INTERNATIONAL PERSPECTIVE ON RECENT PENSION REFORMS

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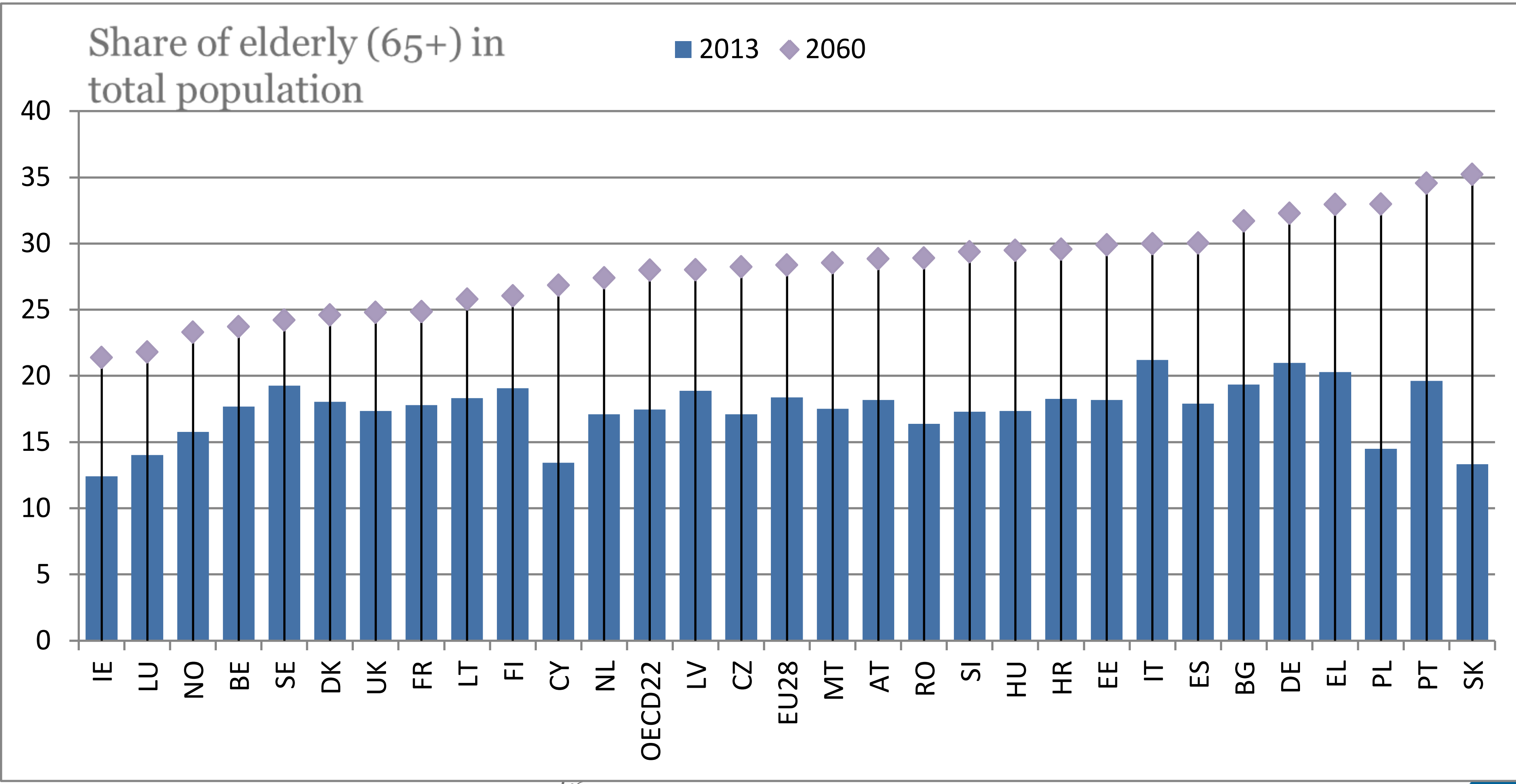
Society of Actuaries in Ireland, 'The Future of the State Pension' Conference; Convention Centre Dublin
Wednesday, 11th May 2016

BETTER POLICIES FOR BETTER LIVES

Outline

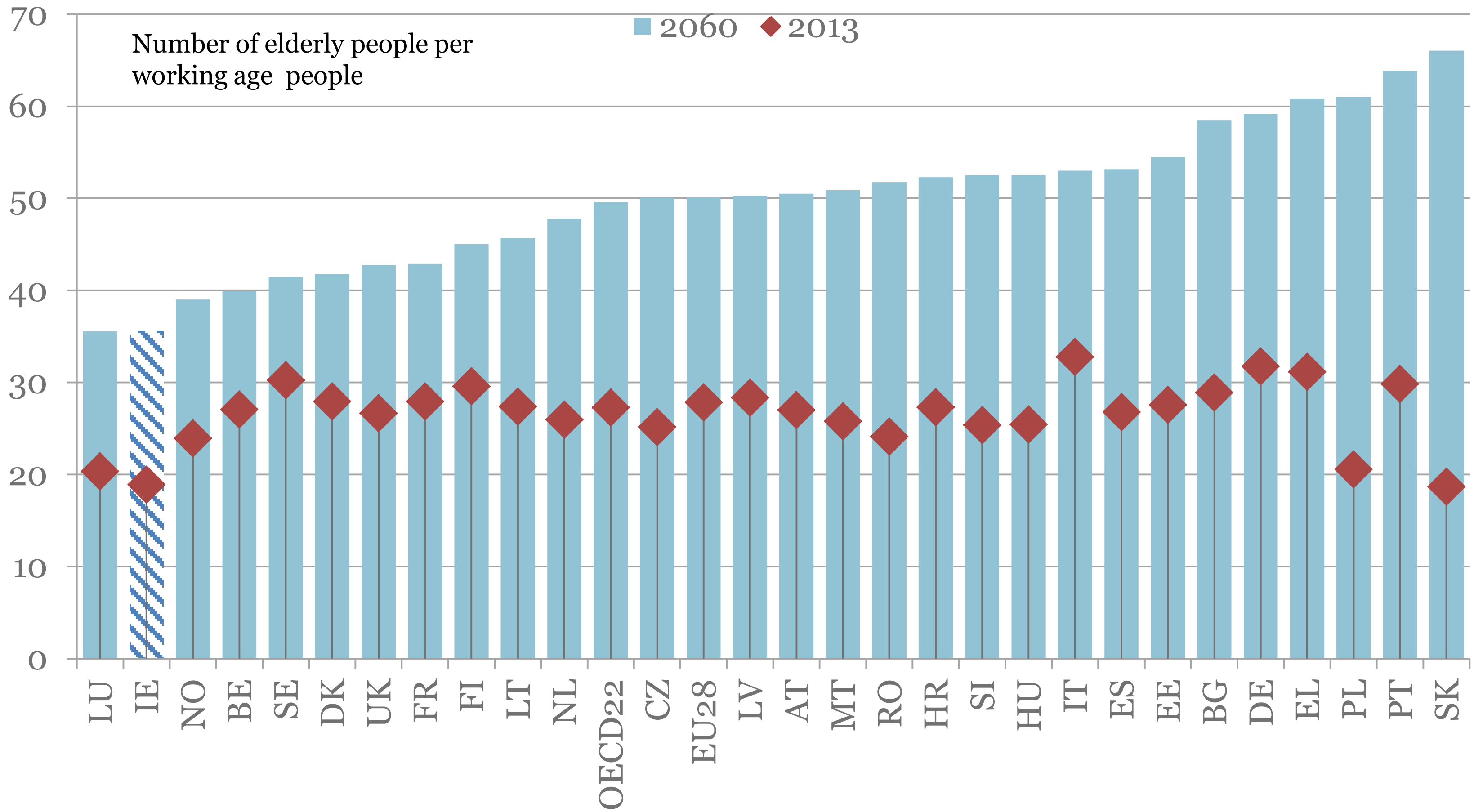
- Some facts
- What have countries done?
- Conclusion

