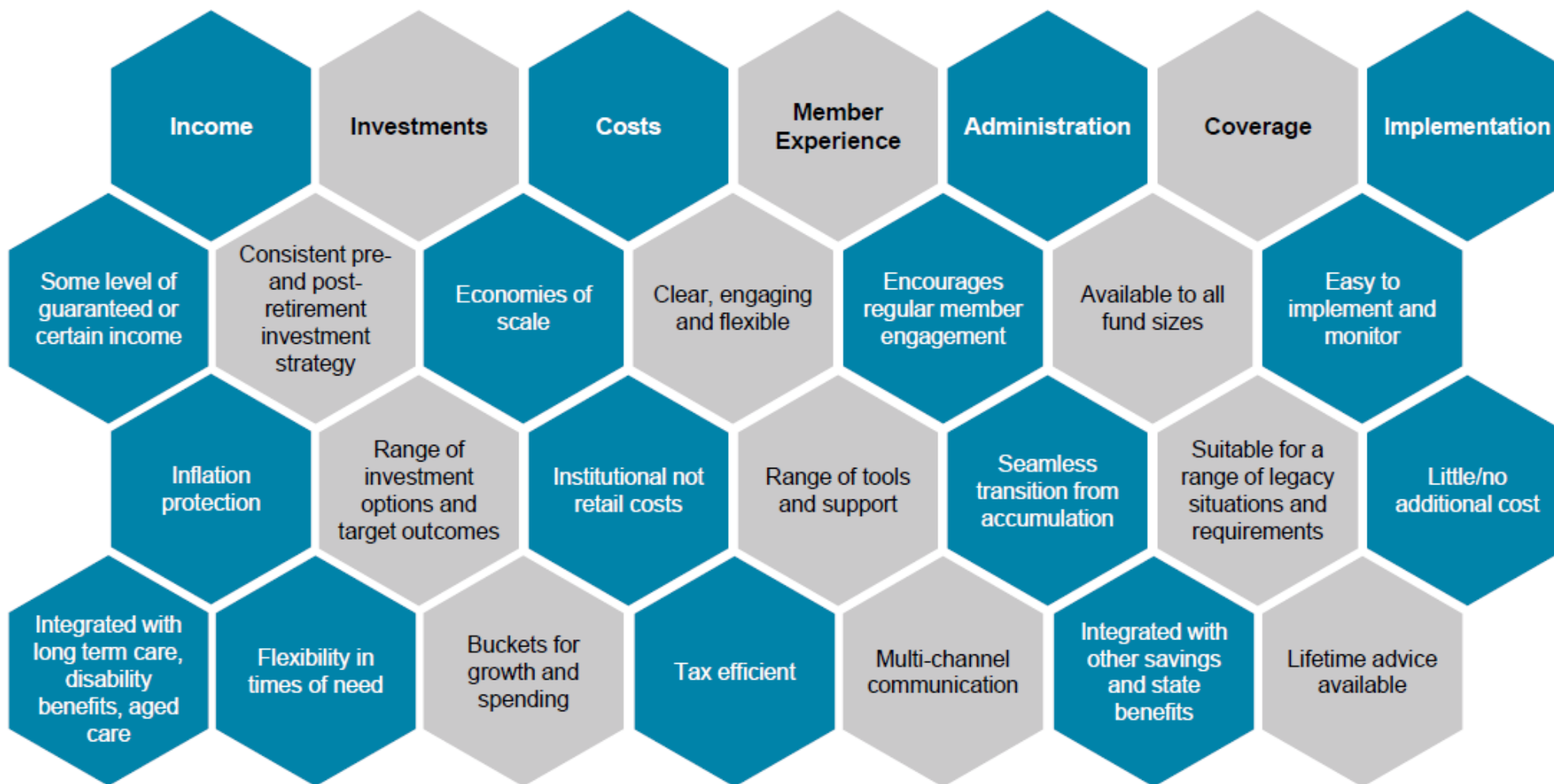
2. Improve member outcomes – amount people receive in retirement

Policy Objective	Policy Action
 <p>Improve member outcomes – amount people receive in retirement</p>	<ul style="list-style-type: none">- Restrict early age cash outs - Benefits should be provided only in case of retirement, death & disability.- Regulate decumulation options, e.g. instead of only 100% Cash, allow cash withdrawals and life annuities reinsured allowing options for better post-retirement protection- regulate transferability from fund to fund (even without termination of employment) and maybe from insurance to provident funds and vice versa- Regulate Loans better – e.g. restrict netting off of loan balances, restrict number of loans, require loan charges- Revise Investment restrictions/limits e.g. investments in alternative strategies limit of 15% should be revised- Promote consolidation of Provident Funds e.g. there should be a minimum level of employees/assets to allow registration- develop an industry 'Code of Conduct' to disclose information about charges including disclosing breakdown of the overall charges and making clear the effect the charges will have on member outcomes.

