



Peer Review in Social Protection and Social Inclusion and Assessment in Social Inclusion

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Public information on pension systems and pension system changes

Minutes



On behalf of the
European Commission
DG Employment, Social Affairs and Equal Opportunities



**Peer Review:
Public information on pension systems
and pension system changes
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The Peer Review was hosted by the Polish Ministry of Labour and Social Policy.

Day 1

Welcome and introductory remarks

Agnieszka Chłoń-Domińczak (Undersecretary of State, Ministry of Labour and Social Policy, Poland) welcomed the participants to Warsaw – also in her role as a member of the EU Social Protection Committee. The topics selected for this Peer Review concerned three main aspects of sharing information. When pension systems are being changed, as is the case in many European countries, public information becomes very important. But information on pension rights is equally necessary, particularly as pension systems are becoming increasingly complicated and difficult to understand. The challenge here is to inform people in relatively simple terms. The third aspect is information on choices, of which there are more and more within pension systems. People need help to choose the options that will satisfy them best. She hoped the discussions would help everybody to meet a challenge that will remain with us for many years to come.

Georg Fischer (Head of Unit Social Protection, Social Services; European Commission, DG Employment, Social Affairs and Equal Opportunities) thanked the Polish Ministry for hosting the seminar. Underlying this Peer Review, he felt, was a question that is not often discussed: what do we want to achieve through pension reforms? There are the EU's OMC (open method of coordination) objectives of ensuring adequacy and financial sustainability. In essence, pension reforms mean that people end up with lower pensions than before for the same number of years and the same type of career. That may ensure sustainability, but what about adequacy? Pension reforms should not just be about cutting benefits and expenditure. They should aim to bring pensions into line with the new realities. This means that adequate pensions should still be provided, but at the same time the behaviour of people needs to change. Pension reforms set out to induce that change. So even the best reforms have to be understood by everyone. Otherwise, they will probably not be very successful. This is the most basic task of information work on pensions. People must understand that if they work longer, they will actually get a higher pension. And that, to have a higher income in old age, they need to save more. Many pension reforms also mean that more decisions will have to be taken by individuals. And yet people are often ill-informed about these choices. Can we close that information gap? Where is the balance to be struck between too little and too much information, and too much and too little choice? Too many choices might not be conducive to a good outcome. The range of choice needs to take account of society's and people's capacity to digest information. We know that different groups within society react differently to information. It also needs to reach those who have less time or ability to interpret it. Finally, the objectivity of government information needs to be discussed especially at the time of reforms. Sometimes simple messages are conveyed in a slightly biased manner due to political constraints. There is a need to ensure that, on balance, the information available in a society is objective and credible – including information from financial institutions and other relevant actors.

He hoped that the Peer Review discussions would contribute to the debates within the Social Protection Committee and the Commission's work. The reforms will work only if they induce the changes in behaviour that the Commission would like to see.

Monika Natter (ÖSB Consulting) explained that the Peer Review programme was established in 2004. Eight reviews are organised per year. Peer review is an important element of the open method of coordination on social protection and social inclusion. The three main objectives of the peer reviews are to:

- contribute to a better understanding of EU Member States' policies, particularly national strategies on social protection and inclusion;
- improve the efficiency and effectiveness of policies;
- facilitate the transfer of key components of policies or of institutional arrangements between EU Member States.

As always, dissemination of the results of this Peer Review would be facilitated by making its outcomes and discussion papers available on the programme's website (www.peer-review-social-inclusion.net).

Introduction to the seminar

Setting the stage, **Károly Mike** (Thematic Expert – Corvinus University, TARKI Social Research Institute, Hungary) recalled the suggestion, in the discussion paper for the seminar, that pensions might best be understood as long-term financial contracts with exit options. The long-term nature of pensions implies several types of risk, and it is ultimately about these that people should have information. But in fact, financial illiteracy may limit people's ability to understand the information they do have. Pensions differ from other financial contracts due to the existence of exit options. It is assumed that mobility between schemes, systems and funds will serve to correct wrong consumer choices.

Ideally, people should have information on the risks associated with pensions in order to avoid three types of mistake:

- choosing the wrong system – for example, as between pay-as-you-go (PAYG) and funds;
- choosing the wrong fund;
- making the *wrong choice between voluntary pensions and other forms of saving*.

The information needed to choose among funds depends crucially on the regulation of risk. This is because regulation can significantly reduce the heterogeneity of risk across funds, thus lessening the need for information. For example, investment risk can be reduced by providing a guarantee of minimum return or reducing restrictions on portfolio composition for funds. Or the risk of growing life expectancy in one's cohort or generation can be reduced through mandatory demographic reserves. Corporate governance may be subject to strict supervision and thus alleviate the problem of moral hazard due to the mismanagement of funds. Also, product homogeneity in pensions may be encouraged or promoted directly through standardisation of pension products, or indirectly by encouraging market concentration. However, the two other risks

(i.e. choosing the wrong system and making the wrong choice between pensions and other types of saving) are basically unaffected by these measures.

Even if people do have information, they may not understand it, because they are to some extent financially illiterate. In general, financial markets in more or less all countries are characterised by rather weak consumer reaction. This is not specifically a problem of emerging markets. Nonetheless, he emphasised that in Eastern and Central Europe, the general financial culture is in relatively bad shape, compared to that of Western Europe, due to the short history of modern financial and capital markets and the inexperience of households with modern saving instruments. Pension funds have, in part, been introduced precisely with the aim of promoting long-term individual saving and to some extent changing people's attitudes and behaviour. So financial illiteracy is likely to be a much greater problem than usual, at least in Eastern and Central Europe, due to the lack of prior experience with this type of long-term saving. Pension literacy is likely to be weaker than financial literacy in general because of the very frequent changes in regulations. So people will have a disincentive to accumulate information about pensions.

How does the market help consumer choice? A number of mechanisms may come into play:

- Pensions are choiced goods. For choiced goods, the key quality mechanism is generally *reputation*. This may significantly reduce the need for sophisticated consumer information in pension markets. A straightforward policy conclusion might be that large, international brands should be favoured by regulators.
- Another facilitating mechanism is *advertising*. Here, the key theoretical insight of economics is that high-quality firms will have an incentive to reveal above-average amounts of information about quality. This suggests that advertising should not be restricted.
- *Independent agents* may also act as useful sources of information. Here though, the emphasis must be on the word "independent", as the main problem seems to be that agents may provide biased advice. It may be that policy can help here, by in some way penalising false independence.
- *Employers* can be useful intermediaries, as they are often financially more literate and experienced. However, some form of fiduciary liability should exist, in order to ensure that they do what is best for their employees. Otherwise, employers may not be wholly interested in choosing the best pension options.

Mandatory disclosure and public provision of information should serve primarily to enhance comparability both of systems and of funds. When comparing funds with PAYG, an implicit rate of return for PAYG can be calculated. The best candidate for this, according to the literature, is the growth rate of the aggregate tax base. On the other hand, funds can be obliged to provide individual calculations of expected pay-offs. As for comparisons between funds, it seems a good idea to standardise indicators both of rates of return and of operational fees. Funds could also be obliged to publish tables comparing their own performance with that of competitors, in the leaflets that they are required to send out to their clients. However, funds will always have an incentive to look for innovative fee settings that will not be measures by any obligatory indicator that may be chosen. This is seen clearly in the banking sector: whichever indicator the regulator comes up with, the banks find a way around it. In general, public information provision should focus on benchmark information on PAYG and comparative information on funds.

There are important limits to the effectiveness of mandatory disclosure and the public provision of information. Due to financial illiteracy, the information provided may remain incomprehensible. Indeed, there may be too much information. People may find it confusing and therefore decide to ignore all or most of it. On the other hand, most of the predictions and calculations are, inherently, very uncertain. People may not realise this and may rely too much on them. This applies both to pay-out projections and to demographic risks. Public information provision may also crowd out information provision by market participants and independent sources.

It should be remembered that even perfectly informed and literate people may regret their choices about pensions. This is because they may be short-sighted. The economic literature identifies three sources of such myopia. These are the very high discount rate, a time inconsistency which is basically the result of diminishing discount rates, and optimism about one's retirement age.

He suggested a number of discussion points, based on participants' highly useful responses to the questionnaires sent out before the seminar:

Session 1: Information on system change

1. What do people know about risks associated with PAYG and funded schemes?
2. What expectations do they form about future changes in regulation, bearing in mind that such changes are very frequent?
3. What is their demand for voluntary pension and/or alternative savings? This may also reveal their general attitude to, and information about, pension systems.

Session 2: Information on choices

4. What information do people have on the comparative performance of funds? How does this information appear in their choice and how do they actually choose?
5. What information do they have on the payout options offered by the funds? How do they choose? Do they use the information or not?

Session 3: Information on rights

6. How is information disclosure regulated?
7. How does advertising work? How is it regulated?
8. What is the role, if any, of agents?
9. How does public provision of information take account of literacy?

First session: information on the introduction of pension system changes

Chairing the session, **Asees Ahuja** (European Commission, DG Employment, Social Affairs and Equal Opportunities) emphasised that pension reform is becoming an integral part of European pension policies. This is noteworthy, as people like to regard pension provision as a long-term undertaking.

Europe, she said, hopes to make its pension systems sustainable through systemic changes: linking contributions to benefits, building in annuity factors to take account of longevity, introducing funded schemes which can ensure adequacy by linking pensions to what is happening in the economy and on the stock market, and by trying to delay retirement. The aim is to have people working longer and to provide adequate pensions. These systemic changes do imply a transfer of risk from the pension schemes to the individual beneficiaries. She suggested

that, if we want the changes and the incentives to work, the public needs to be educated. Without information, the reforms will not have the hoped-for effects. People tend to get interested in their pensions a little too late in life. Under the previous defined-benefit schemes, this was perhaps a reasonable attitude. But in many reformed systems, an early interest by the individual is required. At the start of their careers, they need to know about such matters as the compounding of yields and the fees that they are paying to the fund providers. Vital decisions now have to be made early on.

Poland

Krzysztof Nowak (Director, Profile public relations agency, Poland) described the campaign that his agency conducted for the Polish government from March 1997 to December 1999. Its subject was the pension system reform, and the campaign was commissioned by the Office of the Government's Plenipotentiary for Social Security Reform. This was the entity created within the ministry to implement the reform. The techniques used for the campaign were PR and advertising. The total budget was about US\$6m, which was significantly more at that time than it would be now. The finance came from USAID and the Polish state budget.

The campaign was composed of two stages. Stage I introduced the idea of the reform and alerted opinion leaders. At that time, the legislation to implement the reform was going through parliament. Stage II set out to target insured persons. The aim was not only to present the whole idea of the reform but also to provide the public with the information needed for rational decisions.

Stage I began in the spring of 1997. Parliamentary elections were then approaching and the concept of the reform was being developed. Its final form had not yet been determined. So at this stage, the campaign could deal only in generalities, which did not make the task of communicating any easier. The first technique used was opinion polls. These showed that a high percentage of the population held critical views on the old pension system, notably:

The system does not provide a feeling of security.	78%
Its rules are unclear.	69%
The pension does not ensure decent living conditions.	85%
Pensions are subject to political games.	62%
The pension should be related to the amount of the contribution and the duration of its payment.	73%
The pension should come from the employee's contributions, collected and multiplied through the entire working period.	68%

These results gave Profile some ideas on how to present the new system. People were expecting changes, and their expectations were line with the proposed reform. The intention was to replace the old PAYG system with a system composed of two elements: PAYG and pension funds. This was basically what people wanted, even though they did not fully grasp the implications. In 1997, Poland had less than ten years' experience of a modern market economy. People's understanding of financial instruments was much lower than it is now.

The general objectives of the campaign were to build a positive image of the reform, to explain what it meant and to reduce the fears surrounding it - particularly among older people, who were less optimistic about the reform. They felt they might lose out. Presentation of the reform to

opinion leaders and decision-makers was another important role at this time, in order to ensure its passage through the legislature. So opinion leaders (media, trade union leaders, employers' organisations, members of parliament and political circles) were one of the most important target groups at this stage. The other main target was people working in agriculture and old-age pensioners. The message to them was that the reform would not harm their interests.

A logo was produced to give the campaign a visual identity, together with a slogan: *Security through Diversity* (Bezpieczeństwo dzięki różnorodności). A 70-slide PowerPoint presentation was developed, as well as printouts and an animated version. An extensive media relations programme was conducted. A lot of effort went into building good relations with journalists. This bore fruit during the second stage, when the media were very supportive. Information brochures for employees were mailed out to enterprises and trade unions. These brochures were one of the most important instruments of the whole campaign. Brochures targeted at the wider public were inserted into newspapers. A roadshow toured workplaces with a presentation aimed mainly at the trade unions. Special information packages were also mailed to members of parliament, the political parties and NGOs.

Stage II started in 1999. The strategic problem was that a number of messages had to be put across to different target groups. The new system was obligatory for those aged under 30, who were required to choose a fund by September of that year. Those aged 30-50 had to decide by the end of 1999 whether they wanted to stay in the old system or move to the new one. Of course, if they opted to change, they then also had to make a second choice: between pension funds. For people aged over 50 at that time, the main message to get across was "What we are doing will not be at your cost. For you, the rules of the game will not change." He pointed out that, in Poland as in other countries, there is a high turn-out by pensioners during elections, so politicians are careful to take their views into account.

The tasks of the campaign during Stage II were to maintain the credibility of the pension reform and to provide the information required for rational decision-making by two groups with different needs and different socio-economic profiles. The main instruments used were brochures, but these could not simply be mass-mailed to every home in the country, due to the existence of different target groups. So call centres were set up, which people could phone and ask for the brochure best corresponding to their needs. There were 17 different information brochures and 20 leaflets containing simulations of future pensions. An advertising campaign on radio and TV and in the press drew people's attention to these services. The call centres logged 217 000 enquiries, and 1 282 000 brochures and leaflets were mailed out as a result.