Life expectancy increases: the share of the elderly will increase substantially



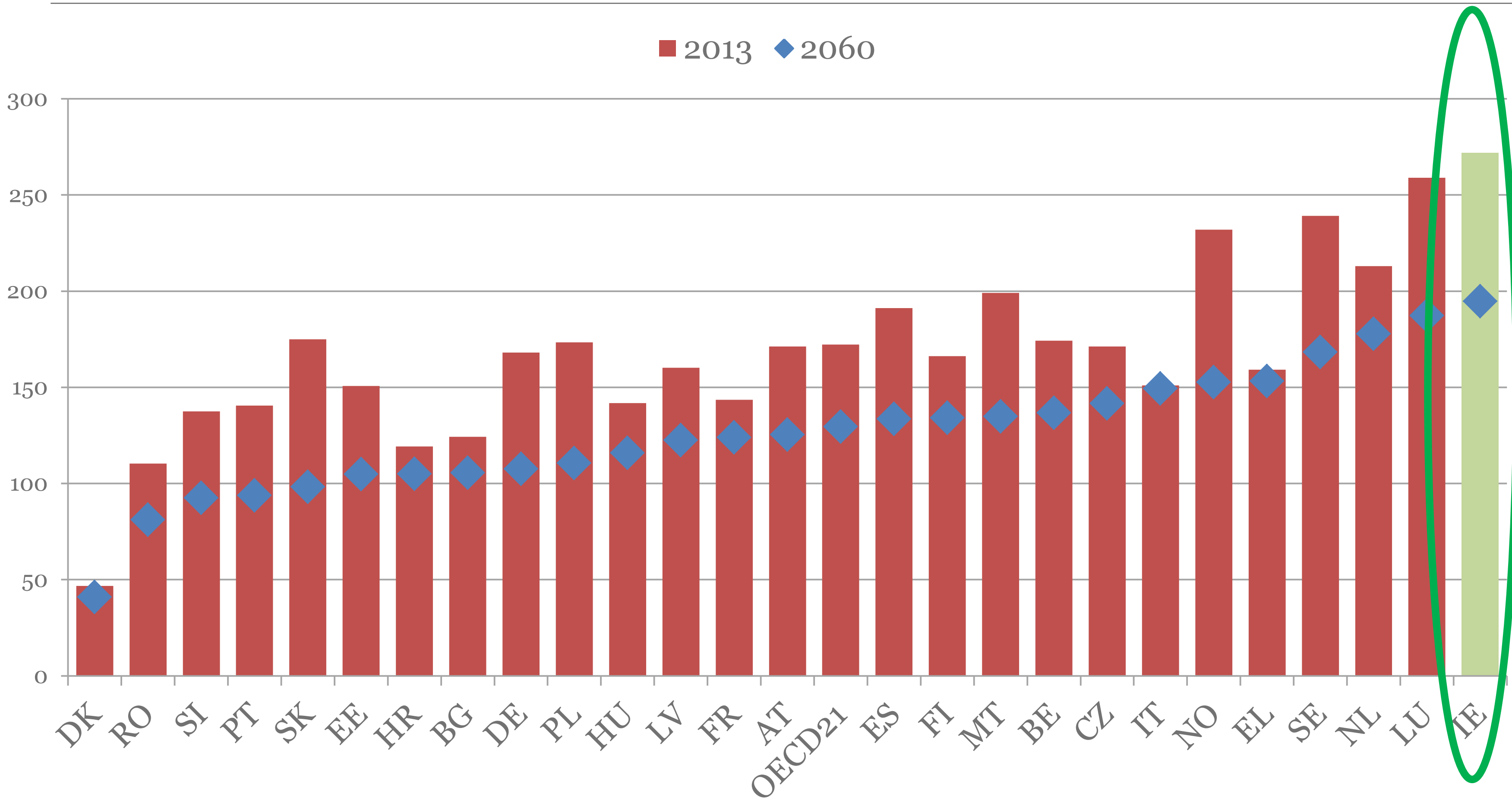
Sources: data from The 2015 Ageing Report, European Union

The number of elderly (65+) per working-age (15-64) people will increase …while population will tend to shrink



