

INVESTMENT PERFORMANCE OF PRIVATE PENSIONS PLANS AND PUBLIC PENSION RESERVE FUNDS

Key results

Despite volatility created by international developments in financial markets, private pensions experienced positive rates of return in most OECD countries in 2016. During 2016, pension providers recorded positive real investment rates of return, with an OECD weighted average at 2.4%. All public pension reserve funds experienced positive returns in 2015.

Despite volatility created by international developments such as the Brexit vote, private pension plans achieved positive returns in most OECD countries in 2016.

In 2016, private pension plans experienced on average a real investment rate of returns net of investment expenses of more than 2% in the OECD area. The best performing private pension plans in 2016 could be found in Europe, in particular: Poland (8.3%), Ireland (8.1%), the Netherlands (7.2%) and Slovenia (6.9%). Private pension plans in Denmark also achieved a real return above 5%, due to the investments of pension assets in equities, alternative investments and high yield credit according to Danish authorities. Only three countries reported a negative investment return in real terms in 2016: Iceland (-0.3%), Mexico (-0.4%) and the Czech Republic (-1.2%). As the real net investment return is the combination of the nominal performance of the plans and inflation, a low figure can be accounted for by either low gains and income or inflation. Private pension plans in the Czech Republic, Iceland and Mexico all experienced positive returns in nominal terms in 2016 (0.8%, 1.6% and 2.9% respectively), but lower than inflation (2.0%, 1.9% and 3.4% respectively).

All PPRFs performed positively during the latest year available (2015), with an average (weighted by the assets managed at the end of the year) net investment rate of return of 3.2% in real terms. The highest performers in 2015 were in Canada (14.1% for the CPPIB, 8.8% for the Quebec Pension Plan), Chile (8.1%) and Sweden (12.1% for AP6, 6.7% for AP3 and AP4). Only Poland's Demographic Reserve Fund experienced a return below 1% in 2015 (0.5%).

Definition and measurement

The term "private pensions" actually refers to private pension arrangements (funded and book reserves) and funded public arrangements (e.g. ATP in Denmark).

Real (after inflation) returns are calculated in local currency before tax but after investment management expenses.

The average nominal net investment returns of private pension plans are the results of a calculation using a common formula for all the countries except for: Ireland, Israel, Sweden, Turkey and the United States for which values have been provided by the jurisdictions using their own formula or are from national official publications. The common formula corresponds to the ratio between the net investment income at the end of the year and the average level of assets during the year.

For PPRFs, nominal returns have been provided by the funds directly, using their own formula and methodology.

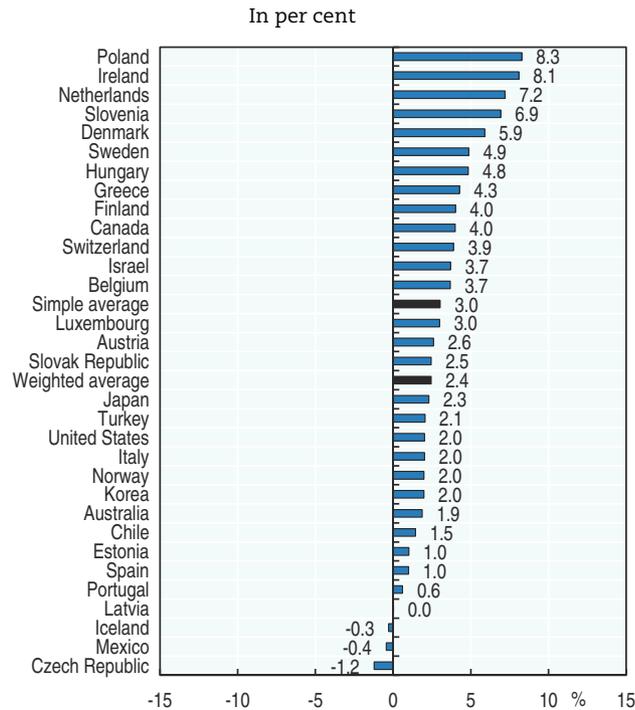
Returns over one year may not accurately reflect long-term performance. Pension assets are invested over 30 to 40 years, it is therefore important to assess performance over a longer time period than only one year. Average annual returns over longer time period are available in other OECD publications (OECD, 2017a, 2017b).

Further reading

OECD (2017a), "Pension Markets in Focus 2017", OECD, Paris, www.oecd.org/pensions/private-pensions/Pension-Markets-in-Focus-2017.pdf.

OECD (2017b), "Annual Survey of Large Pension Funds and Public Pension Reserve Funds. Report on Pension Funds' Long-term Investments", OECD, Paris, www.oecd.org/daf/fin/private-pensions/2015-Large-Pension-Funds-Survey.pdf.

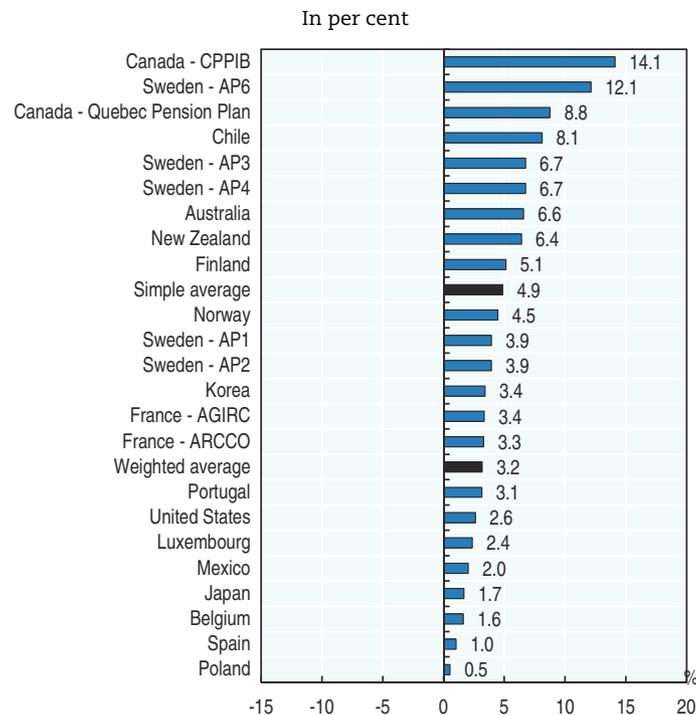
8.7. Real investment rates of return of private pension plans, net of investment expenses, December 2015-December 2016



Source: OECD Global Pension Statistics.

StatLink <http://dx.doi.org/10.1787/888933634743>

8.8. Real investment rates of return of PPRFs, net of investment expenses, December 2014-December 2015



Source: OECD Annual Survey of Public Pension Reserve Funds.

StatLink <http://dx.doi.org/10.1787/888933634762>



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