At certain points, there was interference between the government information campaign and the very aggressive advertising conducted by the pension funds. This was dangerous because the funds were naturally keen to get as many customers as possible. So they targeted older people as well as younger ones. In particular, they went after the 30-50 age group, in a bid to persuade them to change systems. This led to some irrational choices by people who would have been better off staying in the old scheme. So a new element had to be introduced into the government campaign, showing people how to calculate what was the best individual option for them. This was a difficult task, requiring a lot of media relations work.

The outcome of the campaign can be seen in the rates of those joining the “second pillar” (i.e. the pension funds). By 26 November 1999, nearly 80% of the 31-35 age group had joined, as against 13% of those aged 45-50. This, he concluded, shows that people behaved in a rational way as a result of the campaign. Opinion polls showed that, in January 1999, less than 40% of the respondents felt they were well informed about the pension reform. Ten months later, that had risen to about 60%. Other polls showed that 63% felt information about the reform was easily accessible, only 9% had not heard about the government’s infoline, and 48% had not called the infoline because they had no doubts about the reform. Ten years on, that reform has been successfully, though not always easily, completed.

Anne-Sophie Parent (AGE – the European Older People’s Platform) asked if the figures for those aged 30-50 were available broken down by gender and income groups. **Krzysztof Nowak** replied that they were, and could be provided if wished. She asked if these figures had been communicated during the campaign. He answered that they had been published, but not in the general media, as such data were too detailed for use in the campaign itself. She wondered if they might have revealed gender-specific behaviour that could have been important for the provision of additional information. **Karoly Mike** asked if the figures given really proved that people’s decision-making had been rational, particularly with regard to gender differences in lifecycles. **Krzysztof Nowak** felt those in the 45-50 group had indeed behaved rationally – particularly those in the lower income groups, for whom a change to the new system could have been quite risky. **Asees Ahuja** asked if public confidence in the pension reform has improved in the meantime. **Krzysztof Nowak** felt that it has. However, he pointed out that the old pension system in Poland never went through the kind of collapse experienced in some other countries. Pension payments were never delayed or suspended. So people did not feel financially insecure about the old system. They just felt that it was not transparent. They did not know how it worked. Now, the pension funds provide plenty of documentation and even if people do not read most of it, because they find it too difficult, they do feel better informed.

Slovak Republic

Andrea Psotová (Ministry of Labour, Social Affairs and Family, Slovak Republic) explained that her country’s pension reform entailed a change from a PAYG scheme to a mixed, two-pillar scheme involving both PAYG and funding. The first pillar is a mandatory, defined-benefit pension insurance administered by the Social Insurance Agency. The second is a pension savings scheme, funded through capitalisation and administered by the pension administration companies. There is also a voluntary supplementary scheme, known as the “third pillar”, also funded through capitalisation and administered by the supplementary pension companies. For those working in hazardous jobs, such as miners, this third pillar is mandatory. That is also the case for professions in which people are unlikely to be able to work up to the legal retirement age, such as ballet dancing. In addition, there are a voluntary special purpose saving scheme and life insurance, both of which have been subject to tax incentives since 1 January 2005. For those still on a purely PAYG scheme, the contributions are 18% of the assessment base, payable solely to the PAYG scheme. This is a recommended option particularly for persons who will not be able to accumulate sufficient pension savings to purchase life annuity when they reach retirement age. Somebody who is in the two-pillar scheme will pay 9% of the assessment base into each pillar. Contributions to pension savings schemes are accrued in individual accounts which appreciate. This system is designed primarily for people who will be able to contribute for at least 30 years. From 1 January 2008, the two-pillar scheme has no longer been mandatory for new entrants to

the labour market. They can choose whether to join it not. Once in it, however, they have to stay in it throughout their working lives. From 1 January to 30 June 2008, a special provision allows people who opted for the two-pillar system in previous years to return to a pure PAYG scheme if they wish and people who had to decide about joining in the past and who did not opt for this system to join in now.

Contributions are paid by:

- employers on behalf of their employees, at 9% of the assessment base;
- the self-employed, at 9% of the assessment base;
- people voluntarily insured for pensions with the Social Insurance Agency, at 9 % of the assessment base;
- the State, at 9% of the assessment base;
- the Social Insurance Agency, at 9% of the assessment base.

The types of pension paid from the old-age pension saving scheme are old-age pensions, early old-age pensions and survivors' pensions. Old-age pensions are payable to those who have reached the statutory retirement age, currently 62. They must have contributed for at least 15 years. Early old-age pensions can be awarded under the condition the early old-age pension is awarded by the Social Insurance Agency. The pension must amount to at least 0.6 times the subsistence minimum. The forms of payment are life annuity and programmed withdrawal with life annuity.

The Ministry published leaflets about the changes, and set up a call centre. There were many enquirers. People were very interested in the reform. They wanted to know what it would mean for them. Efforts were made to inform people about both the positive aspects and the risks of the reform. People aged 50 and over automatically receive, from the Social Insurance Agency, information on their contributions record and the level of pension that they can expect from the PAYG scheme. Those aged under 50 receive this information if they ask for it. There is also a website.

For the second-pillar scheme, each pension company is required to publish calculations in the press, at least once a week, showing the current value of a pension unit and the net value of the assets administered by it within the pension funds. It also has to publish in the press, at least once a month, the amount of the fees that it has taken for administering the fund. Notice of amalgamations of companies and funds has to be published in the press "without undue delay". Pension companies have to inform savers, at least two years in advance, of the obligation for them to change funds. After reaching 47 years of age, the saver cannot be in a growth pension fund, which is the riskiest type. After reaching 55 years of age, the saver cannot be in a balanced pension fund. The Pension Administrator Company keeps individual pension accounts for each saver, to record the pension units. It is under an obligation to send, free of charge, a statement at least once a year, but also to provide, upon request, a timely statement of the individual's pension account, at any time within up to 15 working days of receiving a written request from the saver. The saver has to pay for this service. The saver has access to his or her individual pension account at any time, free of charge, through a website.

Germany

Germany is facing a major demographic shift, **Jörg Peschner** (Federal Ministry of Labour and Social Affairs, Germany) pointed out. Demographic dependency will double by 2050 and life expectancy will increase by at least another 5 years. The baby boom was particularly strong in Germany, and these cohorts will be reaching retirement age over the next ten years. Today, people insured under the first-pillar PAYG scheme receive a pension for an average of 17 years – a rise of 7 years compared with 50 years ago. So clearly, something had to be done. There was a need to communicate with people.

Two major reform projects which are still continuing are a retirement age increase and private provision support. The first lesson that people had to learn was that the attitude towards early retirement still predominant in Germany in the late 1990s had to be brought to an end. The pension insurance retirement age had to be increased from 60 to 63 or 65, depending on the type of pension. This was accompanied by the introduction of actuarial deductions in the case of earlier retirement. In 2007, it was decided that the retirement age for a regular pension will be increased from 65 to 67 - with a phasing-in between 2012 and 2029. The second lesson, which had to be learnt quite quickly, was that relying on State pension provision, and expecting it to be sufficient when retirement was reached, was no longer an option. So in 2001, the “Riester” supplementary pension (named after the then labour minister) was introduced. It is strongly subsidised by the State and its design makes it particularly beneficial for low income earners and those with children. It is safe because it is guaranteed to pay out at least the total of the contributions, and there is a whole series of contract conditions which finance institutions must satisfy in order to be certified for the Riester pension. The introduction of the Riester pension coincided with the advent of strong additional support for occupational pension schemes, and the two can be combined.

These innovations represent a major shift in the philosophy of old age pension provision in Germany. The government’s mission was to communicate the idea that, to some extent at least, mere reliance on State pension provision had to give way to self-responsibility. He believed that this message has been put across successfully. There is a noticeable change in attitudes. Since the Riester reform, which was strongly advertised in all media, people have begun to reconsider their old age provision. Ever since, the proportion of those who believe that what they have done so far is insufficient has been growing. There is also strong growth in the number of those who regard the Riester contracts as part of their ideal portfolio of old age provision. So the public has increasing confidence in this new product. Interestingly, that confidence is not at the expense of the State pension. People understand that the Riester provision is a necessary supplement to the first pillar.

On the measures to raise the retirement age, it has become apparent that more and more new pensioners are postponing their retirement on a regular pension, as opposed to one of the pre-drawn pension types. The number of new pensioners on the pre-drawn pension types is clearly declining. This is reflected in a number of indicators. The average retirement age, which was at very low levels in the late 1990s, has been soaring ever since. As the retirement age increases, the employment rate has been increasing too. German labour market politicians are proud of this achievement, although it must be said that certain purely demographic factors have also contributed to these results. Since the major reform of 2001, the number of Riester contracts has grown at an accelerating pace. By the end of 2007, 11 million contracts were in effect. Of these, about 1 million were signed in the last quarter of 2007 alone. The occupational scheme, which

used to stagnate at a low level, has been experiencing a renaissance since 2001. Two-thirds of those in work and subject to social contributions are now entitled to an occupational pension. He was convinced that people have been quick to learn about the impact of ageing on pensions and the labour market.

This is because the reforms have always been accompanied by strong information drives. For example, the statutory pension insurance institution Deutsche Rentenversicherung sends a Pension Information Letter to everyone with an insurance record of at least five years – about 27 million people in 2007. In plain language, the letter informs them of their current entitlement levels, but also their potential entitlement on the basis of a simple projection. It also gives an example of how inflation could have eaten into real entitlements by the time the person concerned is about to reach retirement age. Clearly, these letters help to give people a notion of their present and future entitlements. This will help them to identify the pension provision gap. That awareness is a prerequisite for targeted individual old age provision. There are also a number of larger information projects at the public level. Pension specialists tour the adult education classes, which are quite popular in Germany, and teach people about the essentials of old age provision. This project, called Old Age Provision Goes to School (*Altersvorsorge macht Schule*) was launched in 2007 and is supported by all the stakeholders, such as the pension insurance, the social partners, consumer organisations and the adult education institutions. Some 500 courses were held in 2007. The project evaluation showed that almost all the participants judged them positively.

Wilhelm Ruprecht (German Insurance Association) explained that his association does not provide pension products on its own. They share the OECD's views on the tasks of financial education in the field of pensions¹. However, financial education is of necessity a normative issue. People have to be convinced that a three-pillar system is necessary. If they are not convinced, they will not be receptive to information on pension products. The main task is to motivate people to seek further information. This entails triggering cultural change, because myopia about pensions has some underlying cultural elements. Diffusion research shows that, for innovative products, adoption behaviour usually follows an S-shaped curve. This is because of the frequency dependency effect. Usually, the probability for individual demand is a function of the relative frequency of a certain behaviour within a given population or sub-population. So when we want to trigger cultural change through financial education, the political task is to achieve critical mass. However, when there are more influential multipliers, a lower critical mass is needed. This is a point which can be pursued in the design of financial education.

As had been pointed out, the German statutory pension system is under a legal obligation to provide annual information. The same is true of the funded sector, whether occupational or private pension providers. This requirement is currently enshrined in the national supervisory law, but it will also be built into insurance contract law. In addition to its legal obligations, the German insurance industry began, in 2006, to introduce integrated pension information. This includes all three pillars, and its aim is to facilitate regular pension planning. It gives people an overview of their statutory pension benefits, their occupational pension benefits and their private pension benefits. The information is structured very much like that for PAYG systems. It shows the pension benefits at the age of 65. There is an annuity factor for the conversion of a capital sum which might be available at 65. The monthly disability benefits are stated, and there is also a note on the impact of inflation.

¹ For details see the section on the OECD presentation

Pension issues are covered in German school curricula, but tend to be split across several subjects – mathematics, social studies, religion and ethics. This may militate against integrated pensions education. So his association sponsored an award for teacher training colleges which have the best multidisciplinary concept for pensions education. The award was under the auspices of the German Ministry of Economic Affairs. The main criterion was the transferability of the concept to any type of school. The project was conducted in cooperation with the Youth and Education Foundation, in which the social partners and members of the European Parliament are represented. The jury included representatives of two federal ministries, ministers from the federal states, and teachers from the different types of school. The result, in February 2008, was that 17 concepts had been submitted, covering the following subjects: German, politics, social studies and economics, religion, history, biology, mathematics, English, French and even sports. His association will publish a booklet on the results of the award. Even though the quantitative response has not been all that impressive, the quality has.

Estonia

Discussions about pension reform in Estonia started in 1997, recalled **Siiri Tõniste** (Ministry of Finance, Estonia). However, the actual reform took place in 2001-2002, when the second-pillar pension was introduced. Before the reform, the pension was purely PAYG. The new second pillar is contribution-funded. Also new is the fact that private financial institutions are involved. A further innovation is that the word “risk” is now used in connection with the state pension. In the PAYG and the funded schemes, the risks are different but real, and people are sometimes disconcerted by the idea that pensions, particularly state pensions, involve risk.

The target audience for information about the pension reform was a broad one, and within it there were different groups with different options. For the younger generation, the new system was compulsory. For the older generation, it was not available at all. For the intermediate generation, it was voluntary. If they chose to join, that decision was irrevocable. This generation was a particularly important target group, because they were in work, they were earning money and they were politically active.

Each of these generations required a different approach. The first step was to define the State's role in the information campaign. It was decided that it should explain why the system needed to be changed. The demographic situation and its impact on pension income and the state budget were explained. Then different future scenarios were set out and the reasons for choosing this particular reform were given. This was a general scene-setting exercise. The detail was filled in later, with descriptions of the options open to the different groups. Practical information about how to join the schemes was also provided. Estonia does not believe that it is part of the State's role to say which pension fund or company is the best one. It did explain about investment strategies, but it is not the State's job to advise on which strategy is suitable for a particular person.