Sources: data from The 2012 Ageing Report, European Union

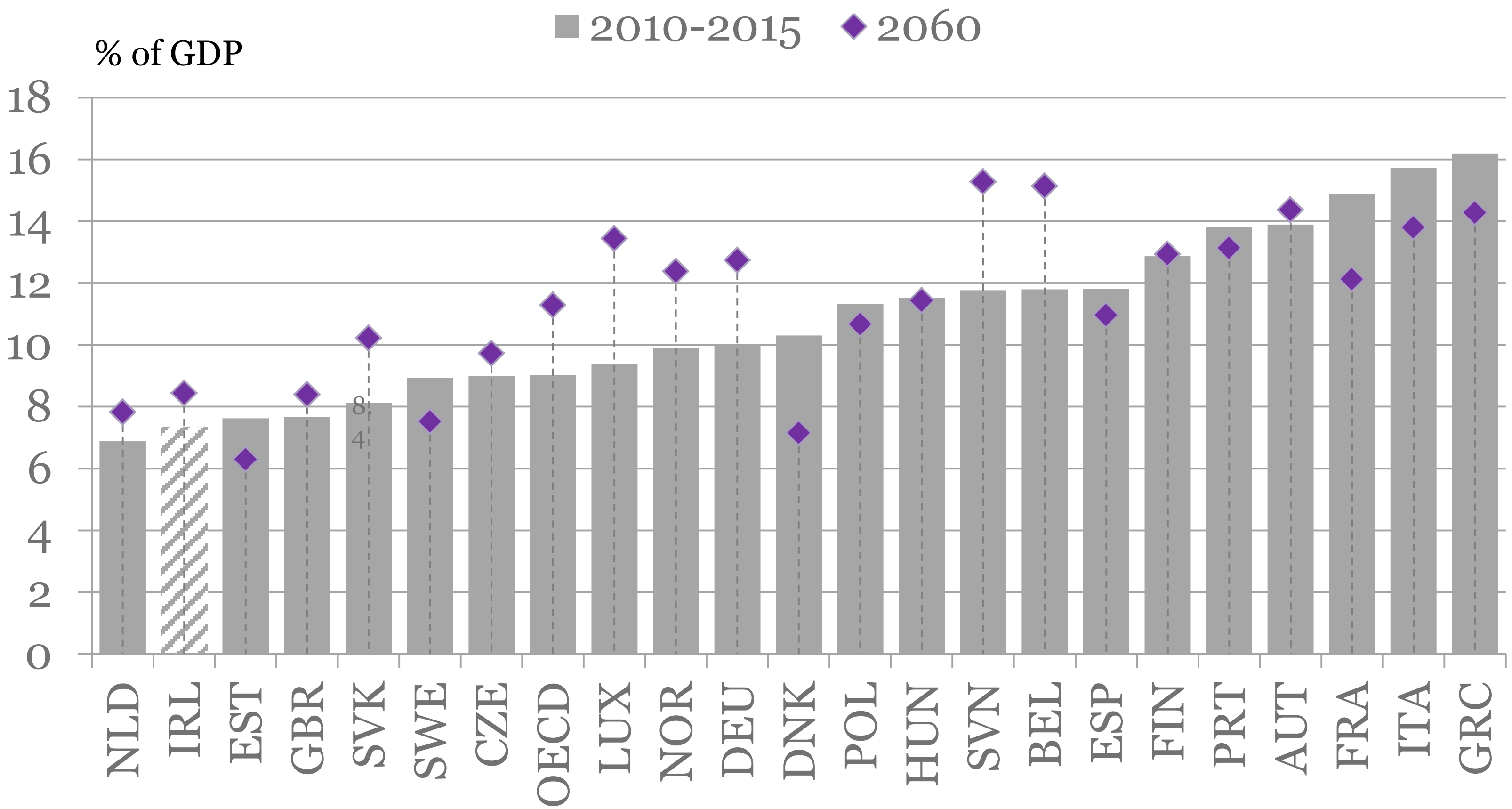
Implying a smaller number of contributors for retirees…



Number of contributors for 100 pensioners

Sources: data from EU (2015) The 2015 Ageing Report, European Union

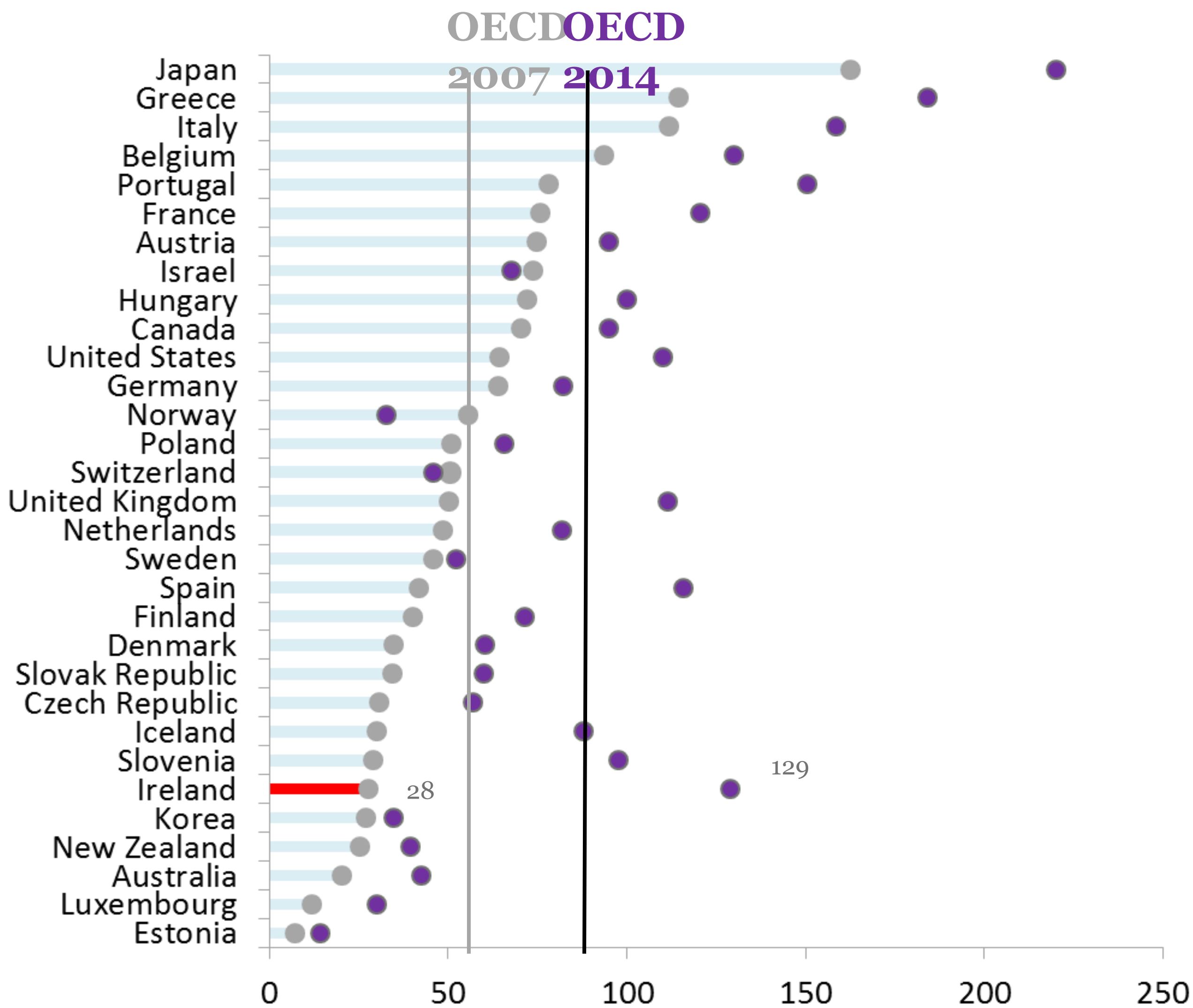
In Ireland: Currently expenditure is predicted to increase by 1% of GDP



