



# RETIREMENT PLANNING AND FINANCIAL EDUCATION

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# Outline

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Complexities  
and challenges  
of retirement  
planning

Challenges vary across the population

Challenges related to the COVID-19 pandemic

The role of  
financial  
education

Insights from key policy instruments and guidance

FE for specific groups

Digital financial education

Way forward



# OECD International Network on Financial Education

**OECD Recommendation on Financial Literacy** adopted in October 2020 by 39 countries

Implementing partner of the **G20/Global Partnership for Financial Inclusion (GPFI)** - regularly delivering reports and policy instruments

## OECD INFE

270 public institutions (mostly including ministries of finance, central banks, and financial regulators) in over 130 countries and economies

**Supporting countries** to develop their financial literacy strategies in the EU, CIS, SEE

**Regional OECD/CMV Centre for LAC and dedicated LAC INFE network**



# RETIREMENT PLANNING CHALLENGES



# Retirement planning can be very challenging...

## Challenges

**Part of broader household plans** involving various decisions and constraints (housing, health, labour, etc)

**Subject to policy changes**

**Complex:** Ideally people should know and be able to do many things, but general financial knowledge and understanding of (public and private) pensions is limited

**Short/long term dilemma :** immediate actions/costs with benefits in a (distant) future

**Behavioural biases:** Present-biased time preferences, Reference dependence and status-quo bias, Limited attention and choice overload

## Potential consequences

**Under- estimating retirement income needs and longevity**

**Struggling to plan ahead**

**Too low contribution**

**Failing to take beneficial opportunities**



## .. Especially for some people (under different systems/schemes or in certain groups)

By type of pension system/scheme

- Different planning challenges and needs under **public** systems: non contributory, PAYG, DB, NDC
- Different planning challenges and needs under public **private** schemes: mandatory vs voluntary, occupational vs personal, various payout options, etc

By target group

- Young people
- Newly employed
- Women
- Pre-retiree
- Self-employed/MSMEs
- etc



# What ideally people should understand and be able to do...

## What people should *know and understand*

- **Pension rules**, about public and private pensions, including taxation
- An appreciation of **risks** related to pension systems, such as longevity, investment, inflation risk, etc.
- **Financial knowledge** concepts (compound interest, etc.)
- Basic numerical abilities