A PR campaign was conducted in 2001-2002, lasting for about half a year. The slogan was in the form of a question and answer: *What are you thinking about? About my pension.* This was to convey the idea that pensions are no longer heaven-sent. The individual has to think about them. All kinds of channels were used to get this message across. Professional PR consultants Hill & Knowlton were brought in. There was good cooperation with private institutions. From the start, the campaign was conducted in cooperation with the pension funds. The logo for the new pension system is an oak tree, which in Estonia symbolises sustainability and durability. The crown of the

tree is in the shape of Estonia, and at its base is the word *kogumispension*, which means “funded pension”. The tree has three branches, representing a three-pillar pension system. At the start, all the pension funds used this visual. Later, of course, they developed their own campaigns, slogans and visual images.

Kadi Toompere (Nordea Bank, Estonia) said the PR campaign was probably one of the least expensive ever. Although it was huge, it cost only about €150 000. All the different channels available were used, so as to reach all the groups involved. TV commercials used the same slogan to grab attention. To avoid confusion, there was an agreement with the private sector that they would not launch their own campaigns until the official one was over. The aim of the initial campaign was to build trust in the system as a whole. This worked well. The campaign also produced its own TV show which addressed various questions about the reform process and featured interviews with experts. Radio and the print media were similarly used. Roadside posters bore the tree logo. A pension website was developed and has continued in operation. It has become a very informative site, and she recommended a visit (www.pensionikeskus.ee). Roadshows were held in cooperation with the Central Depository for Securities and the private sector. These proved rather popular. The campaign took part in investment fairs, where it educated people about finance. The private sector in particular visited schools. Leaflets and posters were printed and distributed. A call centre was set up, but was not much used. People’s preferred source of information was the internet.

Among the *lessons learnt* from the campaign were:

- Inform, inform and explain! There can never be too much information, especially if it’s provided by a neutral source like the State.
- Make sure your target audience gets the information you communicate from the channel most convenient for them (and if possible in an appealing format).
- Cooperate from the start with all the stakeholders.

Things to *avoid* are:

- Overestimating people’s capability to understand complex financial issues;
- Overestimating the amount of time people are willing to devote to learning about pensions issues;
- Overestimating the initial effort made by the State to inform/teach its citizens. It must keep on returning to the subject and letting people know what has happened in the meantime;
- Doing it on your own. Cooperation is key.

Remigiusz Borowski (Ministry of Labour and Social Policy, Poland) saw a contradiction between insisting on the need for more and more information and emphasising people’s limited ability to take it in. **Kadi Toompere** did not agree. It is a matter of finding the right balance. The timespan for sending out the message needs to be got right. So do the content and context of the message. **Zhelyu Vasilev** (Financial Supervision Commission, Bulgaria) asked how far the broadcast media are willing to cooperate with campaigns about pensions. Bulgarian TV these days seems to consist mainly of “reality” shows about how to become a millionaire. Their

cooperation depends on incentives, **Kadi Toompere** replied. **Zhelyu Vasilev** asked if state-funded broadcasters in Estonia are subject to some kind of public information requirement. **Kadi Toompere** said they are certainly not obliged to broadcast everything the government comes up with, but the state channel does have a mission to inform. However, the issue does have to be made a bit more interesting if TV is to pick it up. **Zhelyu Vasilev** asked how people had reacted to the message that they must start taking personal responsibility for pensions. **Kadi Toompere** thought they do now realise that personal responsibility is important. It certainly takes time to get that idea across, but people have got the message.

Roundtable discussion

Georg Fischer wondered about the objectivity of the information process. The State obliges people, by law, to save for a pension. The private fund management companies are, naturally, out to make a profit. So should not the State's role be to provide people with objective advice? And is there not also a role in this for independent stakeholders, such as the social partners and consumer organisations? **Kadi Toompere** agreed that the State has a role to play in that respect. In the Estonian campaign, the message certainly went out that it was advisable to join the second pillar. But that choice was kept voluntary for people who were already in the system because it was important that they should feel ownership of their decision. What the State could not do was to suggest which of the funds to choose. It did, however, suggest that younger people might want to go for rather more aggressive funds with a larger equity share in the portfolio, while older people might want to avoid risk. In fact, the legislation on the Estonian pension reform was drawn up in such a way that risk is minimised. There are heavy restrictions on the investment of assets. The upper limit for equity share is only 50%. So even the so-called "aggressive" funds are really quite conservative. But she did agree that the State had not provided the independent consultancy that it might have done. The rest of the information provision had gone straight into the hands of the private sector, and the resulting information was already quite biased. The printed information was monitored by the Financial Supervisory Authority, but one-to-one sessions between salespeople and potential clients were, of course, another matter. In Estonia, the role of the social partners is rather weak and it was not possible to delegate much of the information provision to them. And the consumer organisations had found the topic too complex for them to tackle.

Agnieszka Chłoń-Domińczak recalled that the initial aim of the Polish campaign was to address opinion leaders and equip them with the information they needed in order to arrive at a conclusion and help others to make choices. Educating journalists, so that they could provide independent information, was an important part of this. In addition to the official campaign, a lot of useful information provision was initiated by the media themselves. This was, of course, related to the volume of advertising by the pension funds at that time. But genuine interest within the population also stimulated media interest. **Krzysztof Nowak** added that the low level of financial education in Poland at that time was found among journalists as well as the general public. The initial effort that went into the financial education of journalists later bore fruit in the appearance of weekly sections in all newspapers, explaining pensions issues and answering people's questions. **Anna Ruzik** (CASE – Center for Social and Economic Research, Poland) thought that a problem in both Poland and Slovakia was that the pay-out rules for the second pillar had not yet been put in place at the time when people were being asked to make a decision. So they were not fully informed about the consequences. She agreed that the State should provide as much information as possible, but it should refrain from giving specific advice. The State should also avoid making

frequent changes to pension regulations. Otherwise, people will feel insecure. **Andrea Psotová** said that, in Slovakia, the regulatory framework for the second pillar pay-out phases had been well-established before people were asked to make a decision. So they knew. Whether they cared was another matter. There had been plenty of press coverage, and as many people had watched the TV programmes on pension reform as watched the TV news. That was a big success, and there has been a good discussion of the issue in Slovakia. These days, the media express independent, often anti-government, views on the changes in the pension system.

Mike Buckley (Department for Work and Pensions, United Kingdom) emphasised the need to distinguish between the words “information” and “advice”. People often confuse the two. This can prove very expensive. If people think that government is giving them advice and they make a financial decision on that basis, and then the advice turns out to be wrong or negligent, the State will owe those people a lot of money and the courts will impose payment. In the design of this Peer Review, care had been taken to distinguish between information and advice, and that is how it should be. He had been struck by the Estonian participants’ very clear exposition of the role of the State, which is to advise the population that change is needed. If the politicians are right, they will be supported in that change. So the State first has to make the case for changing the pension system. Then people have to be given general information about their options, but the State needs to be careful about giving advice on what individuals should do.

Audrone Morkuniene (Ministry of Social Security and Labour, Lithuania) said her country chose what was perhaps a unique path towards pension reform. In Lithuania, opting out of the state PAYG system and channeling one-fifth of the contribution rate into private savings is a purely voluntary choice. Nobody is obliged to participate, and nobody is banned from doing so. There is no deadline for joining, but once people have made the change, they cannot go back to the pure PAYG system. In these circumstances, the role of the State is quite different, because it does not need to explain why it is obliging people to do something. This is perhaps why Lithuania opted to let pension providers campaign as well. However, the regulator had to approve every advertising message before it could be published. Living within this voluntary system, she found it difficult to imagine another way of organising things. Many people aged over 50 have been joining the system, and it could not be said that this is an irrational choice. Their reasoning is that they are high earners and the PAYG system contains a substantial element of redistribution. So they prefer to put the money into short-term savings and receive a lump sum. More generally, she agreed that in most countries’ pension reforms, not enough emphasis has been placed on information about the pay-out phase. **Asees Ahuja** agreed with this last point. Also, information during pension reforms tends to concentrate on the funded part of the system. So people may simply equate pension reform with funding. But in Sweden for example, this is actually a rather small component of the mandatory pension scheme. Perhaps more information should have been given on other aspects, such as the flexible retirement age.

Anne-Sophie Parent had been surprised to hear that the Estonian campaign, for example, had not targeted retired people. Public information should be addressed to everyone. Any reform has an impact on everyone, even if it is targeting a different age group. What responsibility should public authorities have for informing the population about reforms that they are planning or introducing? In some countries, they conduct big information campaigns once a year. In others, they feel that they have done their duty if the information is available on request. Should call centres be run by the State, or should this be left to other stakeholders? Estonia said that its call centres were not much used. Had it analysed why? Did the experience of call centre use vary from country to country? Do governments provide objective information to different population

groups? The Slovak contribution, for example, had noted that a minimum of 15 years' contributions will now be required for entitlement to a pension. Has the public been told about the impact of this on people with a shorter contribution period, particularly on women who care for independent relatives and on others with interrupted careers?

Zofia Czepulis-Rutkowska (Social Security Institution, Poland) noted the great efforts put into information. But the crucial issue is understanding. Did any of the peer countries evaluate the understanding generated by the campaigns? Had they checked if the information, for example on financial issues, had been received as intended?

Andrea Psotová said that people in Slovakia were indeed informed of what would happen if they did not complete the 15-year contribution period. She noted that, for women who take career breaks to look after a child, the State pays the pension contributions until the child reaches the age of six. The information campaign stressed that people's decision about their pension was one that would remain with them for the rest of their lives. For instance, if they are intending to work in another country, opting for a funded scheme in Slovakia might mean that they have to pay twice over – if they choose to pay into the funded system - once into the funded scheme in Slovakia (if someone decides to pay into the funded scheme, he / she must pay also to the PAYG scheme) and once into a PAYG scheme in the country where they are working. They are also, for example, warned to think about their employment prospects. If they become unemployed, the contributions will be interrupted. What are the chances of their finding another job? All of these factors should govern their options, and they are urged to take time over their decision. Regarding people's understanding of the information, she said some NGOs, in cooperation with journalists, had evaluated this. But she did not have these figures. Taking up the point about information to the older generation, **Kadi Toompere** said the new pension system had simply not been available to them. So the State's role had been to explain why. The campaign did explain why the system had been designed like this. Media aimed at an older audience were used to provide information that was specific to them. As for the call centre, it was set up by the Central Depository for Securities, which outsourced this service. The reason that it did not prove popular, she thought, is that Nordic people tend to avoid talking.

Jörg Peschner reported that, like all German government projects, those that he had described were subject to evaluation. The pension letters are evaluated every two years, and "Old Age Provision Goes to School" was evaluated one year after its launch. The opinions expressed were very positive. People said the information was clearly and straightforwardly worded and was accessible.

Georg Fischer asked if, in the German campaign, the accompanying information and explanations had contributed to the rise in the average age of retirement. Noting that most countries' reforms had involved a shift away from a PAYG system towards Notional Defined Contribution (NDC), he wondered if this had also been an incentive to work longer. And is there a role for independent institutions that provide either information or advice? In the Estonian case, it had been suggested that neither the social partners nor the consumer organisations are really capable of doing so. Is that generally the case in Europe? Is there any need for a third party which is beholden neither to government nor to the private sector?

Krzysztof Nowak said an evaluation was made of the Polish campaign, but there was no assessment of whether it had increased human rationality. That is very difficult to measure. People were simply asked if they felt informed, if the information had reached them. Advertising is

not a good way of teaching people to be rational. Advertising is good for alerting people. It draws their attention to a topic. It is also good for building positive emotions around a topic. In that, the Polish campaign succeeded. It also attempted to deliver large amounts of information, but he was more sceptical about that. The market, and life in general, teach people to be rational. Advertising contributes very little to that.

Arne Paulsson (Swedish Social Insurance Agency) pointed out that the Swedish pension reform differed from those in other countries, as people had not really been left with any choices to make – at least, as regards the system. The transitional rules were legislated, so people did not have to choose between being part of the new system or not. He agreed that advertising is probably not a good way of improving people’s knowledge. Rather, information has to be tailored to their personal situation. Sweden conducted a major information campaign when it launched its new system. Evaluation showed that knowledge about pensions did increase as a result – but only for a very short time. Then it went back to its previous level. The annual pension information provided to people in Sweden’s “orange envelope”² was also successful at first, but it has now been running for ten years, and evaluations show very little increase in awareness levels from year to year. When it comes to pensions, people are a bit lazy. There was an enormous information campaign when people had to choose which fund to go into, for the funded part of the system. That campaign may be considered a success, because two-thirds of the people made an active choice. That was not an easy thing to do at that time, when there were about 500 funds. There are now about 800 to choose from, which in his opinion is mission impossible. This is reflected in the increasing proportion of new entrants who do not make an active choice. In 2007, only about 2% did so. In these circumstances, providers have a responsibility to make things easier for people. A recent survey in Sweden asked people if they liked the idea of having a choice between different phone companies, different pension funds and so on. About 75% replied that they did not want to make any choices at all. So the providers must live up to their responsibilities and devise products that make it easier for people to choose.