Source: EU (2015) *The 2015 Ageing Report*

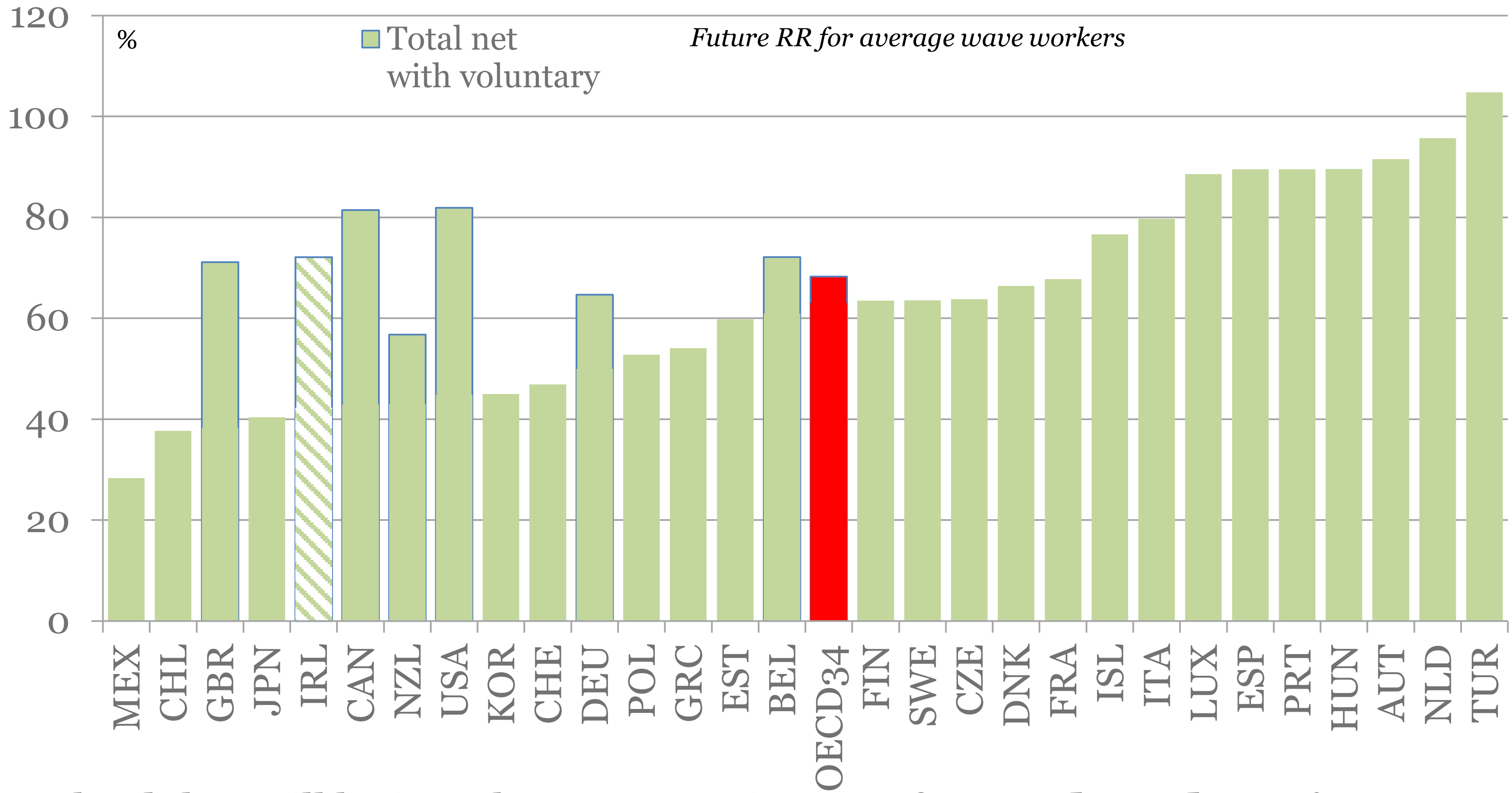
But financial pressures are still large

Pre- and post-crisis government gross financial liabilities, 2007 and 2014 (or latest year available) - % GDP



Source: OECD (2015), *OECD Economic Outlook 97 Database*, *http://dx.doi.org/10.1787/eo-data-en*.

