

# Planning for retirement

## Long-term savings and investment in the Kingdom of Saudi Arabia



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Ensuring adequate retirement income for all is a crucial area of social policy. Around the world, aging populations and low interest rates are necessitating reforms to pension systems, to ensure they remain fair and sustainable for the generations ahead. These reforms typically include complementing state provision of retirement income, by shifting towards three-pillar systems that include a range of government, workplace and private retirement solutions. As households are asked to take greater responsibility for their future retirement income, they will need to be presented with an appropriate range of products and solutions, and be inspired, incentivized and supported to engage with financial planning.

In the Kingdom of Saudi Arabia (KSA), demographic transformation since the establishment of the present retirement system provides the impetus for reviewing policy options, to ensure that individuals are able to smooth consumption over the course of a lifetime, and fulfill their aspirations for a financially secure retirement. The pools of long-term investment capital that could be created in the coming decades by a reformed pension system also have the potential to provide investment in the economy. The availability of diverse sources of financing for companies supports economic growth, underpins financial stability, and helps generate employment opportunities.

In our view, the objective of delivering a world-class retirement system for the workers of today and retirees of the future is best achieved by leveraging the three pillars of state, workplace and private pensions. Public and private sector must work together to make preparing for retirement easy and accessible. This must include delivering clear messages, simple calculation tools, and outcomes-focused solutions, in both the capital accumulation and retirement phases, while building in sufficient flexibility to address diverse career paths, changing labor force dynamics and other personal and economic circumstances.

We draw on case studies of pension system reform around the world, and look at Notional Defined Contribution (NDC) models of state pensions, workplace Defined Contribution (DC) pensions and private savings schemes. Our recommendations call on government and industry to work together to develop a range of solutions, with a focus on access to and participation in workplace DC retirement savings plans, and appropriate private products and tools.

The opinions expressed are as of June 2021 and may change as subsequent conditions vary.

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## Key recommendations

Around the world, households are increasingly asked to take greater responsibility for future retirement income. They will need to be presented with an appropriate and practical range of products and solutions, and be encouraged, incentivized and supported to engage with long-term financial planning. Government and industry must work together to make long-term financial planning easy, with clear messages, simple tools, and outcomes-focused solutions.

**Government initiatives:** Commitment to a holistic pension framework that leverages the three pillars of state, workplace and private savings schemes

- Inspire and incentivize citizens to engage in retirement planning, by **developing a clear vision of what a financially secure retirement looks like, and provide simple guidance on steps to achieving it**, through a combination of government, workplace and private savings schemes.
- Consider Notional Defined Contribution (NDC) solutions that calculate state pension payments on the basis of number of years in employment, strengthening the link between work and retirement.
- Encourage the development of more **workplace and private Defined Contribution (DC) investment opportunities**, as a complement to the state provision.
  - For maximum coverage, **leverage auto-enrolment** measures for citizens, and consider opt-in access for residents.
  - **Support small employers** to introduce workplace pensions, through access to multi-employer schemes with relatively low start-up and maintenance costs and administrative burdens. State and private models exist globally.
  - **Support low earning citizens** to develop financial resilience, by building their own emergency savings pot, such as with targeted incentives (cash top ups), the use of auto-enrolment, and 'side-car savings' models that facilitate both short term and long term saving.
- Increase flexible retirement conditions, to account for diverse career paths, and individual transitions to retirement. Incentivize continued workforce participation of individuals who wish to work beyond the statutory retirement age.

**Joint government and industry initiatives:** Increase financial capability, and reduce reliance on the public sector

- Work together to **build financial literacy and education**. Develop simple messages that give individuals clarity on what actions to take, depending on their stage of life. Bring the most important investment concepts to life by linking them to retirement goals. Focus on risk diversification and long-term approach, to help individuals confidently navigate varying market conditions.
- **Leverage technology** to provide individuals a clear overview of what income they can expect to receive in retirement, from their state, workplace and private provision.
- **Ensure portability of workplace DC plans**, as employees change jobs, and help individuals maintain a clear overview of their pension assets throughout their career.

