



Green Paper on Pensions:
Learning from International Experience
Dublin Castle, May 2008

Pension reforms around the world

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WORLD BANK



Agenda

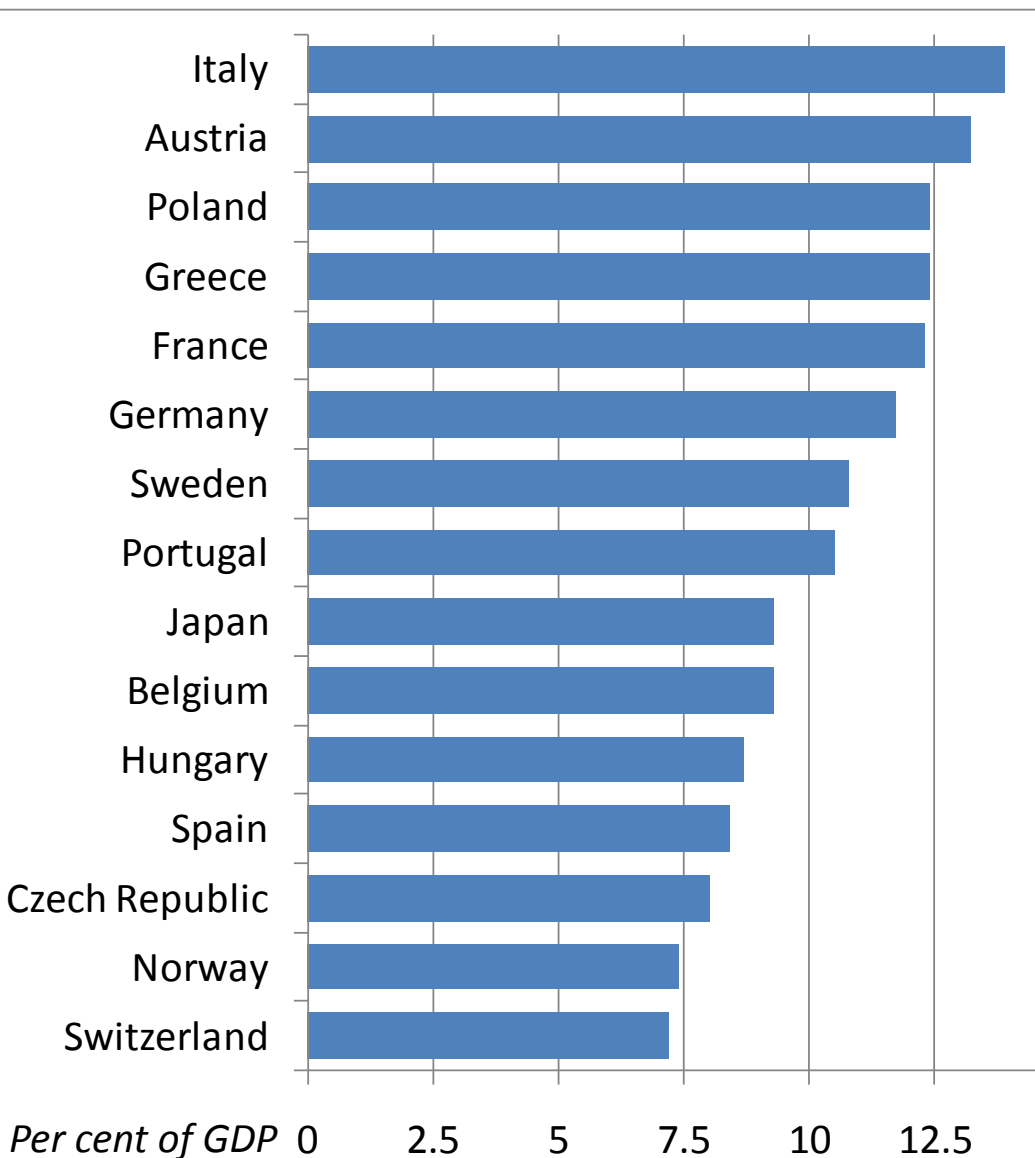
1. Which countries reformed?
2. What did they do?
3. How will benefits be affected?
4. The growing role of private pensions
5. Issues and challenges