Replacement rates for future retirees will vary substantially across countries…

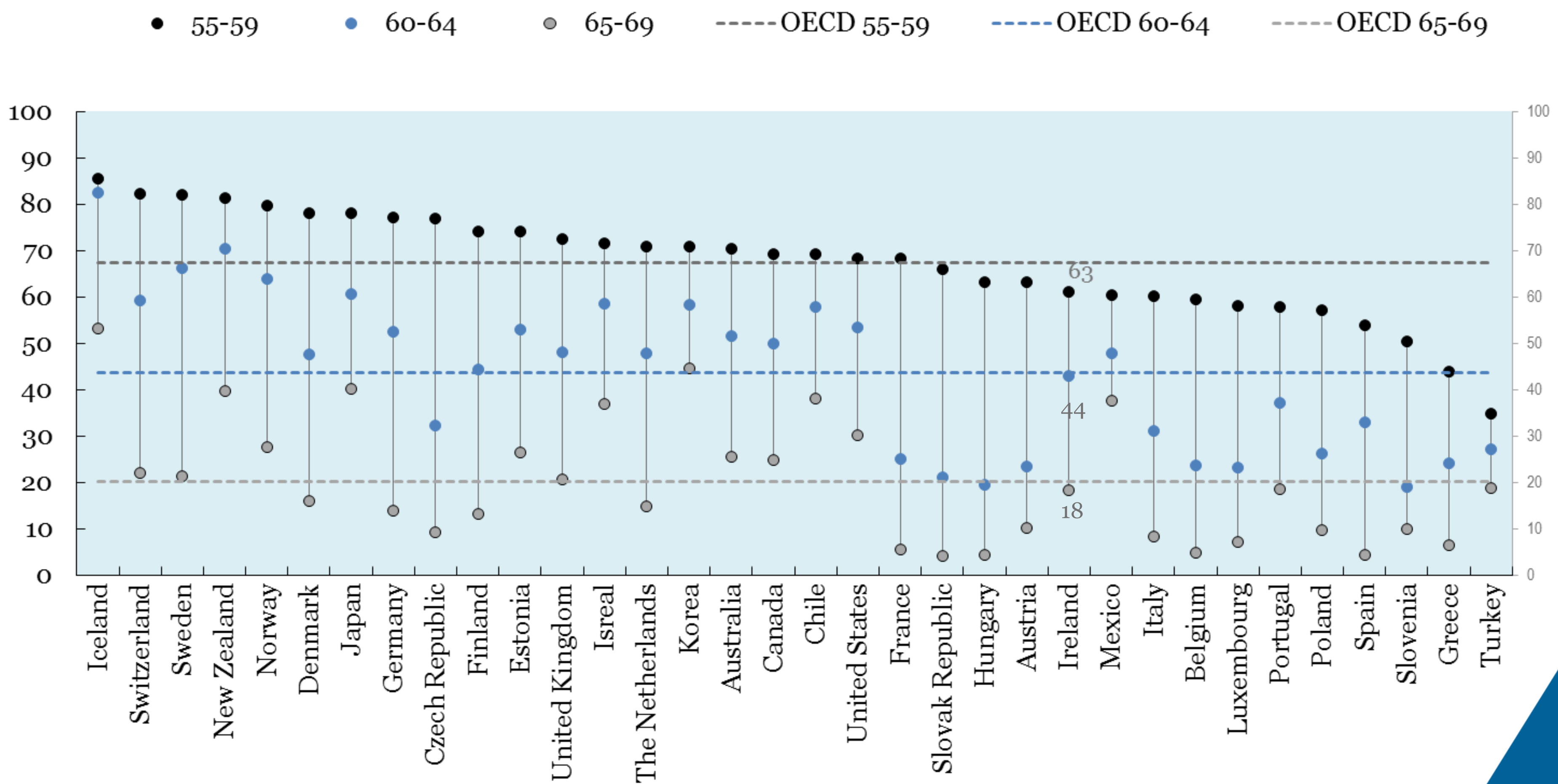


In Ireland they will be just above average in case of **a steady and continuous career** from age 20 until RA considering both mandatory and voluntary pension

Source: OECD pension models

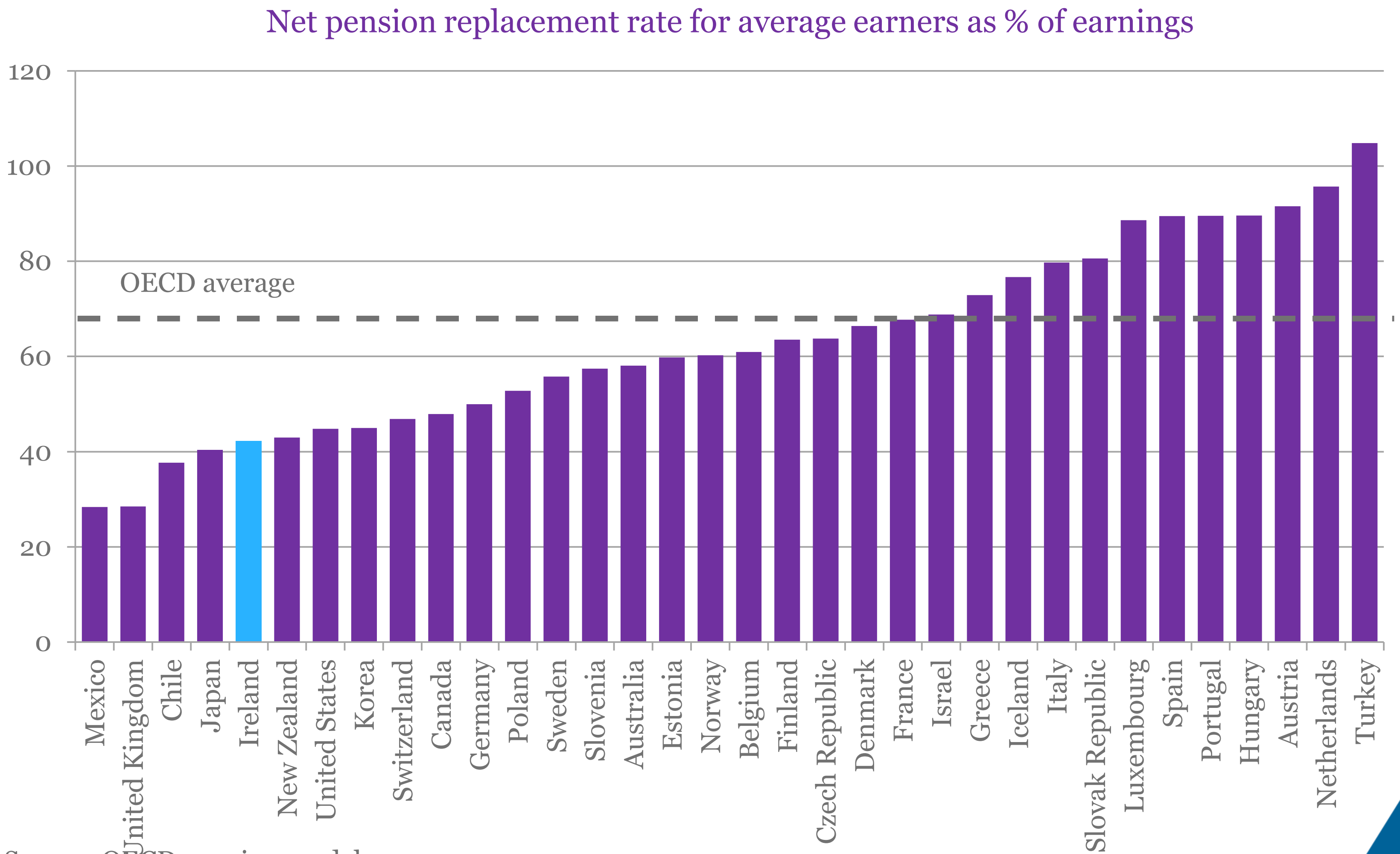
However, many workers are not employed, particularly in the older groups

Employment rates of workers aged 55-69, 2014



Source: OECD Employment Outlook 2015.