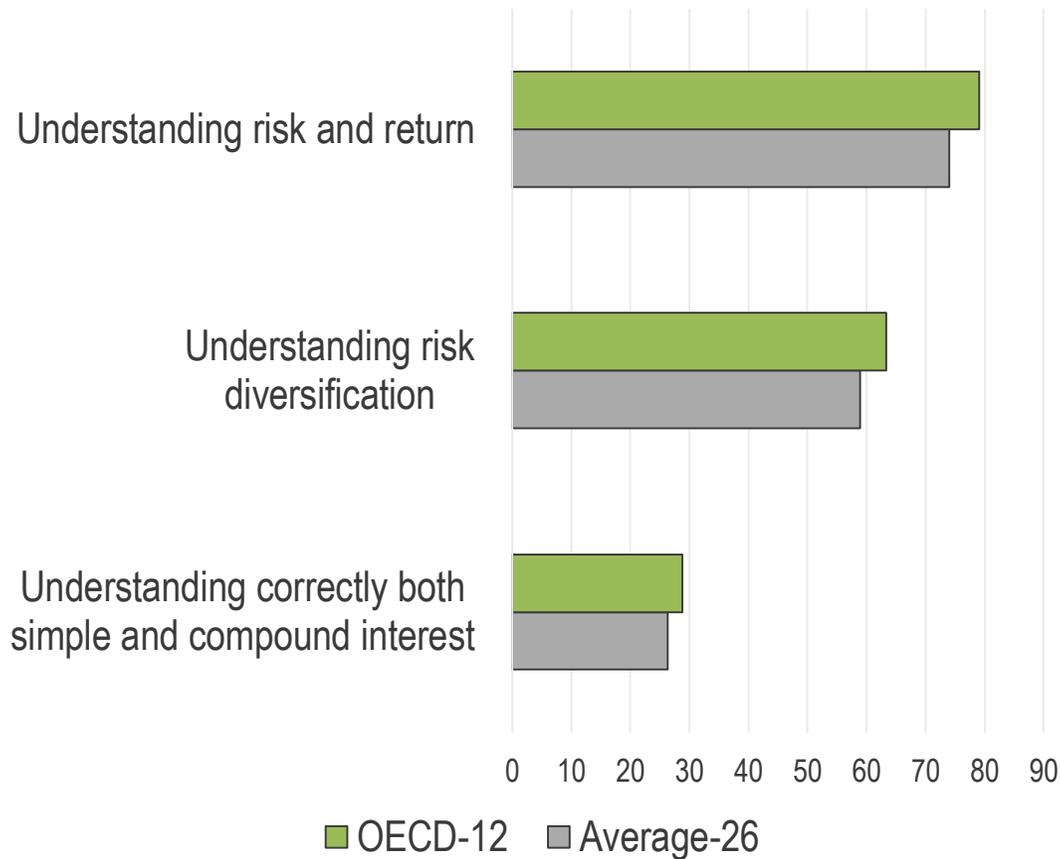
## What people should *be able to do*

- **Estimate their retirement income needs** both in accumulation and payout phase
- **Take decisions** regarding participation, provider, contributions, investment allocation, when starting to receive benefits, what payout option
- **Shop around**