The message from the legislator must also be clear. For example, rather than raising the pension age, Sweden introduced a flexible one. But the aim was the same: to make people realise that they would have to work longer to get a decent pension. Recently, an attempt was made to introduce the “actual” retirement age for each cohort into the information provided in the orange envelope. But this produced a tremendous reaction. People protested that the retirement age could not be changed without fresh legislation – or even a referendum. The notion of a flexible retirement age was brought in for political reasons. It avoided the need for politicians to talk about raising the retirement age, which might have jeopardised support for the pension reform. But Sweden may now be suffering the consequences of that, because surveys show that, in people’s minds, the old fixed retirement age of 65 is still set in stone. It may be difficult to convince them to work longer. **Asees Ahuja** agreed that pensions are a highly political topic. She wondered if policy-makers have not sometimes opted for overcomplicated pensions reforms in order to sidestep a simple but politically sensitive issue – namely, the need to raise the retirement age because people are living longer.

Returning to Georg Fischer’s question about a third party, **Wilhelm Ruprecht** felt that school is the appropriate institution for financial education. It is independent, and it may well be that financial socialisation takes place during adolescence. Part of this task is also performed by families – if there is an appropriate role model, which is not always the case. As to independent

² Details of the “orange envelope” are given in the section on the presentation of Sweden

financial advice, in Germany at least there are market solutions available. These are rating agencies, which help to reduce complexity. There is competition between these agencies, and there are also subsidised ones. This is a structure which could be built on. **Mike Buckley** agreed that there is a role for a third party. What form it should take will depend on the context. Contractors are not really independent – they do what the client tells them to do. At the moment, in the UK system, there is a PAYG pension the level of which may or may not be adequate, but there is no requirement to take out any other provision. The consequences of not doing so may be suffered in later life, but there is no obligation. So a role for third parties – trade unions, pensioner poverty campaigners and so on – is to tell people: “You should be doing something about your pension”. With the introduction of mandatory second and third pillars, the role of third parties may appear to fall away. But in fact, they should then have the task of asking: “Are you saving enough?” **Anne-Sophie Parent** said AGE member organisations see a third party role as very important. One reason why people are reluctant to act on their pensions is that they are suspicious of the information they receive, whether from governments or private funds. So she had been surprised to hear so little mention of joining forces with other stakeholders. NGOs are perceived as being more aware of the needs and concerns of their constituencies, so their members would see them as a more reliable source of information. Involving them in campaigns might help to reach the target groups.

Zofia Czepulis-Rutkowska wondered why people who started out by asking for choice are now saying that they do not want it. Are there simply too many funds?

Doug Taylor (consumer organisation Which?, UK) said British research indicates that the key driver in financial services is the question of trust in the information provided. The research suggests that third sector organisations are more trusted in this respect than either government or the financial services industry, which receives even less trust than government. So when seeking to change a structure through stakeholder involvement, how to create trust in the institution is a key consideration. **Asees Ahuja** added that a Swedish survey had shown that, although people trust government more than the private sector, they actually listen more to banks and other firms. **Doug Taylor** cited evidence that people’s trust in government is higher in Scandinavia than elsewhere. **Jörg Peschner** mentioned that the German “Old Age Provision Goes to School” was conducted by the government in partnership with the trade unions, the employers’ association, the consumers’ organisations and youth organisations. And the experts who visit the evening classes and teach people about the essentials of old age provision are drawn from those organisations. In sensitive areas such as pension provision, an effort is always made to involve the social partners.

Arne Paulsson felt that problems with choice tend to arise when there are too many options. Choosing whether or not to enter a funded system is one thing. Choosing between 500 or more funds is quite another. You do not know how they will perform in future, and they structure their fees in different ways, so it is difficult. American tests had shown that people like to have a choice - but only if there are no more than four options. **Agnieszka Chłoń-Domińczak** suggested that people in countries like Poland might have rather different views on this. Many of them still remember a time when there was only one type of bread and one kind of ketchup and it took ten years to get a phone line. She agreed that too many options can be confusing. However, attempts to narrow the choice can lead to problems later. At first, Poland limited the choice of pension funds. When they subsequently wanted to broaden it, this proved difficult. While the pension funds have different names, their portfolios are basically the same. As regards information provision, she felt this will have to vary from country to country. It very much depends

on who is regarded as most trustworthy. Nonetheless, most of the changes are made by government, so it has a duty to provide credible information not only to the decision-makers but to those who will inform other people later on.

Second session: information on pension rights

Chairing the session, **Zofia Czepulis-Rutkowska** said that she combines research activities with administrative ones, as she works both for the Institute of Labour and Social Studies in Warsaw and for Poland's Social Security Institution, which is responsible for contributions to and payment of pensions and other benefits. Her research also focuses on pensions, as well as long-term care and health. She believed that information on pension rights goes right to the heart of the reforms. Delivery of this information is where the responsibility of government and experts lies, because it is on this basis that people take their decisions on labour market activity, savings and wealth accumulation. This information should be designed from the viewpoint of the future pensioners, answering the questions that they might ask: What amount of pension should they expect? Why that amount? Benchmarks may be needed here, so that they can see in general terms the link between what they pay in and what they get out. In Poland and perhaps in other countries, people often think that they pay more than they get. This should be addressed. They should be shown that other types of saving would not pay out much more, and perhaps even less. They also need to know clearly how long they need to work in order to receive a certain amount, and what will happen if there are interruptions in their employment. And how will they draw their pension – monthly, or as a lump sum? These are some of the questions that need to be addressed.

Sweden

The base of the Swedish pension pyramid, **Arne Paulsson** explained, is a compulsory public system. Everybody working or residing in Sweden is covered by it. It is composed of two parts. The bigger one is a PAYG scheme, but using individual accounts. It is a Notional Defined Contribution (NDC) scheme. The smaller component is a fully funded part, under a Financial Defined Contribution (FDC) scheme. For this, the beneficiary chooses the fund to be invested in. The next tier is formed by the occupational pensions. These are mandatory if the employer has a collective agreement. This means that more than 90% of Swedish wage-earners are in an occupational scheme. Four major occupational schemes cover more than 80% of the employees. At the top of the pyramid are the private pensions. At present, about 50% of Swedes are saving in some kind of private scheme. So for people to get a full overview of their pensions, they need to be informed at least about the public and the occupational systems. 50% of them also need information about the private system.

The main change in the Swedish pension reform was that the public scheme moved from a defined benefit system to a defined contribution system. One result of this is that pension benefits are now calculated on the basis of life expectancy. So the level of pension is no longer decided by the 15 best years, as under the old system, but by lifetime income. The indexation system has also been changed from a price index to a wage index. The system contains an “automatic balance” – if its sustainability is in danger, the indexation is reduced. During the same period, the occupational system was also reformed. Most of the occupational schemes have moved from defined benefit to defined contribution. Some are hybrids. Transitional rules are operating in both

the public and the occupational systems, and will have to be lived with for at least another 20 or 30 years. This will complicate the task of providing information.

The switch to a defined contribution system has changed the information needs, as the beneficiary no longer knows what the final pension will be. To meet the new demand for information, Sweden created the "orange envelope". This contains information on contributions over the past year, both to the PAYG and to the funded system. There is also a pension account, which shows how much the beneficiary had at the beginning of the year, what has been paid in, what has been gained on the survivor's bonus, what has been paid for administration costs and what the development of the value has been over the past year. In the PAYG system, the development of value is linked to the wage index. In the funded system, it is governed by the performance of the funds chosen. A report is also given on the status of the funds in the funded system: how much money the person has in a fund and the performance of the funds. Changes in the relative value of the various funds within the portfolio are also shown. So the person will see both the percentage originally invested and the percentage that it currently represents within the portfolio. This is a way of indicating changes in risk. A forecast of the future pension is given, and this is perhaps the most important part of the orange envelope. Many people have difficulty in understanding the pension system, but they generally understand the final figure. Those aged up to 60 receive pension forecasts in case of retirement at 61, 65 and 70. This shows them that, if they work longer, the pension will be higher. For those aged over 60, forecasts for other retirement ages are given as appropriate. It is sometimes argued that forecasts should not be provided to people who are aged 20-30, as the predictions will not be reliable. But, he emphasised, the forecast is important even for younger people. Account statements expressed in thousands, and later millions, are meaningless to most people. So the forecast is absolutely necessary, but it should be made clear that it is not reliable in the case of younger people.

These days, it might be thought that the statement should be sent out over the internet, rather than on paper. But at least in the immediate aftermath of a pension reform, he felt that a paper statement is a good thing. Its design, with the orange envelope which makes it stand out from all the marketing mail, is now widely recognised. All of the envelopes are mailed out within the space of five weeks in February and March. This means that their distribution gets special attention from the media. At that time of the year, there are noticeably more articles and programmes about pensions than during the other months. The orange envelope has become a trademark for the pension system. When the media want to illustrate a piece about pensions, they show a picture of the orange envelope. In that sense, it has been a success. The banks and financial institutions also show the orange envelope in their material on pensions.

Every year, a survey is conducted to find out what people think about the information in the envelope and how they read it. About 50% of the recipients read at least part of it. This figure has not changed much over the years. Asked what kind of information sources they trust most, about 70% of respondents choose the orange envelope, placing it well ahead of unions, friends and co-workers, employers, insurance companies, banks, the Social Insurance Agency and the Premium Pension Authority.

But when people are asked about their knowledge of the pension system, the answers are rather disappointing. About 40% feel well-informed, but over 50% say their knowledge is "rather bad". Moreover, the development of these percentages over time is negative. However, this is self-assessed knowledge, so it may be that just after the reform, people were less self-critical than

now in this respect. His impression is that people's knowledge is not too bad, and that it has improved since the reform.

Problems associated with information provision on pensions are:

- *Complex products.* This can be tackled by simplifying the information. The orange envelopes are one attempt to do so. Tests show that, if there is too much text in a statement, people will not read it. They go for the figures, so effort has been put into making these as self-explanatory as possible. The text and figures in the orange envelope have been reduced by more than 50% over the last two or three years, but the information content is the same – or perhaps greater.
- *The long time horizon.* Forty or fifty years may pass between payment of first contributions and receipt of the first pension payment. So it is difficult to get young people interested in pension information.
- *Financial illiteracy.* This is a particular problem when people have to choose between more than 800 funds.
- *Many providers – many messages.* All the different schemes send out annual statements and give their own forecasts. This can be confusing for the beneficiaries, who have difficulty in seeing the whole picture.

One attempt to overcome these difficulties is the creation of a website called “My Pension” (www.minpension.se). It collects together all the information from the various systems. Subscribers can get an overview of their public and occupational accounts.

Another information tool is the “60 years meetings”. Local pension offices invite all those reaching 60 to an information session. About 30% turn up. The “orange report” is an annual report giving complex information about the pension system. It is aimed more at pension experts and the media. However, it deserves mention because it is part of the drive to make the system transparent. Efforts are also made to involve the media. A good newspaper article is more likely to be read than official information. Current plans include improved cooperation with the pension providers. A pension glossary is being developed to ensure that the same terms are used across all the systems. A pension forecasts project aims to set a common format for all forecasts, so that they will be comparable. The providers are taking a positive attitude to this proposal. Work has also begun on financial education projects.

Lithuania

Mindaugas Strumskis (Deputy Director, State Social Insurance Fund Board, Lithuania) said that pensions information in his country is divided into two main blocks. One is general information which can be sent to everybody, without limitation. The second block is personal data, which by law can be provided only to the person concerned.

General information includes the methodology for calculating pensions – a complicated formula, but everybody is at least aware of the general principles. The impact of the working period and the insured income on the amount of the pension is also generally available information, as is the impact of early retirement. This is permitted under certain conditions, such as having reached a

certain age, having been unemployed for at least one year, and having worked for a specified number of years. But even so, it results in a lower pension for the rest of the person's life, so people must be informed about that. On the contrary, if people opt to start drawing their pension later than at the statutory age, they are entitled to a bonus. But this is not a very popular option. There is also a bonus for those who continue working and paying contributions after retirement. The government sets the basic amount of the pension and the insured income each year, and this is also generally available information, as is the calculator for second-pillar pensions.

All this information is communicated through the media, the internet, in meetings and seminars, by phone and by post and through local pension offices. Enquiries can be sent to an e-mail address. If the reply does not contain personal information, it will also be sent by e-mail. If personal data are involved, the enquirer will be asked to go to a local office. At the end of 2006, a single phone number for enquiries was introduced, this being more convenient for the clients and easier to publicise. The call centre was outsourced to a private company, Lintel. One reason for this was that the number of calls varies considerably, but government services have less flexibility about staffing. At first, the average call duration was about 3 minutes, but within half a year it had decreased to 2 minutes, due to growing staff competence. If ever the call centre staff cannot handle an enquiry, it is passed on to the competent officer within the Board.

The calculator for second-pillar pensions is designed to forecast future benefits. It is available to everyone on the internet. As participation in this second pillar is voluntary, there is no need to link the calculator to personal insurance histories. The user simply inputs his or her age and earnings and the presumed profitability of the relevant pension fund and will receive an answer on that basis. In Lithuania, opting for the second pillar does not mean paying additional contributions. Part of the contributions are transferred from the first pillar to the second, and the amount of the first-pillar pension is correspondingly reduced. So the calculator shows both the amount to be expected from the second pillar and the amount by which the first-pillar pension would decrease.

Personal information includes the amount of insurable income declared and the employment periods. Making this information available to the individuals concerned is one way of protecting them against employers who do not declare part of their pay, thus depriving them of pension entitlements. Personal information is provided in meetings, on request by mail or e-mail or at local offices. Some personal information is also available on the internet portal. Enquirers can identify themselves through authentication on the Lithuanian eGovernment portal, through their eBanking certificate or, from this January, by an asymmetric electronic signature. A first-pillar pension calculator is also available, based on the assumption that the ratio of the person's earnings to the official insured income will remain stable. Currently, this calculator is available only to personal callers at local offices, as it involves the use of personal data drawn from the Board's central database, which has been built up over the past five years. It now holds data on about 70% of the population. The remaining 30% are abroad or, for various reasons, are not very interested in the pension system. An enquirer must show ID at a local office, and can then access all his or her personal information. From 1 January 2008, employers have been able to complete all pensions-related formalities electronically. By 2010, it is expected that all beneficiaries will also be able to communicate electronically with the Social Insurance Fund.