And with no voluntary pension it doesn't look so good, particularly for average earners



Source: OECD pension models

WHAT HAVE COUNTRIES DONE ? PERSPECTIVE ON SOME PENSION REFORMS

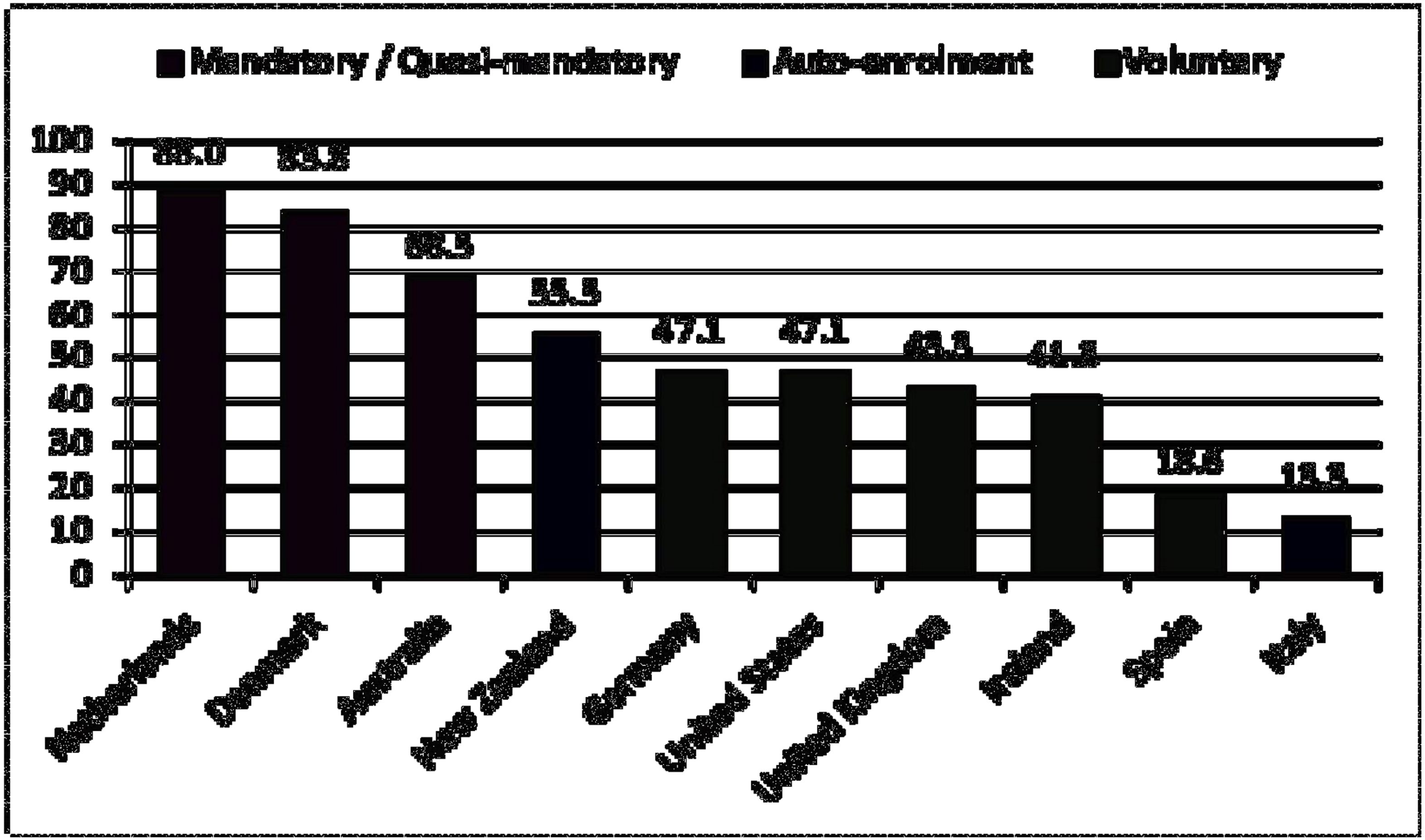
I. Retrenchment of public pension provision

- Financial sustainability has driven many reforms in recent years
- But low earners generally better protected
  - Net pension replacement rates according to OECD pension models 63% for average wage earners and 73% for low earners

II. An increasing role for private pensions

- Decline in generosity of public pensions allow for a greater role of private pensions,
- In some countries, private pensions are mandatory
  - they have replaced part of the public pension (e.g. Mexico, Chile)
  - They are added on top of public pensions such as in Australia and Norway
- In others they are quasi mandatory (such as in the Netherlands, Switzerland, Denmark, Iceland)
- In others they are voluntary: e.g. Germany, Ireland Japan, UK, Italy, Belgium, New Zealand
  - Diversification of risks may be beneficial

But coverage gaps exist in OECD countries….(by type of schemes) …



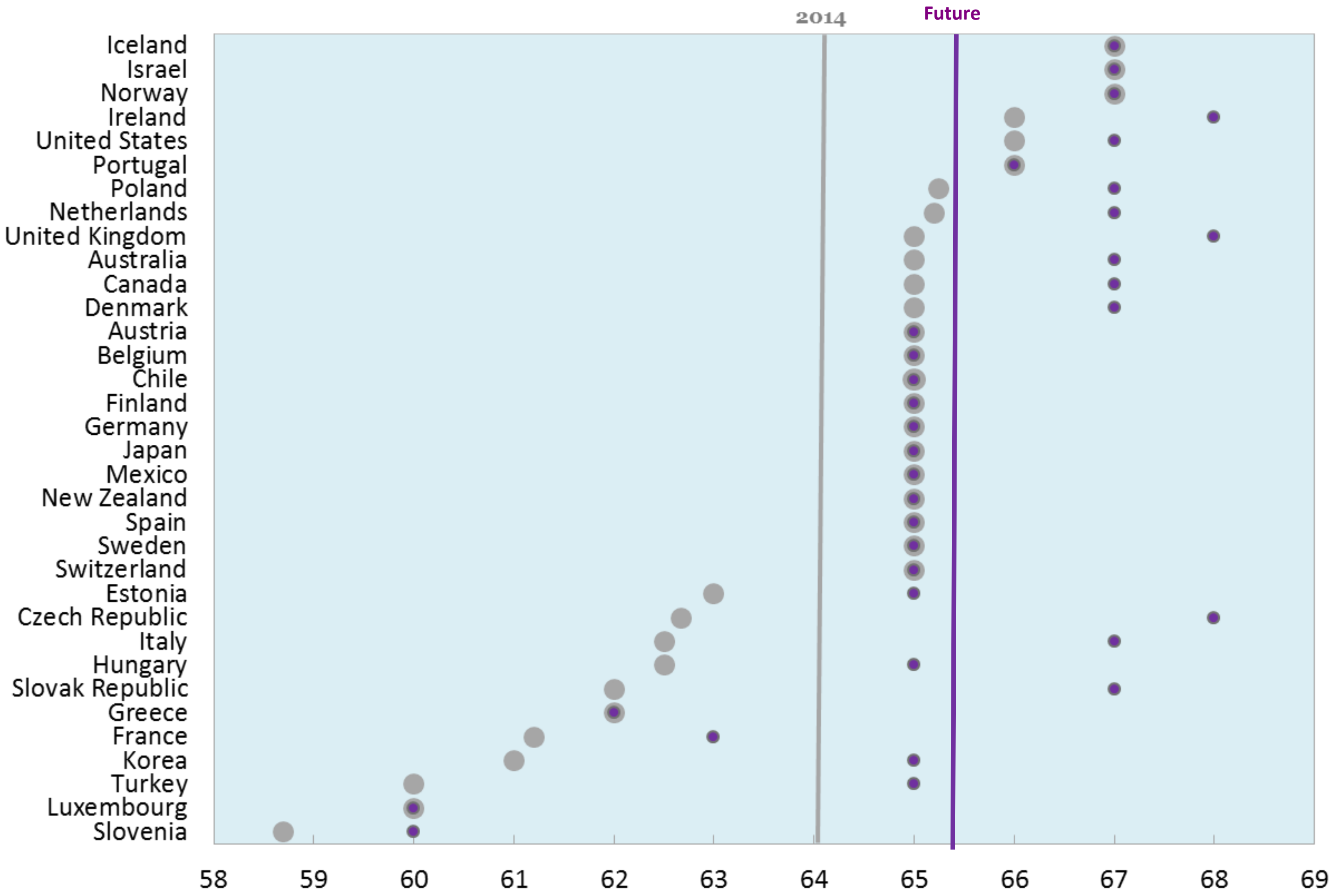
But also gender and type of contract….

