REQUEST FOR PROPOSALS

PRIVATE PENSION SYSTEMS AND SUSTAINABILITY – JAPAN RESEARCH

The Principles for Responsible Investment (PRI) is commissioning research to understand the extent to which the structure, policy and regulation of pension systems influence sustainability. We define sustainability as the ability of plan boards and managers to be responsible investors, active stewards, and allocators of capital to economic activities with desirable social and environmental outcomes.¹

This Request for Proposals is for an organisation to examine the private pension system in Japan, interview relevant stakeholders, and to deliver a public report which include:

1. **A structural review of the private pension system**
   a) Detailed analysis of the structure of the Japanese pension system, including size of asset pools, and different investment vehicles and service providers involved;
   b) A stakeholder chain analysis (incl. beneficiaries) for each country and type of pension to highlight incentives and potential agency problems.

2. **Analysis of strengths and weaknesses**
   a) Analysis of barriers within investment practice, pension system structure and policy and regulation to responsible investment and the sustainability of the Japanese pension system.

The consultant should report on progress regularly and discuss findings with the PRI’s project manager (via conference call).

The PRI is inviting proposals from organisations with the following qualities:

- Ability to conduct in depth and high quality research and analysis on pension system design, policy and regulation, sustainable finance and responsible investment;
- Experience and detailed knowledge of financial markets, pension systems and investment industries in Japan, and;
- Experience in producing and presenting research in a high quality public report.

¹ The term sustainable pension system by contrast does not refer to the adequacy of pension provision or the economic sustainability of the system.
**SCOPE**

The scope of the research focuses on the private and funded parts of the pension system.

Private pension plans are not part of the social security or other statutory pension programme administered by the government. Private pension plans may be administered directly by an employer acting as the plan sponsor, by a private sector pension provider or other financial institution.

Funded pensions refer to occupational or personal plans that accumulate dedicated assets to cover the plan’s liabilities (future pay-outs). This contrasts with pay-as-you-go pensions in which pay-outs are financed from current contributions.

The applicant is encouraged to comment on this proposed research framework for Japan as part of the application:

<table>
<thead>
<tr>
<th>Segments in Japan</th>
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<tr>
<td><strong>Pillar 1 – state-based</strong></td>
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<tr>
<td>State pension – N/A</td>
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<tr>
<td><strong>Pillar 2 – occupational</strong></td>
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<tr>
<td>Public / government schemes</td>
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<tr>
<td>■ Employees’ pension insurance</td>
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<tr>
<td>■ National pension funds</td>
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<td>■ Mutual Aid Associations</td>
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<tr>
<td>Private DB – single-employer schemes</td>
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<td>Private DC – single-employer schemes</td>
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<tr>
<td><strong>Pillar 3 – personal pension</strong></td>
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<td>DC default investment funds</td>
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The PRI will make available completed research papers on the private retirement systems in Australia, the UK and the US as reference.

**BACKGROUND**

The PRI’s mission states that: “The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.”

The total pool of global retirement assets is currently standing at over $40 trillion according to Willis Tower Watson. PRI pension fund signatories account for less than 25% of these assets under management. The largest retirement market by a large margin is the US ($25.4 trillion) followed by
the UK and Japan (both $3.1 trillion) and Australia ($1.9 trillion). The global pension industry, given its size, is a significant part of the financial system and therefore the sustainability of the pension industry is key in achieving the PRI’s mission.

Pension systems in recent years have been changing in many countries for a couple of reasons. Firstly, as governments have been trying to limit the costs associated with state pension provision (pillar 1), they have introduced or increased the reliance on workplace pension systems where employers and / or employees take on responsibility for managing (part of) their own retirement assets (pillar 2). Secondly, corporate sponsors are dealing with autoenrollment legislation, higher regulatory requirements on defined benefit (DB) schemes, low bond yields and longevity risks. Responding to these challenges, defined contributions (DC), particularly in many of the largest pension markets referenced above, is now often chosen as the primary type of pension provision. By transferring the ownership, investment risk and longevity risk from pension schemes to beneficiaries, corporate sponsors remove liabilities from their balance sheets and de-risk their plans. In the top seven pension markets DC assets are now estimated to be slightly above 50%.

RESEARCH RATIONALE
Policy frameworks shape retirement system structures, and together these determine system sustainability. The connection between policy, structure and sustainability is often ignored by policymakers in the design of private retirement systems.

By researching pension structures and policy, we aim to better understand the relationship between pension system design and sustainability.

TIMELINE

<table>
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<tr>
<th>Duration</th>
<th>Activity</th>
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<tr>
<td>September - November 2020</td>
<td>Conduct interviews and desk research. Provide write-ups of interviews on an ongoing basis. Regular progress update meetings with PRI to discuss any key findings or challenges.</td>
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<td>December 2020</td>
<td>Prepare and present draft findings to PRI.</td>
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<td>January 2021</td>
<td>Deliver final report to the PRI, and provide additional inputs and clarifications as required.</td>
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BUDGET
The budget for this research is £15,000.

HOW TO SUBMIT A PROPOSAL
Please send your proposal via email to Nikolaj Halkjaer Pedersen (nikolaj.halkjaer@unpri.org) by close of business 29th July 2020.

2 WTW Thinking Ahead Institute - Global pension assets study 2019
4 WTW Thinking Ahead Institute - Pensions & Investments / Thinking Ahead Institute world 300 – Year End 2017 (2018)
Proposals must include:

I. Brief comments on the research approach and scope suggested in this document.

II. Details of proven experience, knowledge and research capabilities of pension systems and responsible investment. Examples of previous or similar work is welcome.

III. Proven expertise in financial markets and the pensions and investment industries in Japan in particular.

IV. A brief biography of individuals that would be involved.

V. Proposed costs of the project for each element and completion dates.

VI. Availability for the requested period / ability to achieve deadlines.

**QUERIES**

For any questions regarding the project or the requests outlined above, please contact Nikolaj Halkjær Pedersen.