3. Increase transparency, trust and confidence in the pension savings system



Policy Objective	Policy Action
 <p>Increase transparency, trust and confidence in the pension savings system</p>	<ul style="list-style-type: none">- Ensure schemes have an effective and proportionate system of governance e.g. adopt measures under 2nd EU IORP Directive and avoid too many exclusions- Promote key principles for presenting pensions information and all employee communication (adopt IORP 2 requirements)- introduce rules for reporting all kind of expenses e.g. develop an industry 'Code of Conduct' to disclose information about charges including disclosing breakdown of the overall charges and making clear the effect the charges will have on member outcomes- ensure individuals who wish to make active decisions have clear information about any investment options they can make- ensure investment strategies are regularly reviewed;- ensure that default fund options are appropriate- Enhance the Regulator's capabilities and reach

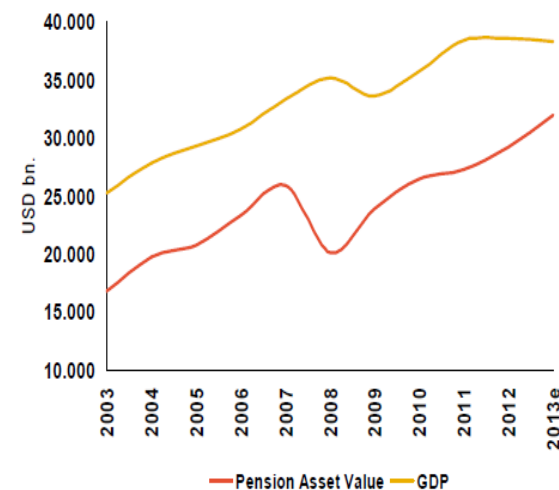
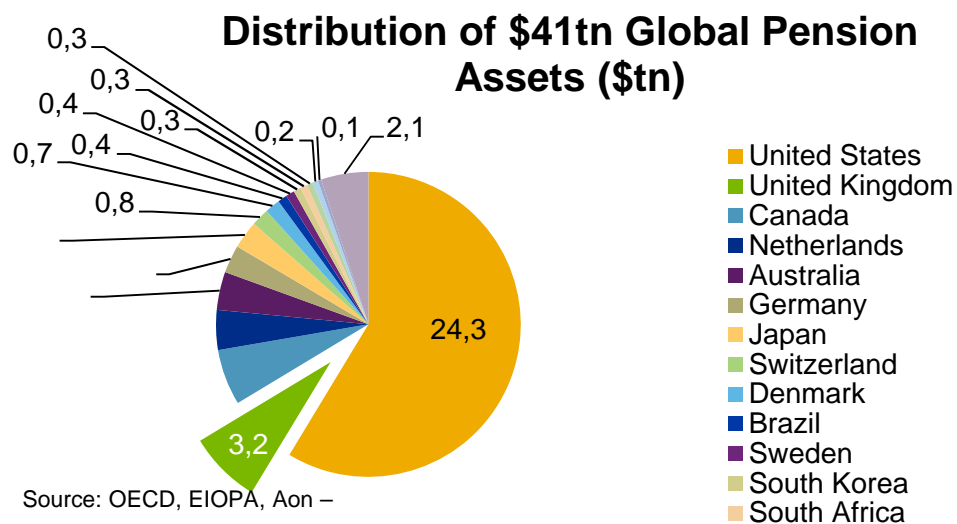
What features would a retirement solution need to have?




Source: Aon DC Global Community

Retirement Income Adequacy + Economic Growth

 <p>Policy Initiative</p>	<p>Addressing this question is a major <i>Policy Initiative</i> of all Governments worldwide. Addressing this in Cyprus would greatly support future sustainable economic growth. Addressing this would also serve a number of HR, Financial goals for Cyprus Employers and personal goals for Cyprus employees</p>
 <p>Policy Initiative</p>	<p>Addressing this challenge can also serve a number of Business Opportunities for Cyprus</p>

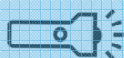


 **Pension Assets & Economic Growth**

Sustainable growth in Pension assets is directly linked to growth in the GDP. Move to funded pensions through mandated (second pillar) or voluntary (third pillar) visible in the size and growth of assets

Business Opportunities for Cyprus & Growth in Financial & Professional Services Industry

Growth in Professional Services Sector



We anticipate major benefits for Cyprus will arise from Cyprus based financial institutions offering pension arrangements in multiple jurisdictions and potentially attracting other large institutions to Cyprus for the same purpose. There will also be significant advantages for multinational companies managing their multi-country pension benefits using Cyprus as a home country. The additional business will serve to strengthen the Cyprus professional services market and enhance Cyprus' reputation as a leading Financial Services center and contribute to economic growth.



The Speaker



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Philippos is a dynamic and entrepreneurial business leader and client developer with 17 years of professional consulting experience who is passionate about delivering change from strategy design to full implementation. He is currently heading the Cyprus and Middle East Retirement and Investment Consulting Operations for the world's largest HR and Risk Management Consultancy. He is also a non-executive Board member of the Central Bank of Cyprus since October 2013.

Philippos graduated from the London School of Economics and Political Science with a BSc (First Class Hons) in Actuarial Science. He is a Fellow of the Cyprus Actuarial Association and an Associate member of the UK Actuarial Profession. After graduating, he gained valuable experience within the UK Marketplace with Aon where he worked as an assistant actuary for 3 years in the Pensions practice.

Philippos has joined Aon Hewitt in 2003. Philippos leads the firm's Cyprus office and is a Partner of Aon Hewitt's International Retirement & Investment practice focused on advising institutional clients. Philippos works with clients on the full range of actuarial and investment issues, including investment and funding strategies, manager selection and investment governance. He is the consulting actuary for a number of multinational and local premier companies as well as pension institutions in Cyprus, Greece, Egypt and the Middle East. He was appointed as a non-executive Board member of the Central Bank of Cyprus in October 2013 where he also serves as the Chairman of the Board Investment Committee and a member of the Board Audit Committee.

Specialties:

- 17 years of regional South Eastern Europe and Middle East experience including Pensions, Social Security and Investment consulting work in Cyprus, Greece, Turkey, Egypt, Lebanon, Dubai, Oman and Qatar
- Pan European Pensions
- Qualified Actuary
- Strategic Advisor relating to national Pension and Healthcare reform and related macroeconomic impacts