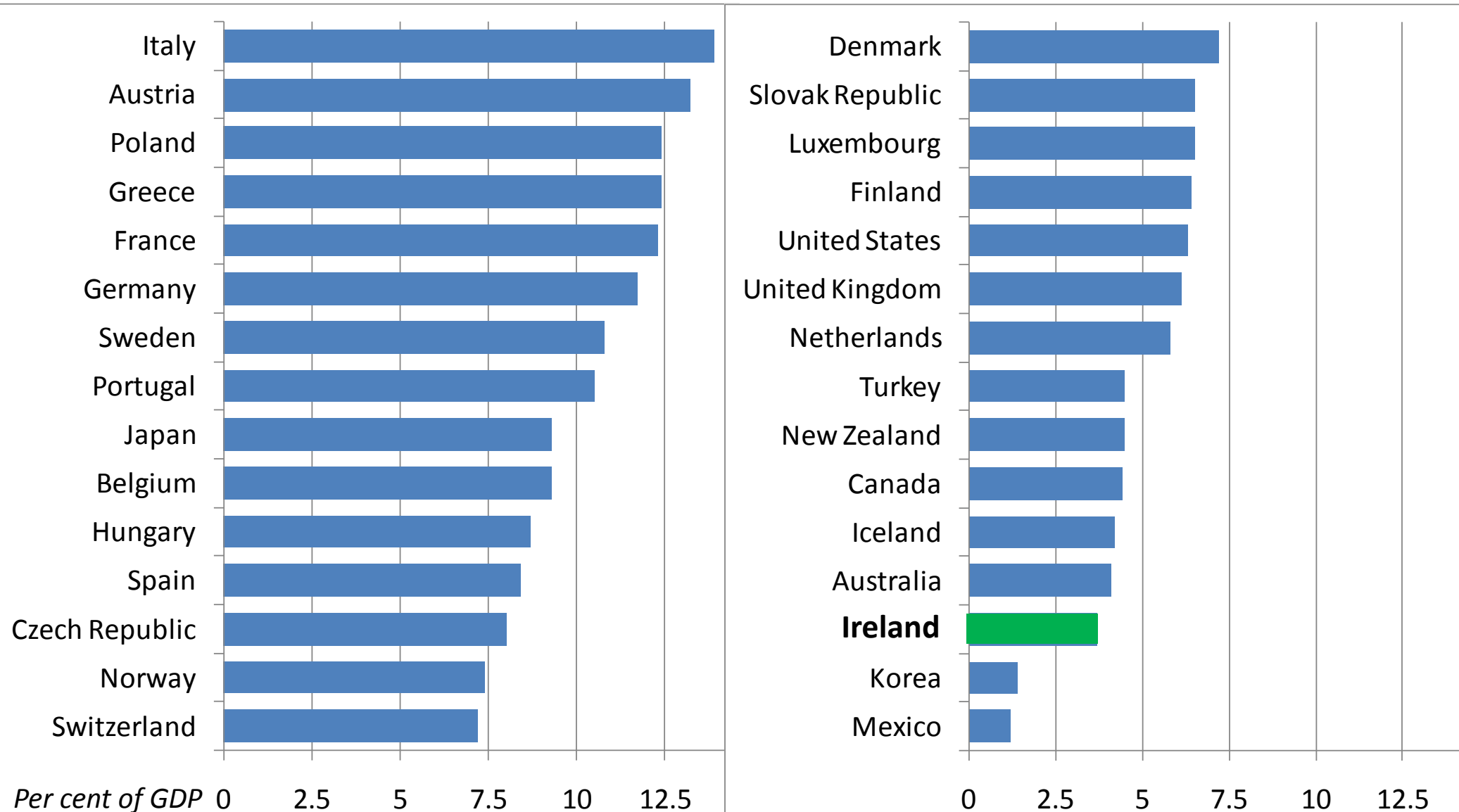
The fiscal challenge



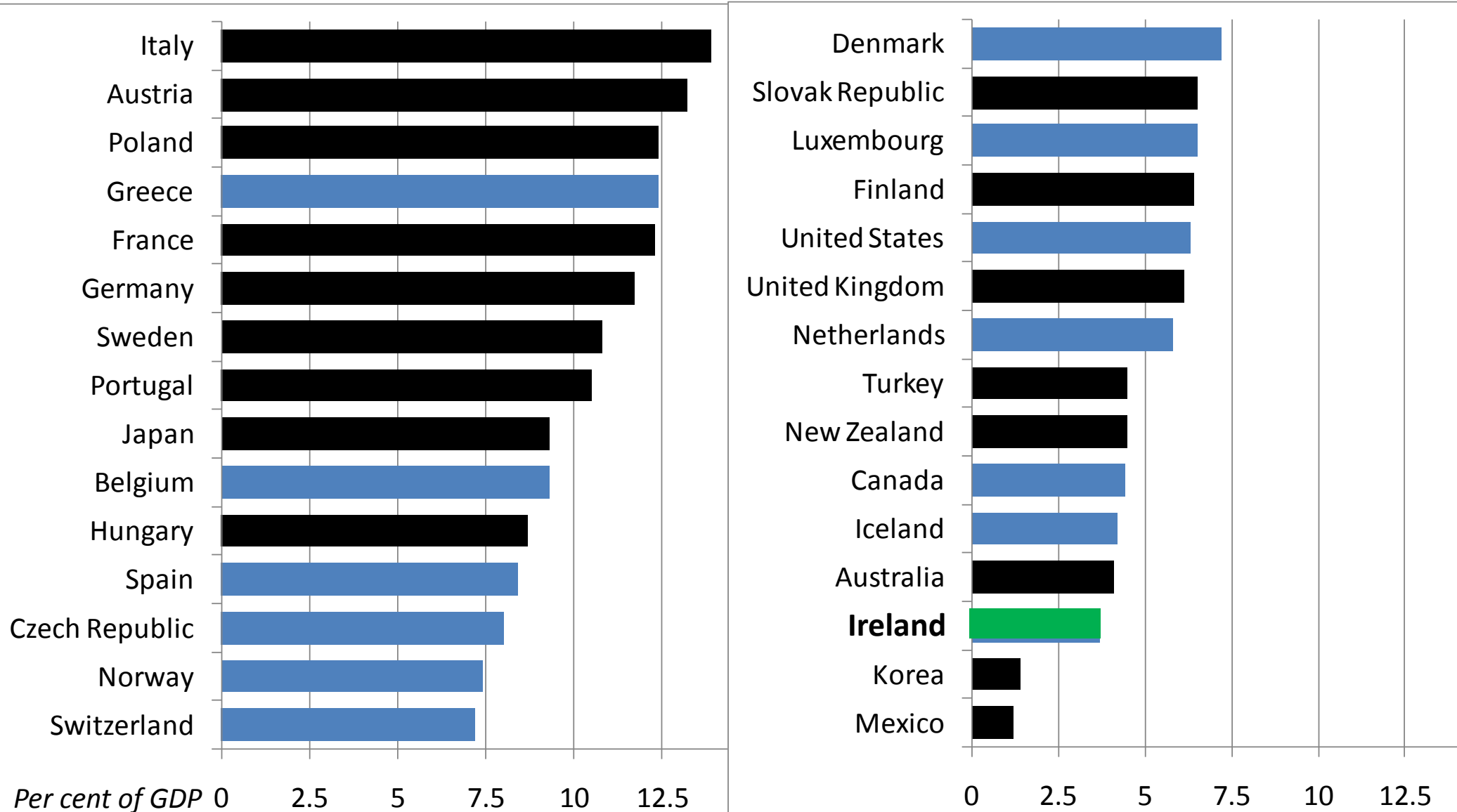
Public pension spending



Public pension spending



Who reformed?



What did countries do?



Pension reform packages

	Pension age	
	M	F
Austria	●	●
Finland		
France		
Germany		
Hungary	●	●
Italy	●	●
Japan	●	●
Korea	●	●
Mexico		
NZ	●	●
Poland		
Portugal		●
Slovakia	●	●
Sweden		
Turkey	●	●
UK		●

Pension reform packages

	Pension age		Retirement incentives
	M	F	
Austria	●	●	●
Finland			●
France			●
Germany			●
Hungary	●	●	●
Italy	●	●	●
Japan	●	●	
Korea	●	●	
Mexico			
NZ	●	●	
Poland			●
Portugal		●	●
Slovakia	●	●	
Sweden			
Turkey	●	●	
UK		●	●

Pension reform packages

	Pension age		Retirement incentives	Calculation	
	M	F		measure	revaluing
Austria	●	●	●	●	
Finland			●	●	●
France			●	●	●
Germany			●		
Hungary	●	●	●	●	
Italy	●	●	●		
Japan	●	●		●	
Korea	●	●			
Mexico					
NZ	●	●			
Poland			●	●	
Portugal		●	●	●	●
Slovakia	●	●		●	
Sweden				●	
Turkey	●	●			
UK		●	●		