Source: OECD (2012) OECD Pensions Outlook

III. Extending working lives with pension reforms "mandating working longer"

- Retirement ages have increased
- Early-retirement schemes have been closed down and the access to those still existing has been tightened
- The access to alternative pathways such as disability and unemployment has been tightened
  - the benefits have been restricted to those 'genuinely' sick and unable to work (such as in CZE, DNK, FIN, FRA, GRC, HUN, POL and ESP)
- Job-search requirements have been tightened for older workers,
- Automatic adjustments (*linking)* have been introduced to increase retirement ages and to lengthen career length

Retirement ages will increase



Source: Chapter 1, OECD Pensions at a Glance 2015

Extending working lives "giving more choice"

- Flexible retirement age with neutral/actuarial benefit formula
- Possibility to combine old-age pension and work without reduction
- More flexibility in late career
  - Increase penalties for early retirement
  - Increase bonus to defer retirement
- Abolish mandatory retirement

Some factors need to be considered too beyond retirement ages…

- Design of accrual structure
- The calculation of pension benefits
  - If based on a limited subset of “best” or “final” earnings encourages people to retire once earnings have peaked
- The limits on the number of years that can accrue pension benefits in earnings-related schemes.
- Interactions with other benefits and with other policies
- Barriers to working at old age
  - For women remove barriers:
    - in pension systems (e.g. lower pensionable age for women)
    - in work-life balances (e.g. credits for care)

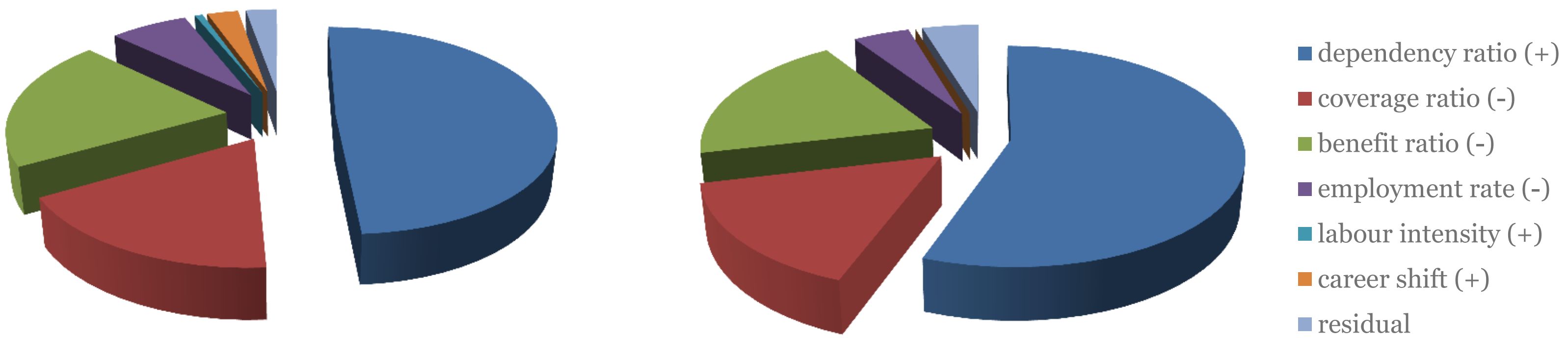
The decision to stay in employment / to retire is complex

- Personal factors
- Organisational factors
- Contextual factors
- But financial incentives matter
  - Both the *level* of pension wealth and *change* in pension wealth from working an additional year need to be considered