Bulgaria

Penka Taneva (National Social Security Institute, Bulgaria) explained that the Bulgarian Ministry of Labour formulates and conducts the pension policy. The National Social Security Institute (NSSI) is responsible for the calculation and payment of all pensions in the first pillar, the state pension insurance. The Financial Supervision Commission (FSC) is responsible for the supervision of Supplementary Pension Insurance – i.e. the second pillar, which is the mandatory supplementary pension insurance; and the third pillar, which is the voluntary pension insurance. The first pillar is PAYG, while the second and third are fully funded. The pension insurance companies manage the accumulated resources and pay out the pensions.

Usually, young people in Bulgaria are not interested in pension matters. On the other hand, people who are approaching retirement age, or who fear they may become unemployed, more often seek information about the conditions of eligibility for retirement. Questions about indexation and the possibilities for increasing pension levels come mainly from people who are already pensioners. Most people in Bulgaria are aware that if they work longer, they will get a higher pension. To encourage people to postpone retirement, the pension formula has recently been amended. The weight of each year's employment after the statutory retirement age is now three times greater than that of each year's employment before that age. People also know that if they do not pay social security contributions on their actual incomes, they will get lower pensions. Unfortunately, most people do not start thinking about their pensions until they are approaching retirement age.

On the state pension system, a lot of information is available for those who are interested. Those approaching retirement ask for individual consultations or use the online services on the website of the National Social Security Institution. Pensioners' organisations and pensioners' newspapers play a special role. Pensioners can receive individual information in response to written requests. Regional offices also provide individual consultations. In 2002, a Call Centre for Social Information was established in the Ministry of Labour. This provides detailed answers to people's questions. Every July, all pensioners receive personal information by mail about the main parameters and current size of their pensions, following the latest indexation. In 2002, the NSSI began to send individual information to insured persons about the incomes on which they pay social security contributions and their length of service. Via the NSSI website, all individuals can access online services and detailed information about their rights and duties and any new aspects of the social security legislation. A useful information tool shows social insurance status by Identity Number and Personal Identification Code. This is accessible both through the website and through the kiosk terminals in the reception areas of local NSSI units. An online Pension Calculator will be developed by the end of 2008. This will enable people to calculate their pension levels on the basis of their incomes and the contributions they pay to the state pension system.

The pensioners' organisations in Bulgaria campaign actively for pensioners' rights. A Consultative Board on Pension Matters has been established in the Ministry of Labour. There, the pensioners' organisations play an active part in creating new pension policies. There is also a Public Board of the Pensioners' Organisations within the National Social Security Institute. At its meetings, many suggestions on pensions policy are discussed. Some of these are about to be implemented. In October 2008, all pensions will be recalculated. This will lead to higher pensions for more than a million pensioners. Some pensioners' newspapers provide regular information about all aspects of the state pension system, including details of pension levels.

Zhelyu Vasilev said that one of the main tools for information on private pensions in Bulgaria is analogous to the Swedish “orange envelope”. Information about the resources in an individual account is sent each year to the person concerned by mail. It shows how much money is in the account and the taxes and other deductions made by the pension insurance company. The status of individual accounts can also be checked on the pension insurance company’s website or at its office. Some companies provide this information free of charge and some for a nominal fee. Other obligatory information includes the pension fund rules, which must be given to the insured person when the social insurance contract is signed. Approved amendments to fund rules must be communicated either to each insured person or by publication in two national newspapers.

The Financial Supervision Commission of Bulgaria has taken special steps to ensure that beneficiaries are adequately informed. It has set up both a website and a call centre. A lot of written questions are also received, as well as complaints which lead to inspections of the pension insurance companies. In cooperation with the Ministry of Labour and Social Policy, the commission has organised seminars for journalists, students and judges. Journalists are the ones who most often disseminate information about the recently introduced second and third pillars. Judges need to be fully familiarised with the legal framework for pensions.

The website gives access to the commission’s electronic registry. This contains information about the licensed pension insurance companies. So users can check whether somebody is actually entitled to sell pensions. There is also information about the companies’ major stockholders, managers and social insurance intermediaries. In Bulgaria, an insurance agent is permitted to work for only one company. The electronic registry also gives access to the pension fund rules and shows any sanctions imposed on a particular company. The FSC website also contains general information, which is kept as simple as possible, as well as some legal and statistical details.

The pension insurance companies themselves tend to publish a lot of information. On their websites, they publish the value of one share in each fund. This is purely statistical information. The shares are not tradeable. But it gives an idea of the return on the beneficiary’s investment. The fund rules are also available on these sites. The agents are the most useful source of information for insured persons. In order to sell pension insurance to people, they have to answer their questions. The companies also distribute leaflets and advertise in the media. The Deputy Chairperson of the commission has issued requirements, to ensure that this advertising is not misleading. Fines have been imposed on companies for non-compliance. He wondered if Bulgaria has not gone too far on this. Comparative advertising has been prohibited, and he would like other participants’ views on whether this is a good move or not. He also asked for opinions on an idea that he had had – that information on basic pension rights should be included with the account statements sent out each year. This could stimulate interest in pension issues.

Roundtable discussion

Doug Taylor asked what performance management systems are in place in call centres to ensure a high level of customer satisfaction. **Zhelyu Vasilev** replied that the people in the Bulgarian commission’s call centre are generally students working part-time. They have been trained to know the basics, but they pass any more difficult enquiries on to the experts. **Mindaugas Strumskis** said the Lithuanian State Social Insurance board can monitor conversations with the call centre at any time, and regularly does so. If the information given to

callers is found to be inadequate, this is notified to the call centre consultants. For complex questions, the call centre can pass enquirers on to the specialists.

Remigiusz Borowski suggested that information about pensions has two important roles: to create a positive attitude in society and to improve people's financial knowledge, so that they can tackle the difficult task of choosing between private funds.

Anna Ruzik had been interested to hear that Bulgaria has special newspapers for pensioners. She asked for more details. **Penka Taneva** replied that there are three or four pensioners' newspapers in Bulgaria. One of them is amongst the most-read newspapers in the country.

Concerning the credibility of private pension forecasts, **Wilhelm Ruprecht** suggested that people should buy pension products which provide guarantees. He asked whether disability benefits are covered by the pension information provided in Sweden, Lithuania and Bulgaria.

Arne Paulsson thought that pension information is like water dripping on a stone – it has to be maintained for many years before it sinks in. On the issue of choice, he felt that fund packages should be created for the vast majority of people who are not qualified to choose between so many different funds. Regarding call centres, Sweden has completely reorganised its social insurance structures, moving from regional authorities to one big national one. Correspondingly, nationwide call centres are being built up to replace the regional ones. Within that structure, there will be pensions call centres, but these are still under construction. The Swedish pension system does not provide information on disability pensions in the orange envelope – or indeed anywhere else. Disability benefits were taken out of the pensions structure some years ago and are now regarded as part of sickness insurance. **Mindaugas Strumskis** said that, in Lithuania, the same institution is responsible both for old age pensions and for disability benefits. So it disseminates information about both. Indeed, its call centre gets more enquiries about benefits than about pensions. In Bulgaria, **Zhelyu Vasilev** said, some of the tools used to provide information about supplementary pensions also include information about disability benefits. Potential entitlement to disability benefit is also very well described in the social insurance contract. However, the extracts from individual accounts do not give even theoretical calculations of possible disability benefits – although it is possible to extrapolate these from the accumulated resources shown.

Asees Ahuja emphasised that, in a multi-pillar system, it is important that beneficiaries get overall, collective information about their pension. Also, while appreciating that pension projections are risky things for governments to give, she wondered if simple statements of the amounts currently held in pension accounts are meaningful to most people. **Zofia Czepulis-Rutkowska** said Denmark is working on a system to combine information from various sources (including pension systems but also banks, investment funds) so that people get the whole picture regarding their income at retirement.

Károly Mike wondered if people are really aware that the projections must be treated with caution. He also pointed out that pension decisions are part of a wider set of decisions about our future income streams. Good decision-making on pensions presupposes sound decisions on our future incomes and working careers. Do we know how far people look at alternatives to pensions, such as annuities from real estate or bank deposits? **Georg Fischer** felt that, in an NDC world, people are really never fully informed. Some projections and other information can be given, but these are only rough indications, and that circumstances may change before they reach retirement. So it is quite natural that people are dissatisfied with the information available on their

pensions. If they were completely happy it would suggest that they do not comprehend the unreliability of the projections. **Agnieszka Chłoń-Domińczak** recalled that, a few months ago, one of Poland's newspapers asked her ministry to provide some simulations of pensions for people with different age and wage profiles. The ministry did so, but accompanied by a letter to the newspaper, clearly asking it to publish alongside the figures a warning that they were only a simulation and that they depended very heavily on certain assumptions. The newspaper published the numbers without any additional information. So in future, the ministry will be very cautious about providing any such projections to the press. She asked whether the language of pensions information could be simplified, so that people will be better able to understand the details that they receive. **Arne Paulsson** agreed that the projections are uncertain – particularly for people who are still young. The orange envelope clearly states that the projections assume that the person's wage will remain the same until they retire. So no promises are made. All that is said is that, under certain circumstances, this will be the outcome. However, even if the projections are uncertain, they are still the best kind of information you can get. The alternative to projections is to give no understandable information at all. Sweden certainly has the future goal of centralising the various annual pension statements, so as to provide a better overview. The pension glossary and the standardisation of projections are steps towards this. **Ágnes Matits** (Member of the Hungarian Pension and Old Age Round Table) said the information requirements that Hungary places on mandatory pension funds have changed considerably over time, because it became clear that the projections were too difficult to understand. Now, the funds are required to show the current value of the pension at retirement age, but on the assumption that no further contributions are paid in the meantime, that earnings do not increase and that there is no inflation. This indicator is well understood by people, who can see clearly how their entitlements are building up from year to year.

OECD presentation

Edward Whitehouse (OECD) summarised the OECD's Recommendation on Principles and Good Practices for Financial Education and Awareness:

- Governments and all concerned stakeholders should promote unbiased, fair and coordinated financial education. Financial education should start at school, for people to be educated as early as possible.
- Financial education should be part of the good governance of financial institutions, whose accountability and responsibility should be encouraged.
- Financial education should be clearly distinguished from commercial advice; codes of conduct for the staff of financial institutions should be developed.
- Financial institutions should be encouraged to check that clients read and understand information, especially when related to long-term commitments or financial services with potentially significant financial consequences: small print and abstruse documentation should be discouraged.
- Financial education programmes should focus particularly on important life-planning aspects, such as basic savings, debt, insurance or pensions.

- Programmes should be oriented towards financial capacity building, where appropriate targeted on specific groups and made as personalised as possible.
- Future retirees should be made aware of the need to assess the financial adequacy of their current public and private pensions schemes.
- National campaigns, specific websites, free information services and warning systems on high-risk issues for financial consumers (such as fraud) should be promoted.

Most of this advice, he suggested, is so commonsense and obvious that it would be difficult to disagree with it. One important task for information provision on pension reform is to emphasise the need for increased individual responsibility for retirement planning. Most of the countries taking part in this Peer Review had moved towards a system based more on defined-contribution pensions. The new systems often entail choices of provider, choices about investments and, for those in voluntary schemes, the choice of how much to contribute.

An interesting development in economics recently has been the fashionable area of behavioural economics. A number of economists, mainly Americans, have looked at the way people make their decisions in practice and where they might go wrong. The trouble is that, if we believe all the literature on behavioural economics, even fully informed individuals make bad decisions. Choice overload is one factor here – for example, in the case of the Swedish funds. Tests have shown that, given a choice of 15 different marmalades, only about half as many shoppers will actually buy some than if the choice is limited to 3 marmalades. “Myopic loss aversion” is a further problem. For example, if people are offered a gamble under which they receive €110 if a tossed coin is tails but have to give €100 if it is heads, most will refuse. And yet their chances of making a profit on the game are high.

Inertia and procrastination about decision-making are other issues. After one workplace pension seminar in the United States, 70-90% of the participants said they were going to change the way their money was invested, increase their contributions or make other changes. Later administrative checks found that only 15-20% ever actually did anything about it, while about 10% of those who did not go to the seminar had made changes to their pension provision anyway. So, when evaluating information provision, it is important not just to check whether people have understood the message. We must also see if they have done anything about it.

Another problem is that, when people choose funds, they do so on the basis of past investment performance, which is not an accurate guide to future performance. Funds that have overperformed in the past will tend to underperform in the future. Financial services companies know this, and therefore tend to highlight past performance in their advertising, whereas any rational investor would simply buy indexed funds. Also, people either ignore the administrative charges associated with pension funds or greatly underestimate them. And yet paying the extra administrative charge for an active investment is a waste of money. The person will end up with a smaller pension.

So even fully informed consumers will not necessarily make the right decisions. These problems should feed into the design of the system. More recent pension reform initiatives have moved away from the idea of competing private sector providers for the defined-contribution scheme. In the UK, for example, the choice of providers will be very limited – mainly in order to limit administrative costs. If the US privatises part of its public pension provision, it is likely to take a

similar approach. So he asked whether it is really a good thing to burden people with a choice overload, when that range of choice may not actually result in benefits for the system. Is there really a need for more than about six possible portfolios? A well-designed default fund is also important, for those who prefer not to make a decision.

Automatic enrolment is one way of making inertia work in people's favour as regards pensions provision. The UK and New Zealand auto-enrolment schemes would be described during the next day's session of the Peer Review. Similar proposals have been seriously put forward in Germany, Ireland and the US.