Pension reform packages

	Pension age		Retirement incentives	Calculation		Indexation
	M	F		measure	revaluing	
Austria	●	●	●	●		●
Finland			●	●	●	●
France			●	●	●	
Germany			●			
Hungary	●	●	●	●		●
Italy	●	●	●			●
Japan	●	●		●		
Korea	●	●				
Mexico						
NZ	●	●				
Poland			●	●		●
Portugal		●	●	●	●	●
Slovakia	●	●		●		
Sweden				●		
Turkey	●	●				
UK		●	●			

Pension reform packages

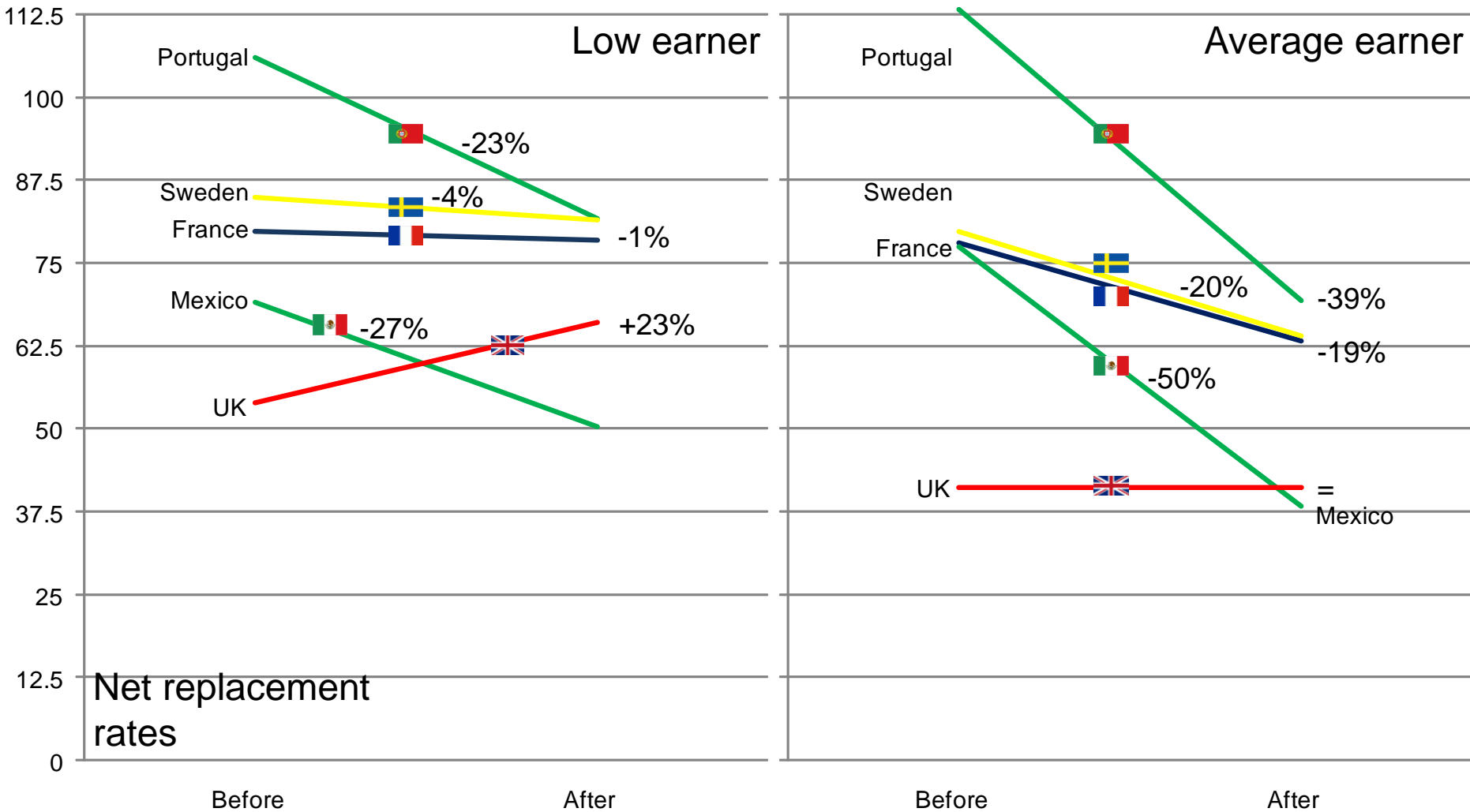
	Changing parameters					Changing paradigm			
	Pension age		Retirement incentives	Calculation		Indexation	DC	NDC	Life Expectancy
	M	F		measure	revaluing				
Austria	●	●	●	●					
Finland			●	●	●			●	
France			●	●	●			●	
Germany	●	●	●					●	
Hungary	●	●	●	●		●			
Italy	●	●	●				●		
Japan	●	●		●					
Korea	●	●							
Mexico						●			
NZ	●	●							
Poland			●	●		●	●		
Portugal		●	●	●	●			●	
Slovakia	●	●		●		●			
Sweden				●		●	●		
Turkey	●	●							
UK	●	●	●						



