

Key results

Private pension plans can be funded through various financing vehicles. In 2009, for OECD countries for which data were available, on average, 74% of OECD private pension assets were held by pension funds, 19% were held in pension insurance contracts run by life and pension insurance companies, 4% were held in retirement products provided by banks or investment management companies, and 3% were book reserves.

Within pension funds, DC plans are playing an increasing role, even if DB plans still dominate pension fund assets in some countries, largely due to their historical prominence as the favoured arrangement for occupational (workplace) pensions in many countries.

Occupational pensions are overwhelmingly funded through pension funds in most OECD countries, the main exception being countries such as Belgium, Denmark, France, Norway and Sweden where pension insurance contracts play a larger role, and Germany where book reserves – provisions sponsoring employers' balance sheets – are the main type of financing vehicle for occupational pension plans. Personal pension plans are often funded through pension insurance contracts or financial products provided by banks and asset managers. The main exception to this general trend are the mandatory personal pension plans established in countries such as Chile, Hungary, Mexico, Poland and the Slovak Republic. These systems can only be financed via pension funds during the asset accumulation stage (before retirement). At retirement, the accumulated assets may (or in some cases have to) be converted into an annuity, which is classified as a pension insurance product.

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In broad terms, and depending on how pension benefits are calculated and who bears the inherent risk, pension plans can either be defined benefit (DB) or defined contribution (DC) in nature. In DC plans, participants bear the brunt of risk, while in traditional DB plans sponsoring employers assume most of the risks. Employers in some countries have introduced hybrid and mixed DB plans, which come in different forms, but effectively involve some degree of risk sharing between employers and employees. In the conditional indexation plans in countries such as Canada and the Netherlands, benefit levels are conditional on the fund's solvency status. Cash balance plans (another type of hybrid DB plan) provide benefits based on a fixed contribution rate and a guaranteed rate of return (the guarantee is provided by the sponsoring employer, hence these plans are classified as DB). Such plans are increasingly popular in Belgium (where by law, employers must provide a minimum return guarantee), Germany, Japan and the United States. Mixed plans are those where the plan has two separate DB and DC components which are treated as part of the same plan. For instance, the plan may

calculate benefits under a DC formula up to a certain age before retirement and apply a DB formula thereafter. There are also DC plans such as those in Denmark, Iceland and Switzerland which offer guaranteed benefits or returns and in which risks are borne collectively by plan members. They are classified as DC as whenever there is no recourse to the sponsoring employer in case of underfunding. Such plans, however, provide a degree of predictability over future benefits similar to that of DB plans.

Occupational pension plans in OECD countries have traditionally been DB. However, in recent years, occupational pension plan sponsors have in many countries shown a growing interest in DC plans, as demonstrated by the number of employers that have closed DB plans to new entrants and encouraged employees to join DC plans (and in some cases also frozen benefit accruals for existing employees). DB plans, however, still play an important role, largely due to their historical prominence as the favoured arrangement for occupational (workplace) pensions in many countries. In 2009, traditional DB assets accounted for most of pension funds' assets in countries like Canada, Finland, France, Germany, Korea, Luxembourg, Norway, Portugal, the United Kingdom and the United States, where public sector pension funds remain overwhelmingly DB. At the other extreme, all pension funds are classified as DC in Chile, Czech Republic, Greece, Hungary, Poland, the Slovak Republic and Switzerland. In other OECD countries, the DB-DC split varies.

Definition and measurement

The OECD has established a set of guidelines for classifying private pensions (see OECD, 2005). The analysis uses this framework. Data is readily available for pension funds. On the other hand, not all countries collect and report information on pension insurance contracts or retirement saving products offered by banks or investment management companies. Information on book reserves, which refer to pension provisions made by plan sponsors on their balance sheets (without legal separation of assets), is also only available for a few countries.

Reference

OECD (2005), *Private Pensions: OECD Classification and Glossary*, OECD Publishing, Paris. The OECD classification is available at www.oecd.org/dataoecd/0/49/38356329.pdf.

Private pension assets by type of financing vehicle in selected OECD countries, 2009

As a % of total assets



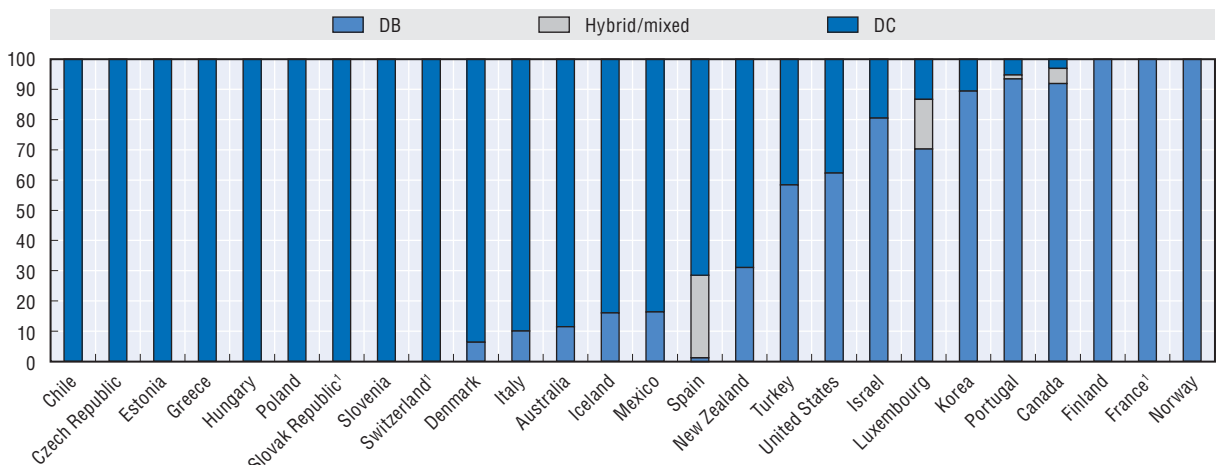
1. Data refer to 2008.
2. Data related to book reserve plans refer to the plans' net technical provisions.
3. Data related to book reserve plans and pension insurance contracts are OECD estimates.
4. Data related to pension insurance contracts are OECD estimates.

Source: OECD Global Pension Statistics.

StatLink <http://dx.doi.org/10.1787/888932371177>

Relative shares of DB, DC and hybrid pension fund assets in selected OECD countries, 2009

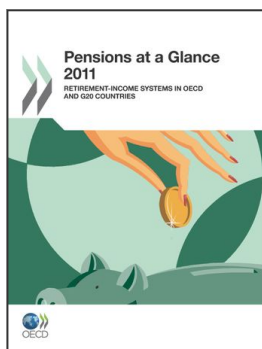
As a % of total assets



1. Data refer to 2008.

Source: OECD Global Pension Statistics.

StatLink <http://dx.doi.org/10.1787/888932371177>



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