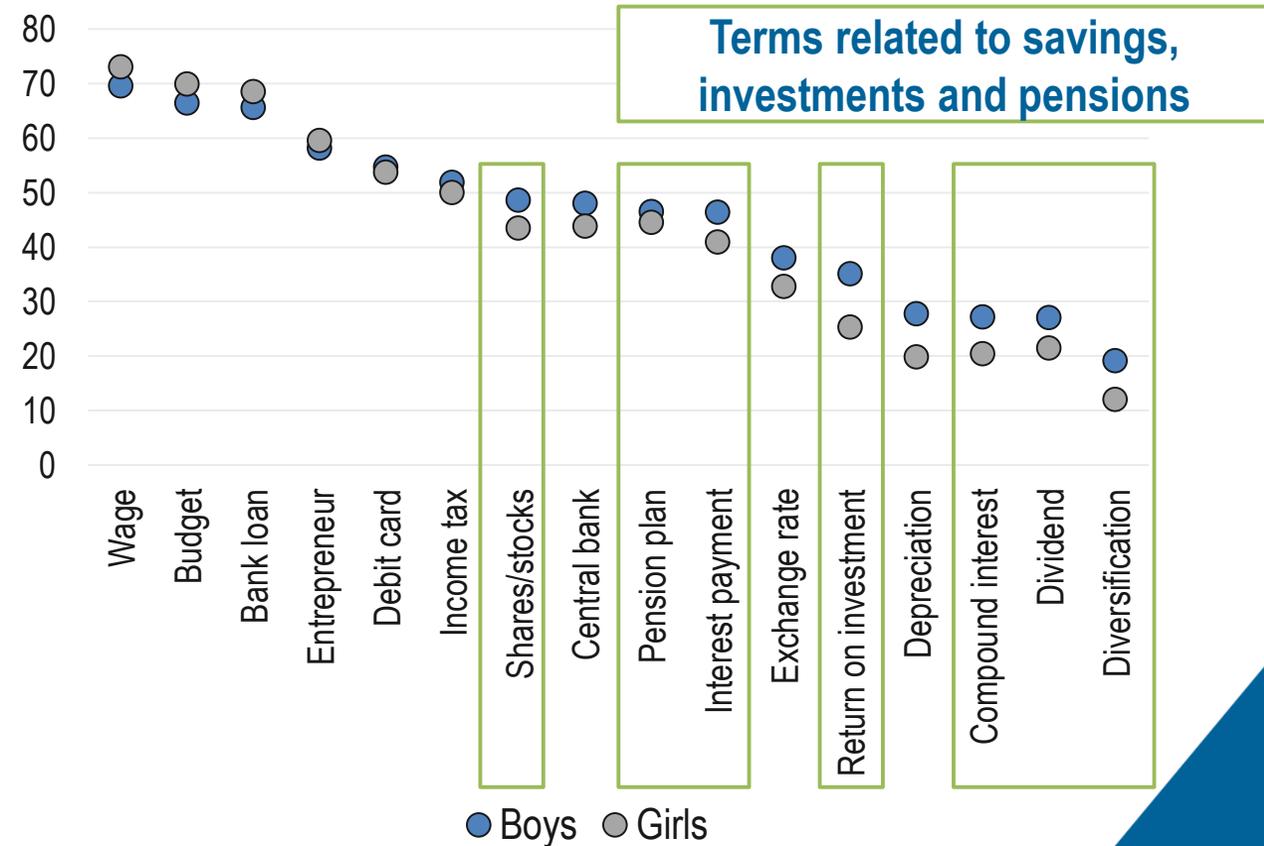


# ...and what they know in practice

**Adults:** Percentage of adults who gave correct answers to each financial knowledge question



**Students:** Percentage of students who reported that they had learned this term in school over the previous 12 months and know what it means; OECD average-13





# The COVID-19 crisis added to these challenges

## Income reduction/losses

- **lower ability to save** for the long term

## Falling financial markets

- **decrease in the value of assets** in savings/funded plans

## Falling interest rates

- **increase in liabilities** in DB plans and in the price of life annuity arrangements

## Relief measures

(contribution holidays, or early access to retirement savings)

- **reduction in contribution and/or savings** (and compound interest) for retirement

## Cyber-attacks, frauds and scams

- **diminished trust**

Individuals need to understand how :

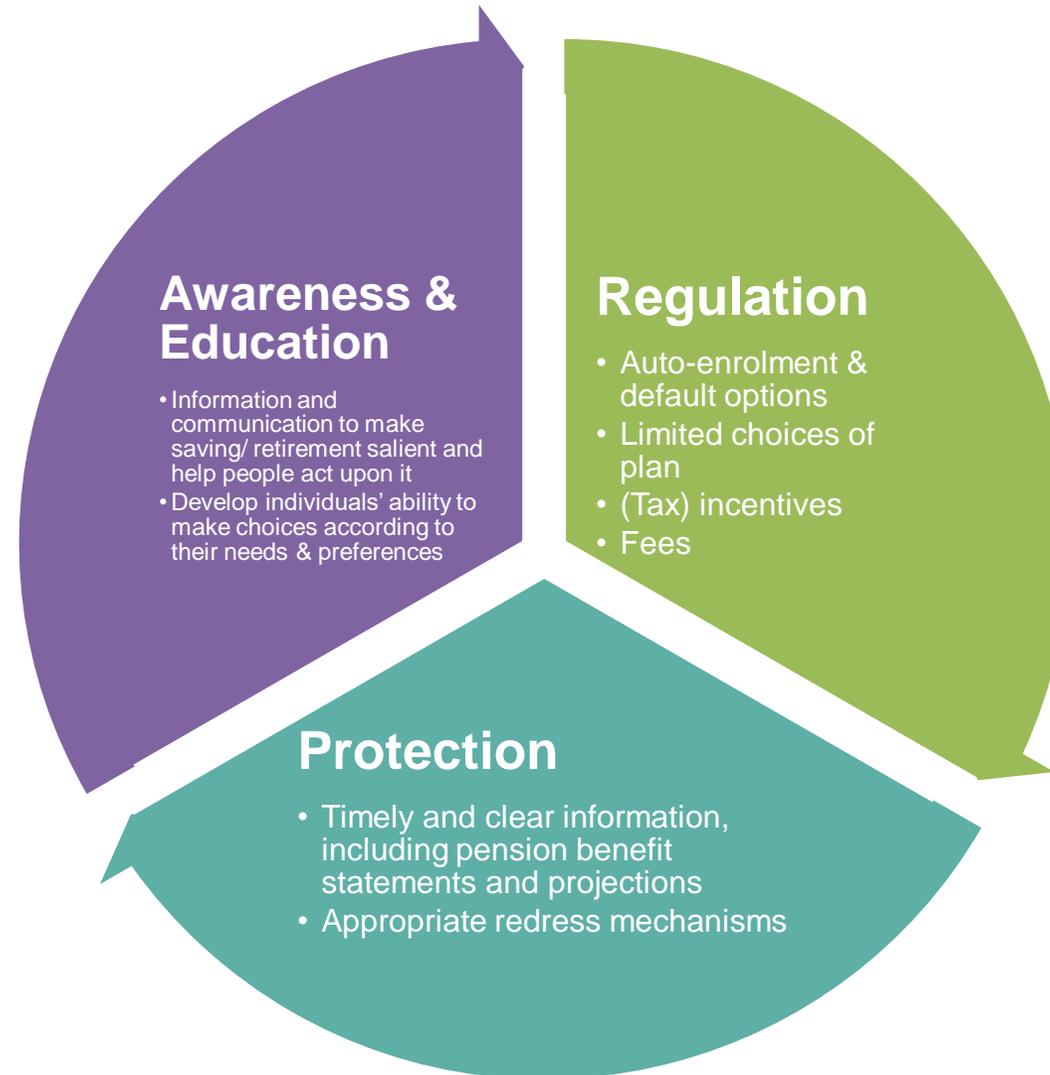
- the changes in the financial landscape **impact their savings**, and
- the consequences of relief measures on the **adequacy of their pension benefits**