People need to have their information about public and private pension provision in one place, because they have to know about the full package in order to make decisions. Efforts should be made to provide information in this form. Financial education should not treat pensions as an isolated topic. They need to be seen in the context of a whole series of decisions on career length, taxation etc. People need basic information on financial topics (for example, compound interest), but the detail is often not very relevant to them.

Any public information budget is going to be dwarfed by the advertising resources available to the financial services industry. So the coordination of public information efforts is more important than the design of financial literacy programmes. He pointed out that the information needs to get to those still working – particularly younger people and low earners. The 2007 issue of the OECD's two-yearly *Pensions At A Glance* report looked at media coverage of pensions issues worldwide. At least half of the articles featured pictures of old people. But they are not the target audience for the information.

OECD research on how private pension providers spend their advertising money, and on how many people they get into their funds as a result, suggests that TV advertising is expensive but not very effective. Radio, on the other hand, is much cheaper and much more effective. Public information campaigns might draw lessons from that on the best way of spending their limited budgets.

In view of the information gap, **Remigiusz Borowski** wondered whether decisions on, for example, occupational pensions should be taken by experts rather than by individuals. **Edward Whitehouse** replied that employers have also made some pretty bad decisions in the past – notably in the UK and the US, where some pension schemes have gone horribly wrong. These mistakes are being repeated. General Motors is about to invest \$10-15bn of pension money in the equity markets. That is a very risky thing to do, and he doubted that they would do it if the pension plan were not underwritten by the US government. There is also the problem that the employer has an entirely different set of interests than the individual. For example, if a worker leaves an employer, then the employer will have very little interest in managing pension funds effectively on that worker's behalf.

Wilhelm Ruprecht asked Edward Whitehouse if he really believed in financial education, given his reliance on behavioural economics which is not consistent with the possibility of enlightenment. The strategy of exploiting people's inertia is questionable, as defaults quickly come to be seen as standards. So the choice is delegated to somebody else, either the employer or the government. Certain dimensions of that choice have to be considered: the necessary contribution rate; the product type or risk profile; the provider. And if, twenty or thirty years later, the choice proves to have been the wrong one, who should be held liable for that in a system

based on inertia? As for the reduction of choice, he felt this might be at the cost of reducing diversity and opportunities. **Edward Whitehouse** thought the aim is to have a wide enough range of funds to ensure an effective choice. There might for example be emerging markets equities, European and US equities, index funds, a corporate bond fund and a government bond fund. With a mix of those, more or less any risk/reward profile can be chosen. People should not be prevented from taking an investment risk, but there should be ways of making sure that they think it through first. So rather than giving people a menu with 800 options, you give them one with 6 – but then you say “You can go à la carte if you want”. **Doug Taylor** confirmed that current thinking in the UK favours five or six fund choices: a sharia choice, an environmental choice, a default fund and perhaps three other risk-rated funds. Research suggests that, among people who are not already in the pension market, there is no particular appetite for a wider choice. Indeed, it could be argued that there should be only one fund. One of the principles behind individual accounts is that the administration costs should be as low as possible, which means that the system has to be as simple as possible. The target set by the Pensions Commission is an annual management charge of 0.3%. That is a challenge, because it is considerably lower than what is currently levied on stakeholder products in the UK. Cutting out unnecessary choice, and thus unnecessary recourse to advice, is one way of lowering costs.

Jörg Peschner asked how automatic enrolment would work in a second or third pillar. **Edward Whitehouse** replied that, in the UK, everybody who is not currently a member of a private pension scheme meeting certain standards would have 4% of pay deducted at source. The employer would have to pay 3%. And the government would put in 1%. So in all, 8% of earnings would go into the individual account. Unless the individual does anything about it, that would go into the default fund, which would in some way reflect the fact that older workers want less risky investment. The options would be to say “No, I want the 4% of my wages back” or to say “I want to invest my money in a different way”. New Zealand introduced a scheme of this kind in 2007. One difference is that money can be withdrawn from the New Zealand scheme early on – for example, to buy a house. New Zealand also gives huge fiscal incentives to keep the money in pensions. So whether it is the incentives or the automatic enrolment that account for the success of the New Zealand scheme is not yet clear. It may well be that people are financing their participation by withdrawing their savings from other, less tax-advantaged instruments. The net overall effect may be unchanged saving by New Zealand households but less saving by the government, which would not be altogether a good thing. Time will tell.

Mike Buckley pointed out that the UK is not *introducing* automatic enrolment. A number of existing private pension schemes already operate on that basis. The principle is simply being adopted more generally. Because it is already in place, it is already known to be feasible. A new employment right is to be introduced. People will have a right not to be discriminated against on the basis of whether they take advantage of automatic enrolment or not. So it will be unlawful to make a job offer conditional on a promise to opt out of the pension scheme.

On fiduciary liability, **Edward Whitehouse** pointed out that the US regulator has increasingly taken the view that employer-based pension schemes must offer a choice of investments. If not, the employer will indeed have fiduciary liability if things go wrong. However, it has been clarified in both the US and the UK that automatic enrolment does not entail fiduciary liability for the employer. In any case, the percentage of auto-enrolled fund members in the US has been declining. There is a reason for that – an employer will see little point in putting money into a pension fund that employees are not interested in.

Day 2

NGO statement

Anne-Sophie Parent noted the concern expressed by the participants from different countries over the lack of public understanding about the pension system and the reforms being implemented. There seemed to be a feeling that the citizens are reluctant to learn, or even that they are lazy, stupid or myopic. She did not share that view. Rather, they are somewhat reluctant to shoulder new responsibilities, compared to the previous system, and they are afraid that they will make the wrong choice. So they keep postponing that choice, because they think that tomorrow they may have better information. That is when they start consulting their neighbours, or reading about pensions in their newspapers, or seeking financial advice. She also noted the peer reviewers' regret that people do not take up the information provided, but at the same time it had been acknowledged that it is simply not possible to predict the future outcome of decisions that are going to be made today. Even most of the pension experts attending this review probably did not have an exact knowledge of their own entitlements, so it was not surprising that citizens at large do not have any idea either. Clearly, the information being provided through the various channels is not enough. Either the citizens do not understand it or they do not think it is relevant to them. One possible exception is Germany, which reported some behavioural changes apparently as a result of pensions information, but even these might have other causes.

So there is a need to develop tools and communication channels not just for the provision of information but to give citizens the feeling that they are part of the decision-making, that the reforms are necessary, and that it is all really for their own good. Information is needed at different levels – easily understandable for the public at large, more detailed for specialists. Feedback from AGE members suggests that, even when they seek financial advice, the answers that they receive vary greatly. This is not an issue of tied agents versus so-called independent sources. It is just that people have different views and therefore give different advice. This is very confusing. Also, of course it is simply impossible to predict the long-term benefits, just as it is impossible to predict the outcomes in terms of purchasing power in old age, which is what people are really concerned about. That will depend on a whole range of factors: whether the person will end up living on their own or with a partner; whether in a fully paid-off house or in rented accommodation; whether long-term health and care services will remain available and affordable for all; the future cost and availability of public services of general interest – public transport, communication, energy; local taxes, which can vary widely even within the same country; future eligibility criteria for means-tested benefits. So no wonder people don't know what decision to make today.

Reputation is another important factor. The last few months had been terrible for the reputation of financial institutions. This would not help at all to build citizens' confidence in financial products. Both public administrations and the financial institutions have a duty to rebuild that trust. That will be a difficult task for the public authorities, who have very little influence over such matters. However, AGE is pleased that the European Commission has decided to act on this issue, because the whole economy is based on trust and confidence.

The impact of information campaigns about pensions should not be underestimated, she said. It does take time before people really get the message, but the campaigns should continue. To make an informed choice, people must have full information – including about the impact that each option would have on them personally. One way of doing this is to provide several scenarios

based on optimistic, medium and pessimistic assumptions. This may also help to avoid the kind of media problems reported by Poland at the previous day's session. The problem with media information is that it is often too summarised to give a really objective picture. Newspapers and magazines that target the over-50s are generally good sources of information on pension reforms. However, these publications are financed by advertising – notably from the pension funds. So AGE has concerns about some of the financial advice published in them.

While acknowledging that pension information should be provided to young people and perhaps even to school-age children, she pointed out that the people who will be most affected by the pension problem are the baby boomers. They are the ones who will be too numerous in relation to the number of people of working age. Fifty-plussers need to be aware of that, because they need to look for alternative solutions. A particular target group, scarcely mentioned so far, is women. They often prefer to leave pension issues up to the authorities. Not because women are lazier or more stupid than men, but because they have less time to devote to this topic. At the time when pensions are being built up, women are often juggling with a job and family responsibilities. One way of reaching them is to develop specialised information packages for women's magazines, some of which are beginning to provide this kind of information in a way that is angled towards the specific problems faced by women. The impact of career interruptions should also be explained.

She echoed Estonia's advice: don't do it alone. AGE wants to see NGOs and social partners involved in the information on pensions. This would help the public authorities to tailor the information better for the target groups. It would also improve the dissemination of information. The pension forums which exist in some countries are good examples of this.

People need information on their individual pension rights, if possible on an annual basis. The peer reviewers could perhaps exchange tips on how to do this cheaply, but it is certainly worth the investment. It also helps the authorities to identify future pension gaps. Employers should also provide job applicants with information on their pension investment choices.

At the European level, she suggested that the mission of the Pension Forum should be extended to include discussion of information and civil dialogue. Similarly, the Social Protection Committee could be asked to organise regular peer reviews about information and civil dialogue on pension reform.

Third session: information on choices in pensions

Chairing the session, **Agnieszka Chłoń-Domińczak** pointed out that people have to make many pension choices in their careers: which system, which fund, which investment portfolio, whether to set aside voluntary additional savings, what amount to save. As had been emphasised, public authorities often have to be careful to provide the best information without providing advice. This is a huge challenge.

United Kingdom

Mike Buckley first explained that the Department of Work and Pensions is the equivalent of a ministry in other countries. There, he is responsible for information and education policy as it relates to pension reform. His colleague Doug Taylor is responsible for the campaign on public finance run by the British consumers' organisation Which? As such, he is on the consumer representation committee of the authority that is developing the UK's new personal accounts scheme, also known as the National Pension Savings Scheme. Doug Taylor is also a trustee of one of the local government pension schemes.

EU Member States have widely different backgrounds on this issue, Mike Buckley said. Choice is a fairly recent phenomenon in the majority of them. So he was not holding up the UK as a model for others. He would be giving information, not advice. The UK system has changed greatly over the past decade. Indeed, he wondered why, if pensions are a long-term issue, the UK is embarked on its second pension reform in the space of five years. The previous reform was based on the notion of informed choice, which held that people will take an economically rational decision if they are in possession of comprehensive information. That is how a perfect market operates. So the strategy had been based on providing information about the implications of retirement, the assumption being that this would bring about the required behavioural change. In the British experience, this does not work. People are not machines. They do not behave rationally in accordance with the laws of economics. Instead, the phenomenon of inertia was experienced. Now, an attempt is being made to use that inertia in a positive way by introducing the principle of automatic enrolment in an occupational pension scheme which is not employer-based but is still trust-based. An employer contribution will also be required – an idea picked up from a number of EU Member States and other countries around the world.

A lot of the information is aimed at working people, because by the time a person reaches retirement, it is too late to start building a pension. But there is also another agenda – that of alleviating poverty amongst existing pensioners. The UK system regards the state pension as a foundation. Many people are already saving for a supplementary pension and are working longer. Some might see this as a response to the pension problem, but there is also another, more positive driver. People do not want to stop working at 65, an age at which many feel fit and healthy. There are two broad blocks of pension in the UK system: the state pensions and the private pensions, of which there are a number of different types. The state pension is based on deductions from wages plus an employer contribution through the national insurance system. It is more or less a funded scheme, notionally revalued every five years by the government actuary. The second state pension is also funded through national insurance, but the pay-out is more closely linked to contributions. Basic state pension is paid at the fairly modest rate of £89 (about €112 in June 2008). But nobody gets only the basic state pension. The minimum income guarantee provides at least 50% on top of that. Together, they are worth 20% of average wages, and that will grow to 25% over the next few years. A number of the private pensions used to be defined benefit occupational schemes. Increasingly, as across Europe, these have been moving to defined contribution. That brings attendant problems about defining risk. The ironic saying in the UK at the moment is that "50% of the population don't understand what 50% means."

The aim of the current policy is both to tackle current pensioner poverty and to alleviate such policy in future. The funding of pensions must be sustainable in the long term. The UK's Turner Commission looked at what will happen if changes are not made. It found that, even after the baby boom is through, the problem of budget sustainability will remain, because there will be

fewer children being born to sustain PAYG pensions in future. Individuals must also be encouraged to take more responsibility for additional provision. So the White Paper on Pensions, published in 2006, set out measures to encourage individuals to save for a pension. They must be persuaded first to save at all, and then to save enough. The target date for the introduction of automatic enrolment into a workplace pension is 2012. Where employers do not have a good enough pension scheme, personal accounts will become an opportunity to save. So people will have a number of choices, some of which can be combined: Should I save more? What kind of private pension? Should I have several private pensions (which can bring tax advantages)? What products should I choose? Should I work longer and defer my state pension (the lump sum will be excluded from means-testing for other state benefits)? Then there are the other savings options: Should my business be my pension? Should my property be my pension? When and how should I convert my pension fund into an annuity?

