INTERNATIONAL PERSPECTIVE ON RECENT PENSION REFORMS

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Outline

• Some facts
• What have countries done?
• Conclusion
Life expectancy increases: the share of the elderly will increase substantially

Share of elderly (65+) in total population

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…

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

But financial pressures are still large

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

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**

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

Net pension replacement rate for average earners as % of earnings

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.

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
• 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!
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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