# THE ROLE OF FINANCIAL EDUCATION



# Complementary role of regulation, protection and awareness/education to address these challenges





# 2020 OECD Recommendation on Financial Literacy



## Single, comprehensive, instrument on financial literacy

To design, implement and evaluate financial literacy policies

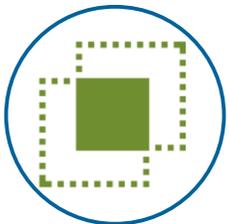
Building on 4 previous Recommendations, and work for the G20 and APEC



## Holistic approach to financial-consumer issues

Where financial literacy, together with improved financial access, adequate consumer protection, and regulatory frameworks, are expected to support financial resilience and well-being

Including to support decision-making about saving, investment, retirement and pensions



## Key areas

1. National strategies for financial literacy
2. Financial literacy and the various sectors of the financial landscape
3. Effective delivery of financial literacy programmes



# OECD Recommendation on Financial Literacy

## *Saving, investments, retirement and pensions*

**In general, when addressing policy issues related to saving and investment; planning and saving for retirement and pensions; risk management**

Promote awareness and understanding of the characteristics & risks products/services

Empower individuals to evaluate products/services

Promoting informed and active choice

**And in particular, in developing financial literacy programmes to support decision-making about saving, investment, retirement and pensions**

Awareness on risk diversification, balance of risk and reward, etc

Implications on society and the environment, and sustainability considerations

Access to information on complexities

Behavioural biases



# National strategy for financial literacy

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**An overall coordinated framework can be particularly relevant in relation to retirement planning to:**

- *Identify vulnerable groups*
- *Coordinate* messages and initiatives across public authorities and other stakeholders
- *Manage conflicts of interest* from the private sector
- *Ensure the provision of information* that is clear, jargon-free, comparable and standardised, consistent, designed to prompt 'desired' action
- *Encourage the provision of training and guidance* – going beyond information - to consolidate skills, explain what to do and *how* to do it



# OECD Roadmap for the Good Design of Defined Contribution (DC) Pension Plans

The OECD Roadmap recommends to:

make DC systems as **inclusive** as possible

- in particular, avoiding eligibility criteria that may disadvantage specific groups such as women and non-standard workers
- This is also in line with the OECD Core Principles of Private Pension Regulation, which recommend non-discriminatory access to occupational and personal pension plans, preventing exclusions based on age, salary, gender and civil status

promote **awareness** and support **financial education** about retirement and pensions

- in line with the OECD Recommendation on Financial Literacy



# IOPS Good practices for designing, presenting and supervising pension projections (forthcoming)

Pension projections can be a powerful tool to..