People, he suggested, want to have choice but they do not want to exercise it. Information to help with choices has three layers: competence in financial issues, information, and advice. Sources of information on choices are government, financial services and the pensions industry, employers and the voluntary sector. The key is to create synergies and work together. Information methods include generic leaflets, information campaigns, web-based information and tools (but how will use of websites be evaluated?), generic guidance services, legal information requirements (for example, on annuities), occupational pensions, advertising and professional advisers. The channels to be used have to be selected in line with the message to be put across.

Doug Taylor said that his organisation, Which?, is independent both of government and of industry. It is wholly funded by sales of its magazines, books and online subscriptions. So it is entirely free to support or criticise government policies on their merit. As well as testing consumer goods and publishing the results, Which? campaigns on public policy issues, mainly health, food and personal finance. In the area of pensions, Which? believes that policy should take account of three population segments, each of which has different needs. Long-term policies for people who are likely to remain welfare-dependent are not the same as for those who have substantial amounts of disposable income and can afford to employ people to assist them through the process. But by far the largest segment is the mass middle market, and the issues around the introduction of the new personal savings accounts concern that segment. In 2004, Which? organised focus groups on what people wanted from any new pension system. Information solutions need to tap into these consumer aspirations. People identified five desirable features, some of which may be mutually exclusive and some unattainable. They wanted pensions that were guaranteed and risk-free; flexible; independent, with the onus on the governance being in the interests of the member; easy to use with minimum effort; simple and transparent.

In the UK as probably throughout Europe, financial literacy is relatively low. The UK regulator, the Financial Services Authority, carried out a baseline survey. For example, it found that 40% of those who held an equity Isa (a tax-efficient savings product which invests in stocks and shares) did not realise that its value could move as a result of changes on the stock market. They did not understand the most significant inherent feature of the product. As regards information, consumers want it kept simple and intelligible and, where possible, standardised. An important factor is that the internet will tend more and more to carry not only official and commercial evaluations of products, but also consumers' own views – often anonymous. Which? research shows that consumers tend to prefer low-risk pension provisions, even if that means lower return.

However, the way in which risk is presented is not neutral. A moderate risk-taker, if given the choice between a 30%, 40% or 50% equity content, would probably go for 40%. If presented with a choice between 50%, 60% or 70% equity content, the same person would probably opt for 60%. Trust and confidence generally flow from empowerment. Trust is always highest when we feel in control. A UK survey in 2006 found that 9 out of 10 people rated trust as the most important factor in financial services. Confidence can be increased by building relevant levels of consumer skills, simplifying choice, providing help when required in a way that meets the consumer's need, building trust in advice brands, building the credibility of the pension offer, creating flexibility, and eradicating or at least mitigating conflicts of interest within the system – which is perhaps where the regulatory duty lies in nation states. As concerns acceptable intermediaries, people's one guiding principle is "They act on my side". Which? research suggests that financial advisers, employers, and family and friends are the three key sources to which people turn for information on pensions, rather than government. So to influence people's thinking, those are probably the most significant areas that need to be addressed.

Consumers do need to take more responsibility for their pension provision, but they need to do so in a way that they can trust to produce a reasonable pension for the future. That is why Which? has been very supportive of the new National Pensions Saving Scheme. This seeks to introduce a low-charge environment, allowing relatively low-to-moderate earners to access the capital markets and maximise the return on investment, so that their final pension best suits their needs.

Mike Buckley added that the British government was about to produce an action plan to improve levels of financial capability. It will also be developing and implementing a long-term communications and information strategy, encouraging more people to plan and save for their retirement – including through the option of working longer. The aim is to ensure that individuals are equipped with the necessary facts and understanding to take the decisions. Target groups are likely to include those being automatically enrolled, those who are otherwise in danger of retiring without sufficient means and those seeking information to support their own retirement planning. A national "money guidance" service is planned. Its tasks will be to bring together information, provide facts, promote jargon-busting, give generic financial advice, and also advise on debt and money matters in general. It will refer people on to other sources of information and advice as needed. Specific information will also be provided about automatic enrolment. After 2012, the role of information on retirement planning will change. Rather than seeking to trigger a decision to save, it will turn to supporting decisions on opt-outs, types of fund, how much to save, when to retire and what sort of annuity to buy.

Malta

Frank Micallef (Social Security Division, Malta) reported that his country has just embarked on its pension reform. From what he had heard in this seminar, Malta still has a lot to do. It has a first-pillar PAYG mandatory scheme, and also finances non-contributory schemes and the health scheme. Pension reform in Malta is being driven by much the same factors as elsewhere, such as demographics, labour market changes and pressure on public finances. There is consensus among the Maltese social partners in that reform is needed if the pension system is to remain sustainable. Studies by successive administrations have shown clearly that, without reform, the system will run into financial difficulties, as contribution revenue will be insufficient to cover expenditure. On 1 June 2004, the Maltese government set up a Pensions Working Group to analyse and review previous work and submit recommendations on the way forward. Its report

was submitted some months later. It set out a number of principles and requested feedback by March 2005. In the meantime, the Group embarked on a media publicity campaign and held information sessions with NGOs, unions etc. Individual members of the public also provided feedback. The second report, embracing the stakeholders' inputs, was submitted on 30 June 2005. Debated in parliament in 2006, the amended Social Security Act became law on 7 December 2006. It includes significant changes to the current national social security and pension system, to be introduced gradually so that they do not cause social and economic disruption. Other changes introduced recently are:

- *Changes to the pension age.* This increased from 60 for women and 61 for men to 65. For those born in or before 1961, the pension age will range from 61 to 64 according to the year of birth.
- *Earlier retirement opt-out.* Those with a certain level of contributions can still opt to retire at 61, but then they cannot work again before age 65.
- *Extension of the contribution period.* For a full rate pension (two-thirds), people will have to work for 30 years if born up to 31 Dec. 1951, 35 years if born in 1952-61, and 40 years if born from 1962 onwards.
- *Extension of the pensionable income period and changes to the maximum pensionable income.* For those born before 1962, the current calculations will continue (best of 3 years in the last 10 calendar years for employees and the average of last 10 calendar years for the self-employed). For those born from 1962 onwards, the best 10 years in the last 40 years for both employees and the self-employed.
- *Changes to the Guaranteed National Minimum Pension.* Currently, the National Minimum Pension is equivalent to four-fifths of the National Minimum Wage for married persons and two-thirds for a single person. For those born from 1962 onwards, a guaranteed National Minimum Pension will be equivalent to 60% of the median national income. This will be applicable from 2011.
- *Crediting of contributions for parents.* This is an innovation. 2 years' credits per child, extended to 4 years in the case of a severely disabled child, provided the parent returns to work and works for an equivalent to the period of credits claimed. This provision may be shared between the parents.
- *A five-year review of the pension system.* A new legal provision ensures that the Minister for Social Policy submits a report to Parliament every five years in which a review of the pension system is carried out. It should also include recommendations for achieving further adequacy, sustainability and social solidarity. The first report is due at the end of 2010 and will be discussed by the Social Affairs Committee of parliament. A pension service unit has been set up in the ministry to conduct this exercise.
- *Introduction of second- and third-pillar pension schemes.* Currently, there is a voluntary scheme which is in the hands of the commercial banks. There are no tax incentives. The amended Social Security Act empowers the Minister for Social Policy, together with the Minister for Finance, to make regulations for the introduction of a mandatory second pension scheme. The consultations showed almost universal agreement on the need for a second scheme. Nevertheless, the majority view is that it should be voluntary, with the government providing the necessary education and information campaigns, as well as fiscal incentives. Those in favour of a mandatory scheme argue that people are too short-

termist to save voluntarily for a pension, and will therefore face hardship upon retirement. This seems to be borne out by the experience of countries that have introduced a voluntary second pension scheme. Those against a mandatory scheme argued that it would limit people's choice of financial instruments, would reduce disposable incomes and would raise the cost to industry, thus adversely affecting Malta's competitiveness. The Malta Financial Services Authority has made legal provisions to accommodate the second-pillar and third-pillar schemes and will oversee the working of their providers.

Malta is currently going through a restructuring of all its economic sectors. Standard macroeconomic policy demands that government expenditure be directed towards increasing productivity and capital investment. However, the private sector is facing the threat of globalisation. So there is concern that the introduction of a second-pillar scheme today would put employers under additional pressure.

Hungary

Ágnes Matits felt that Hungary's record of communication on pension reform is not a good one. The main problem is that many types of risk were transferred to individuals without giving them satisfactory information on the real options and their consequences. Mostly, the media were used, but they were not the best channel of communication. The result has been a very pessimistic view of pensions, as the media constantly stress the problems without suggesting any solutions. This has left people very worried about their pensions, and the way forward is not clear to them.

Effective communication entails first knowing what we want to communicate. Of course, there should be communication on the changes that are going on and the options that can be taken, and on how to calculate the pension anticipated. She highlighted some Hungarian examples of when communication was not really very good. There were also some positive examples, but she was convinced that more could be learnt from the negative experiences.

The first major change in the pension system was the advent of the Law on Voluntary Pensions in 1993. Here, there was no effective state information campaign. On the other hand, there were wide-ranging publicity campaigns by the agents. As a result, the tax savings became the most important argument and too many funds were established. People did not really know why they needed to join the voluntary funds.

More important was the lack of state communication during the introduction of the law on mandatory pension funds in 1998. So the slack was taken up by communications from the financial groups, who of course want to recoup their investments in the system. Now, people tend to say that the mandatory funds are too expensive. They do not know why the private pillar was introduced. Far more people went into the mixed system than would have been reasonable. They now realise that their combined pension is less than it would have been if they had stayed in the state system.

The need for communication on options is very clear in the case of fund selection. And yet, more than ten years after the start of the private pension schemes, there are still no independent ratings available in Hungary. Data are available on the internet, but people are not able to read them. This is why there has been very little mobility between funds, even though there have been big differences in their performance.

Communication has also been bad concerning portfolio selection. As from 2007, members of mandatory pension funds have had to choose between three types of investment portfolio, whose content is regulated to provide different risk levels. There was no real communication on the consequences of the different options. People who did not choose were automatically assigned one of the portfolios, purely on the basis of age. As the members of these funds are young, the result is that, at present, more than 80% of the total membership is in the riskiest portfolio. In just one quarter of this year, they lost more than 10% of the value of their pensions because of the very inefficient market.

On pension expectations, a number of calculators are available, mainly on the websites of the financial authorities and the funds. But less than 20% of the population has internet access. And independent advisers are not at all common in Hungary. The pension formula, especially for the first pillar, has changed very often recently, so one might question the reliability of the calculations offered by the websites, which are seldom updated. The approach is unsystematic and no combined pension forecasts are available. Information about first-pillar entitlements may be requested from the authorities, but only ten years before retirement. Calculations of private pension expectations are available, but are questionable, due to the high number of hypotheses built into the forecasts.

These examples show clearly why communication is so important. Bad communication can result in very unfavourable outcomes for pension scheme members. In a recent survey, only 20% of the population knew how their social security pension benefit is determined. Even now, most people think that the last three years' income is what counts. So the self-employed tend to think that they only have to pay for the last three years in order to get a satisfactory pension. But for more than ten years now, in fact, lifetime income has been the basis for the calculation. Also, less than 20% of the members of the mandatory pension funds know how the money will be paid back to them. Only half of the active population were giving any thought to their old age, and only a third of that half were doing anything about it.

Portugal

Rute Guerra (Ministry of Labour and Social Solidarity, Portugal) explained that the reform of the Portuguese pension system followed an agreement between the social partners and government in October 2006. Its main features were:

- The introduction of a sustainability factor, notably adjusting benefits to life expectancy;
- A faster transition to a new pension benefit formula which takes account of the whole contributory period;
- The introduction of a new indexation rule for updating pensions;
- Strengthening incentives for active ageing, by introducing actuarial adjustments to pension benefits in the case of anticipated or deferred retirement claims;
- Incentives to enhance occupational and personal voluntary plans and the establishment of a Public Funded Scheme with a low-risk portfolio.

A number of information tools were employed to explain this reform:

- Technical information and studies were provided to the social partners.
- Seminars and public debates were held with experts.
- Several debates were broadcast by public television.
- The media published press articles and special supplements on the reform – approved by the ministry in order to guarantee the quality of the information.
- The social security website and other institutional websites were used as information channels.
- An information campaign is being broadcast from late 2007 until the end of 2008.
- A contact centre will be open until the end of 2008.
- The local social security services will also provide information.
- Trade union information sessions will be held.
- Other technical information on the pension system is being made available to the public in general.

To compensate for the effects of the growth in life expectancy, each citizen has the choice of working longer (with the corresponding incentives), increasing his or her contribution to public schemes or private individual plans or combining the two options. Individuals can retire before the age of 65, with a penalty of 0.5% per month of early retirement or, on the other hand, they can opt to go on working beyond the legal retirement age, in which case they will receive a bonus.

A Public Funded Scheme became available at the beginning of 2008. This is a system of individual accounts, into which individuals can voluntarily pay a supplementary contribution. Individuals may suspend the payment of these supplementary contributions or change the contributory rate. They can consult the balance of their individual account at any moment on the internet and every year they will receive a report of their account. The individual account may be turned into a life annuity to supplement the PAYG pension, or into a lump-sum payment or be transferred to the individual account of the spouse or descendants. The investment policy of these funds is based upon cautious management and low risk.

According to the insurance and pension fund regulator, a significant proportion of the existing pension funds replace rather than supplement the PAYG system. In fact, of the assets held by private pension funds, 57% concern the first pillar, 39% the second, and only 3% the third.

The new pension schemes encourage the deferral of retirement through a pension bonus related to the additional working years. Although not much information is available about this, recent statistics suggest that individuals are choosing to postpone retirement, so increasing their pension through the bonus. Major participation in the Public Funded Scheme has been noted among individuals of all ages, including those on low incomes. Individuals with pension funds represent about 5% of the employed population.