Promoting longer working lives is key for **both** financial sustainability

EU28:
11.3% GDP in 2013 to 11.1%GDP in 2060

Ireland:
7.4% GDP in 2013 to 8.4%GDP in 2060

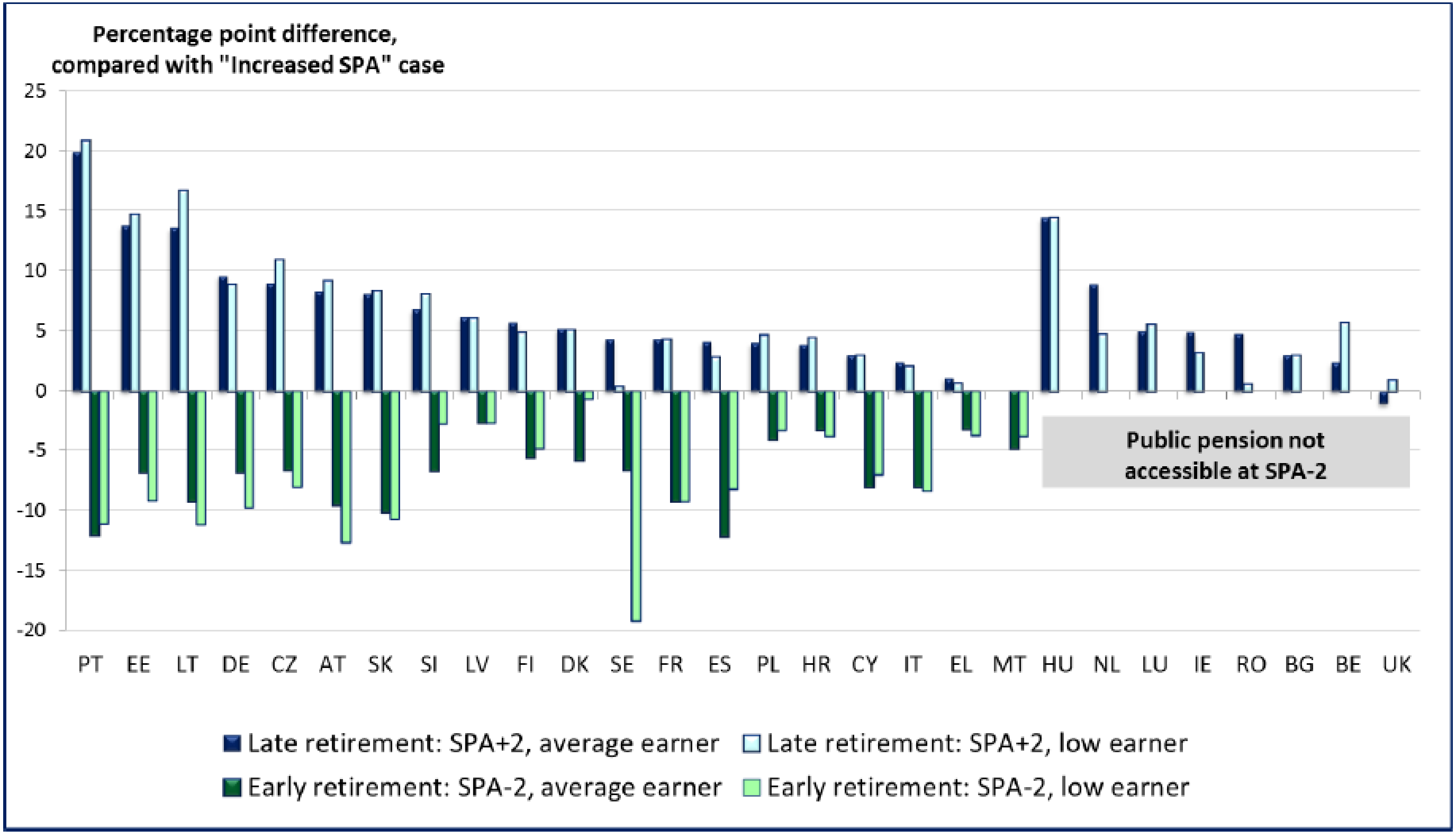


Decomposition of growth in pension spending (as a % of GDP)

Note: - Implies a decline in pensions expenditure ; + implies an increase.

Source: Based on data extracted from EU(2015) The 2015 Ageing report

and retirement-income adequacy



Source: European Commission (2015) Pensions Adequacy Report, based on calculations provided by the OECD and Member states under parameter and rules for the year 2013

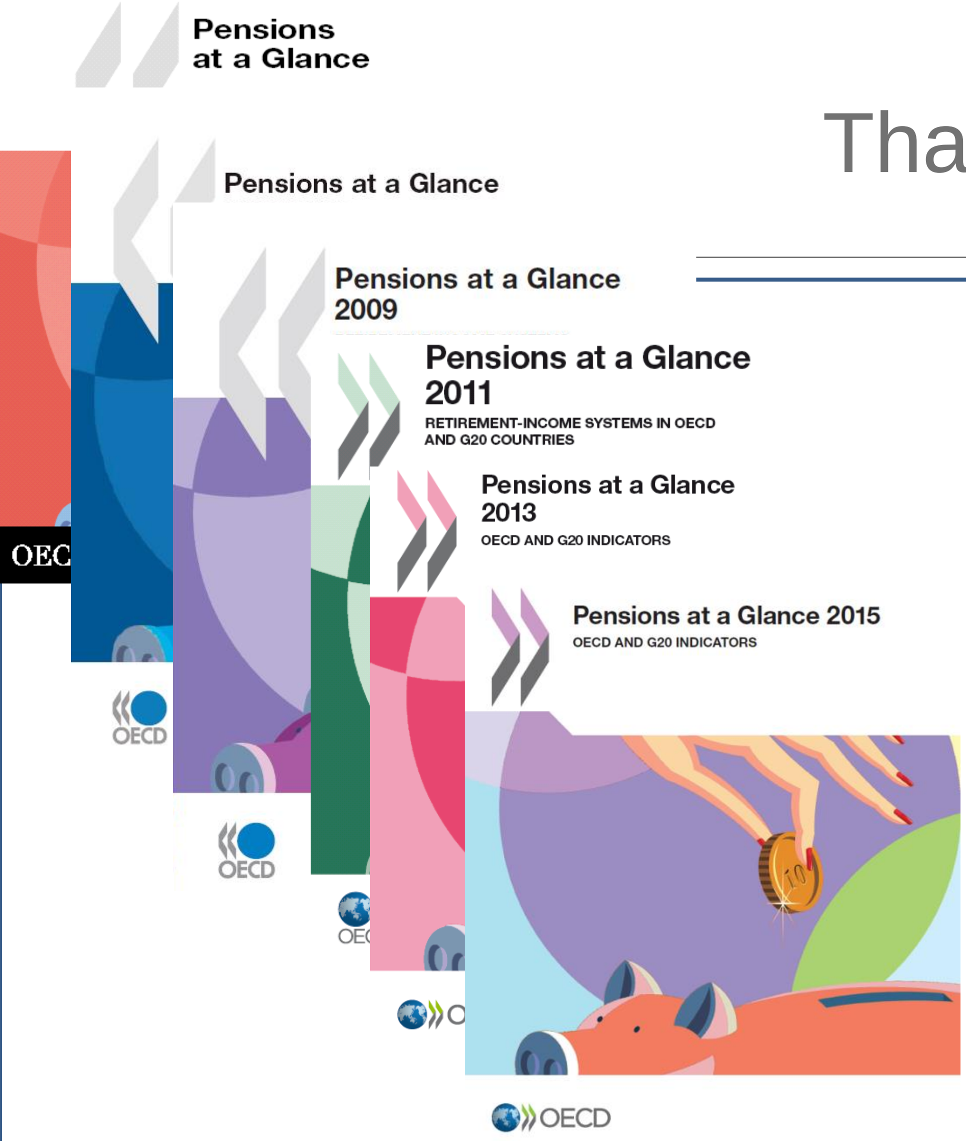
Conclusion (1)

- Pension reforms matter but they are not enough…
- Need to go beyond financial incentives
- Setting the incentive right is important to make labour more “attractive” than leisure
- Stop using alternative pathways as early exit routes
- Labour demand policies encouraging workers to hire and retain older workers are essential!

Conclusion (2)

- To what extent should pension systems compensate for inequalities in work? (Not only by gender but also by occupations)
  - Different dimensions of inequality call for different pension solutions
- Labour market and social protection policies need to elaborate solutions together!
- A comprehensive approach to ageing is necessary

Thanks!



Pensions at a Glance 2015
OECD and G20 Indicators

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