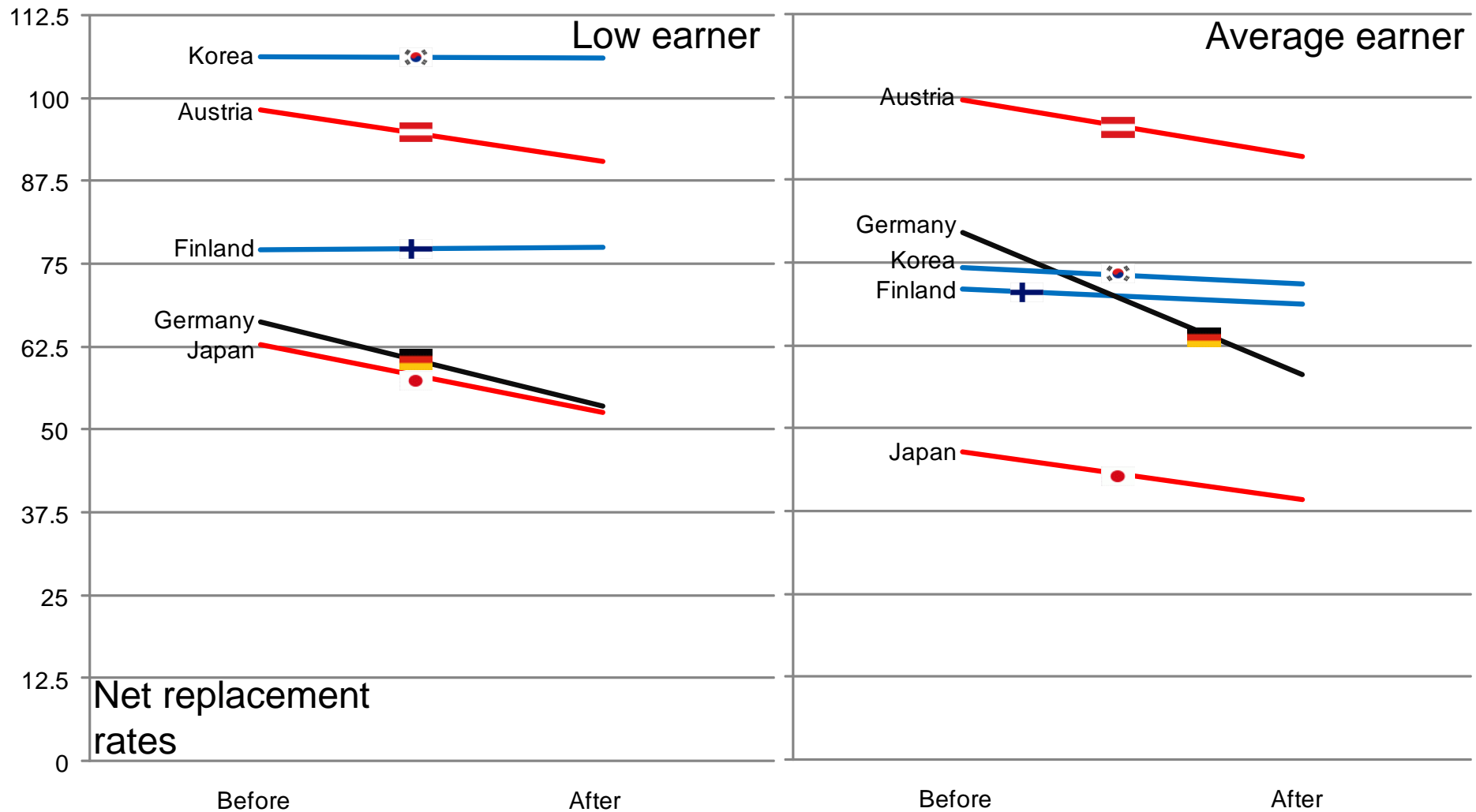
How will benefits be affected?