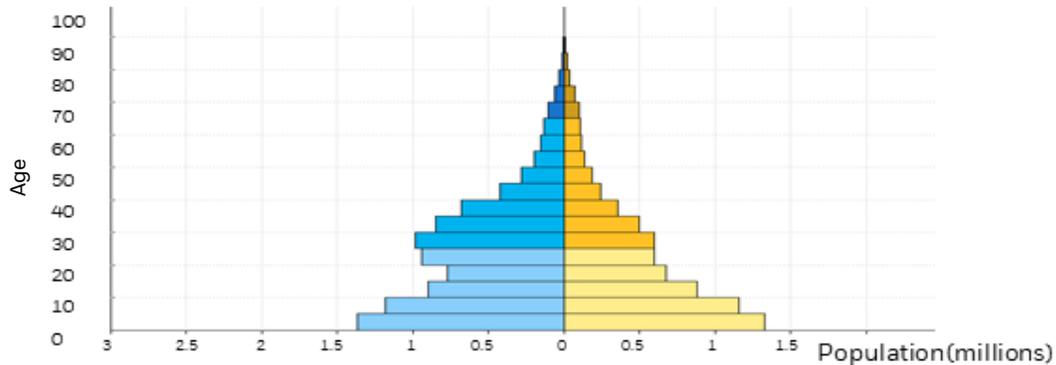
**Industry initiatives:** Provide outcomes-driven long-term investment solutions

- **Develop outcomes-driven retirement investment solutions** that help individuals to prepare for retirement during their working life as well as support during retirement. Lifecycle solutions enable asset allocations and risk to be adjusted throughout working life, aiming to deliver retirement income consistent with spending prior to retirement. Draw-down pension products enable individuals to retain a degree of investment exposure during the early stages of their retirement.
- Rather than overwhelming with choice, **focus on simple products** that reduce the anxiety of selecting the right one.

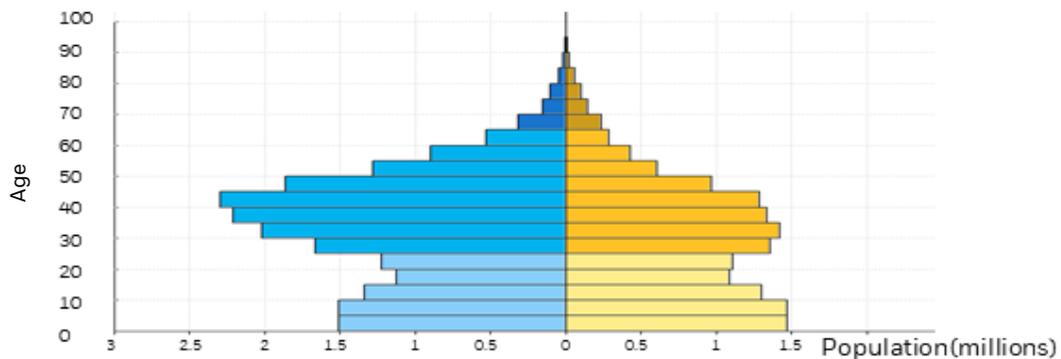
## Demographic transformation in Saudi Arabia; 1990 – 2050

Rapid demographic transformation in Saudi Arabia, as in many countries globally, provides the backdrop to consideration of pensions policy options. Saudi Arabia's age distribution pyramid is changing shape, with higher birth years approaching retirement, and forming a shelf above a smaller workforce. Gains in average longevity also mean that the pensions of the workforce of today will need to last far longer than in previous generations. Similar demographic trends are driving pension system reforms around the world.

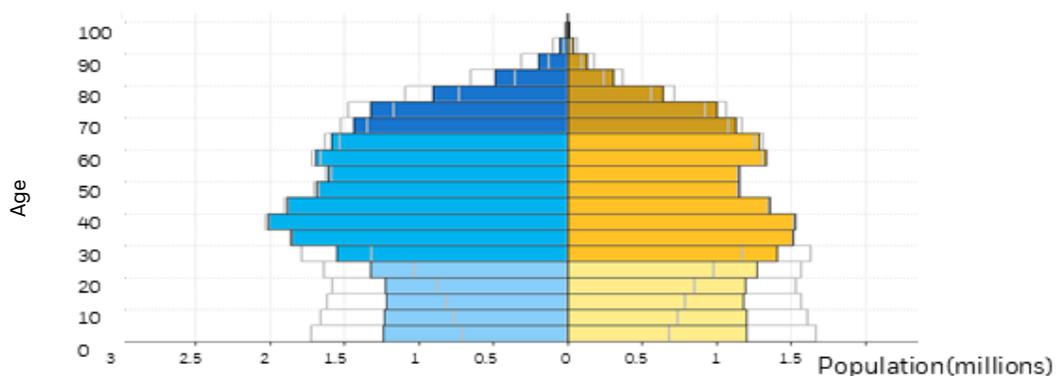
**1990**



**2020**



**2050 (forecast)**



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