- **manage expectations** of pension plan members
- **influence their retirement decisions** (e.g. the chosen contribution rate, length of saving time, level of risk)
- **educate members** about likely values of their future retirement income and the effects of retirement decisions taken

... While addressing risks that relate to improper methodology and assumptions, or improper communication

IOPS Working Paper no. 34 (2019) [Design and Supervision of Pension Projections in 26 Jurisdictions](#)



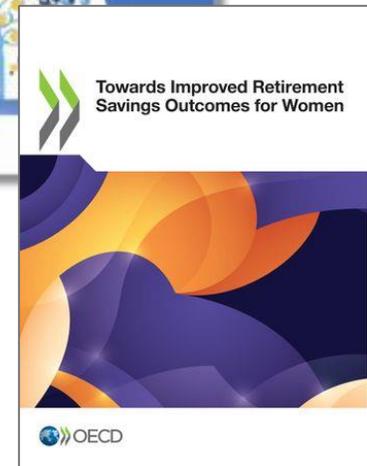
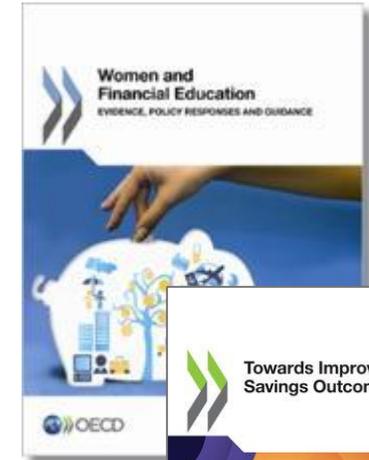
# Women

## Challenges

- Participate less in the labour market work part-time more often and earn less than men
- More likely to prioritise spending for family members over saving
- More likely to be financially vulnerable and heavier impact from the COVID-19 crisis
- Lower financial knowledge, on average
- Greater risk aversion and more prudent financial behaviour /attitudes

## Policy suggestions

- increase women's access to retirement savings arrangements and offer tailored incentives for them to contribute
- promote pay-out options with survivor income and indexation of payments
- support women's financial knowledge and confidence in financial decision making
- provide tailored guidance and advice on complex topics (including pensions and investments)





# Self employed

## Challenges

- Irregular incomes and greater difficulty in planning
- Often lower payroll contributions for the self employed than employees for public pensions, greater need to accumulate voluntary retirement savings through private pensions or other
- But typically no mandatory private pensions or occupational pension plans
- Often (slightly) higher financial literacy than employees, but may be difficult to reach

## Policy suggestions

- Offer dedicated retirement savings products and set automatic savings mechanisms using digital services and platforms already used to run the business
- Incorporate personal finance skills into business skills training
- Make financial education a part of “one-stop-shops” for MSMEs support
- Combine financial education with access to finance



# Young people

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## Factors to take into account

- (Financial) habits are formed from a very young age
- Power of interest compounding
- Not all families may be well equipped to transmit sound financial skills to their children
- Use of (digital) financial services from a young age

## Policy suggestions

- Start financial education from a young age
- Leverage the role of schools and of workplaces (especially for new entrants in the labour force)
- Include (age appropriate) content about long term saving and retirement planning



# Digital financial education

## Great potential to

- increase reach
- facilitate tailoring to needs of different groups
- embed lessons from behavioural insights (personal goal setting, feedback mechanisms, reminders, simulations)
- Facilitate monitoring

## Need to be mindful of not exacerbating digital exclusion

- Use simple technology (instant messaging apps)
- Hybrid delivery; support of NGOs, frontline workers
- Complement digital financial literacy initiatives with traditional media (TV and radio)

Case studies and effective approaches in the recent G20/OECD INFE report on Supporting financial resilience and transformation through digital financial literacy





## Way forward

### Upcoming publications

- Note on **Financial planning and financial education for old age in times of change**
- **Policy handbook on financial education in the workplace**
- Future note on **Designing and delivering financial education for seniors** to be finalised in 2022
- Chapter on **Gender differences in financial literacy and financial resilience**, supporting monitoring of the 2013 OECD Recommendation on Gender Equality.

### Ongoing work to :

- continue to **collect evidence on financial literacy, pension figures**
- **Further explore digitalization** and its implication
- **Include sustainability/ESG factors** in key pension and financial literacy work
- **Support the design and development of national strategies**