Not much information is available about people's ability to understand financial notions concerning pensions. But for example, results provided by AXA, a private financial products and insurance institution, show that Portugal has a high number of active people who are unaware of the value of their future pension. This is also true of those approaching retirement age, and in general women are less well informed than men. Nonetheless, the majority of individuals have some notions of the basic aspects of the system – for example, the possibility of access to an early retirement pension. People are aware of the main changes that may impact on the global pension amount they will receive. The social security services have made great efforts to upgrade the information and the tools that are provided to the citizens as far as pensions are concerned. The Portuguese Central Bank is taking some action on this, including the "Bank Client Portal" - information about the main products and services provided by the financial institutions, simulators for several financial operations, and a glossary.

A number of tools are used to provide information to individuals. Within the mandatory system, they may obtain information at local social security offices and on the social security website. Specifically for the public funded scheme, there are information leaflets, a call centre and an e-mail address for enquirers.

Two simulators on the Social Security website allow the beneficiaries to simulate their accrued pension benefit based on their annual salary registers and to simulate their pension benefit based on their existing contributory career and expected future career. Until the end of 2008, a contact centre will be available for all social security benefits. An advisory scheme also operates for beneficiaries of the first pillar.

To improve the transparency of the privately managed pension schemes, some significant changes in terms of regulation were introduced. For the third pillar, open pension funds have now to obey more strict rules. All open pension funds of that nature must have, for the sake of comparison, a simplified leaflet that has to be clearly written and easily understood by ordinary individuals; identify the major risks associated with the investments of the fund; and provide historical data concerning the rate of return and risk (which must be graphically represented for the last 10 years).

Roundtable discussion

Anne-Sophie Parent asked how the UK is testing the impact of the information on those whom it is intended to reach. **Mike Buckley** replied that the techniques include focus groups; quantitative social science research on attitudes to risk, saving, retirement and other issues; and economic impact studies to check if the desired result is achieved. These are all fairly standard techniques of social and economic research and marketing. Lobbying groups must also be listened to, without necessarily doing everything that they say. For example, the information needs of the consumer have to be balanced with those of the regulator.

Georg Fischer asked how Which? had assessed the UK's previous informed choice model. What was the problem with this model? On Hungary, he asked if it was really an established fact that many people had made pension choices that would not be good for them in the long term. And if so, what did the authorities conclude from that in terms of changing their communications strategy? **Doug Taylor** said Which? always supports the provision of information, so that people can make informed choices. But the reality in the UK was that information was not going to solve

the problem of undersaving. What the Pension Commission recognised was that a number of behavioural blockages existed. People are extremely centred on the present, and find it difficult to consider giving up current consumption in return for a promise in the future. They are fairly sceptical about the value of pensions, compared with the value of property. In fact, before the Pension Commission reported, Which? had come down in favour of compulsion. In the end, it settled for what might be termed “soft compulsion” – i.e. auto-enrolment with the ability to opt out. General consensus seems to have been achieved in the UK between all the major political parties, stakeholders and social partners that this is the best way forward. While it would be desirable that people take rational decisions on the basis of information, if that is not possible, then other ways have to be found of solving the problem. **Ágnes Matits** thought the problem of people in Hungary joining the mixed system is far more than an issue of communication. Two factors were involved. The feasibility studies made before the pension reform predicted that about 1m to 1.2m people would join the new mixed system. But in fact, more than 2m did so. Also, there was the subjective factor of general disappointment with the social security pension, which everybody knew to be inadequate and very much subject to political decisions. So, given the lack of information, people felt that the new system could only be better than the existing one. Also, when people join the mandatory private system, they lose at least one-quarter of their accrued pension rights. This is not at all in line with the legal situation anywhere else. It is argued that the missing quarter will be replaced by the mandatory private system, but for somebody who can no longer build up sufficient time, this replacement is not possible. Her organisation had fought to have this regulation changed, but had not succeeded. Many people who had been in the previous system for a long time have lost out by switching to the mixed system. Yet the Hungarian government admits that it advised them to do so. Temporarily, some provision was made for people to move back to the single-pillar system, but few people did so, and that possibility was closed off again at the beginning of 2008. The only solution would be to change the pension formula in future, so that it is more correct.

Anna Ruzik felt it is not necessarily irrational for younger people to choose riskier pension investments, and then move to safer ones in later life. So she asked what is the proportion of stocks in the riskiest Hungarian pension funds. She also suggested that public information campaigns are needed in Central and Eastern Europe to explain the factors governing the best choice of annuities. **Ágnes Matits** replied that, although in principle it may sometimes be rational to go for the higher risk, in practice people will tend to switch funds at the first sign of a loss. They need to be informed that a momentarily unfavourable market does not mean that they should move out of the riskier options. Otherwise, they may lose in the long term. Regarding financial service companies, Hungarian law does provide for a wide range of such services. However, the regulation is such that few companies have been tempted to enter this sector. In this situation, it becomes difficult to make rational choices on future annuities. So organised communication campaigns and financial education are very much needed. **Andrea Psotová** asked if the one-fourth reduction in pension entitlements for those entering the Hungarian mixed system applies only to the period after joining that system or to the whole pension career. **Ágnes Matits** confirmed that it applies to the whole career.

Anne-Sophie Parent asked how responsible the public authorities feel when the advice that they provided proves wrong, resulting in a very bad situation for many people. Do the authorities intend to do something about it? Have they been questioning the World Bank about the reliability of its advice? Default options imply that the government takes decisions on many people's behalf. Should the government take responsibility if those choices later turn out to have been the wrong ones? Also, it is not necessarily the case that the more rational decision for younger people is to

take greater risks with their pension funds. At the moment, if they had gone for more conservative options, they would be better off. **Mike Buckley** emphasised that information cannot eliminate future risk. So individuals have to take responsibility for their decisions. The UK now has a market option under which an annuity can be bought from anyone. About a year before retirement, the regulations require the pension provider to send an information pack to the beneficiary setting out the options for the annuity. But the pension provider's first concern will be to give the information that is legally required. So the document is likely to be in dense legal language, and there will be a lot of it. The outcome is that the great majority of people take an annuity from their pension provider. The consequence of that is not dramatic in this system, as any annuity will generally be close to the best deal available. In the UK, the Department for Work and Pensions certainly feels very responsible when the advice that it provides goes wrong. This has cost it a great deal of money. One of its leaflets said: "Your occupational pension should be safe". Many people took that to mean "Your occupational pension *will* be safe", and the Department lost a very expensive legal case on this. On default options, he pointed out that, in the defined contribution arena in general, there are no guarantees. **Ágnes Matits** suggested that pension funds should not be risk takers. Certainly, people must not be forced into the riskiest portfolios. **Zhelyu Vasilev** argued that pension legislation should be framed in the expectation that people will take only a limited number of decisions. This will make it possible to conduct campaigns that concentrate on the really important decisions. Otherwise, people will make unrealistic choices.

Asees Ahuja noted the emerging consensus that people want simple, risk-free systems requiring few choices. But that sounds like the defined-benefit system – the one that we have been moving away from. Pension reform in Europe was driven by concerns over sustainability. So how far did the reforms really take the interests of the users into account? **Agnieszka Chłon-Domińczak** confirmed that the importance of a defined-benefit component, in the form of a state social security pension, is indeed being increasingly emphasised in international discussions. **Anne-Sophie Parent** thought the real communication problem at the moment is that the message is one that most people simply do not want to hear. They do not like taking on risk and they do not see the added value of taking more responsibility for their own future. So before looking at communication, the authorities should perhaps first go back and see if they made the right policy choice in the first place. She remained unconvinced of that. Projections also need to be refined – particularly the forecasts of the impact of the reforms on the more vulnerable groups. That way, the gaps can be plugged in time.

Audrone Morkuniene noted that this review had not really looked at the pay-out phase of pensions. More work is needed on this. In countries that introduced a second pillar, the first pay-outs are now approaching. So people should be given some information on that, but first some thought should be given to the pay-out options to be recommended. **Ágnes Matits** said that, although various governments have the same underlying objectives in reforming pensions, their responses may be rather different due to different levels of sustainability. **Mike Buckley** added that this is all about politics, not policy. It depends on what politicians think the voters will accept. As the population grows older, it may well be that electoral opinion on pensions will shift more to an emphasis on good public provision.

Lessons learnt and emerging thoughts

Károly Mike summed up the main points emerging from this peer review:

- **Public information on pension reform** falls into three distinct categories: **alerting** people to the possibility of choice, but also to the responsibilities that it entails; **advising** people about the new government policy and convincing them that it is the right one; **informing** people about the choices on offer. Sometimes, these roles may conflict, leading to a potential loss of credibility. It is particularly important to distinguish between advice and information. The provision of *information* on pensions is a neutral, general function. But government provision of *advice* on pensions is a momentous step. Advice that subsequently proves wrong may have considerable legal and financial consequences. Government communications should not imply that the existing pension system is the wrong one for everybody. That may well not be the case.
- What is the **ideal of rational consumer behaviour** that is being pursued by information provision? Is it really reasonable to expect young people to be interested in pension issues? Focussing on consumption may be quite rational behaviour in the short term. And in the longer term, looking at forms of savings and insurance other than pensions (bank deposits, real estate etc.) may also be quite rational. One possible option would be to return to a very simple pension system, and leave matters such as savings and insurance to other instruments.
- Campaigns are useful for **focussing attention** on the pensions issue and on the choices to be made. The Swedish orange envelope is a good example of this.
- There is no general best practice to be recommended regarding the **means of reaching people with pensions information**. For example, call centres work well in some cultures but not in others. To some extent, this is a matter of **trust**. However, it must be remembered that people may have more trust in one actor but actually listen more to another.
- The Polish experience suggests that information and awareness-raising campaigns should in the first instance **focus on opinion leaders**, who can subsequently provide independent information and advice to others.
- **Projections of pension pay-outs** are an important information item. Their accurate and understandable presentation requires further discussion. The information must be understandable. But the more simply it is presented, the greater is the risk of misinterpretation. Provision of best-case and worst-case scenarios may be one way out of this dilemma. In any case, people must be made aware that the information provided is highly uncertain.
- The **relative risks** of different kinds of pension provision need to be made clear. While the risks of investment-based provision are evident, the PAYG system also involves demographic and political hazards. Longevity and changes in purchasing power and working profiles are among the other risk factors in funds that need to be taken into account if there is to be sound consumer choice. The type of pay-out may also influence risk. For example, people need more information about the relative merits of lump-sum payments and various types of programmed withdrawal. Also, the way in which choices about risks are framed can have an important impact on decisions.

- People need a **unified picture** of their pension options. To ensure this, institutional fragmentation of responsibility for pensions policy should be avoided where possible. Publicly provided funds for pensions need to be well coordinated.
- Greater choice, if it is to be meaningful, requires **financial education**, which should begin at school.
- Government is not and should not be the only source of information on pensions. **Third-party information sources** include NGOs, consumer groups, sectoral organisations and the labour market actors, including employers. However, if employers are empowered to make pension provision choices on behalf of their employees, the employers must also bear the fiduciary liability for those choices. As regards independent agents, some regulation of fees may be in order, so as to ensure truly unbiased advice. Pension provision rating companies appear to be very successful in some countries.
- Concerns had been expressed over the effects of **advertising** by pension funds. However, rather than prohibiting adverts outright, some argued that it might be more productive to regulate the standardisation of calculations for published rates of return and fees. In this way, comparative advertising would have a more useful information content.

Edward Whitehouse congratulated Károly Mike on his excellent summary of the key issues. Pensions are one of the most difficult areas from which to draw lessons that can be applied in other countries, because of the cultural specificities of the different systems.

Closing remarks

Georg Fischer wished to emphasise a few points which needed further reflection:

- The aim of pensions reform is to ensure that everybody can enjoy a **decent pension within a sustainable system**. In present circumstances, this leads to the clear conclusion that people should continue working for longer. So there is a strong **link to labour market issues**.
- **Objective information about reforms** is essential. Governments may not always be the most transparent providers of it, as they were also responsible for the previous systems. In any case, it is important not to be entirely negative about the previous systems. Otherwise, people may opt to go into the new mixed schemes even when that is not in their own best interests.
- **Different groups may need different types of information**. This may be the case for women and for men, but also for different income and occupational groups.
- He doubted whether it is desirable to emphasise the uncertainty of pension provision and information. After all, these are for the most part schemes in which people are obliged to participate. So government has **a duty to ensure secure pensions**.
- **The task of providing credible information should be shared** between governments and other groups that can be trusted to have the interests of the users in mind.
- **The impact of pensions information should be regularly evaluated**. Does it lead people to make the choices needed?

The outcomes of this Peer Review, if well summarised in a brief, non-technical paper, could be useful for the pension work of the EU's **Social Protection Committee** (SPC). The questions raised by the Peer Review would be very helpful for the policy-making process within the SPC. It will also have an impact on other SPC discussions – notably about governance. That discussion always emphasises information to individuals and society, but also the transparency of decision-making. A number of EU directives set out requirements for financial information. He felt that the SPC could usefully look into the question of information standards. Much could be done at the EU level. However, the Pension Forum has given itself a very limited mandate, mainly concerning occupational pensions.

He thanked the Polish hosts, the conference organisers and all the participants for an excellent Peer Review.

Agnieszka Chłon-Domińczak said the choice of topic had been a good one, as public information on pension systems is not a subject that has been very well covered in the literature up to now. She called for humility when providing information. We should first listen to people and their preferences, and not try to think for them. Rather, we should try to make them think. This is a continuous task. There will not be a moment when we can say that we have finished it. She thanked the Commission, the organisers and the participants for their contributions. They had given her – and, she hoped, everybody - the energy for further work on this important issue.