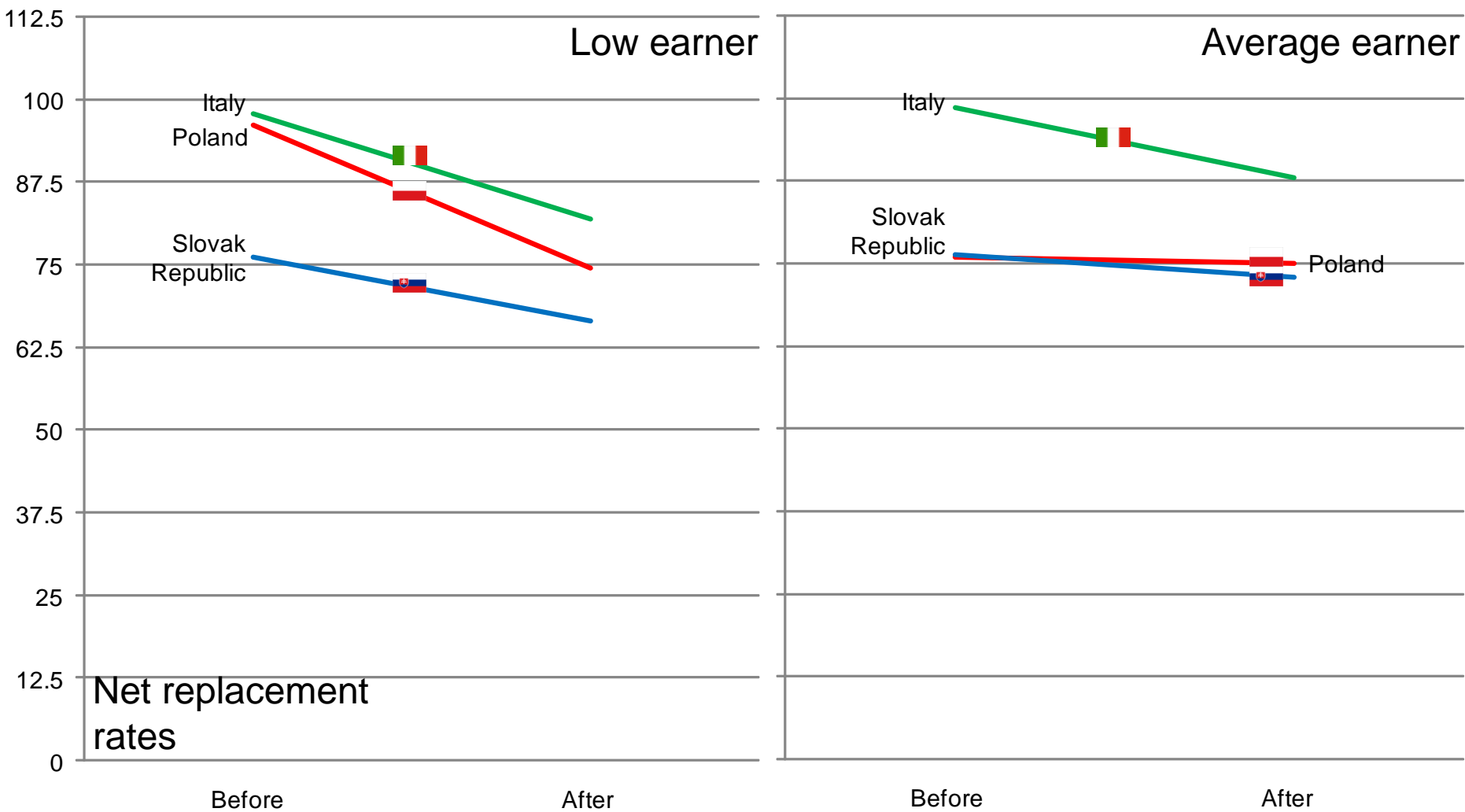
Protecting low earners



Across-the-board cuts



Stronger pension-earnings links





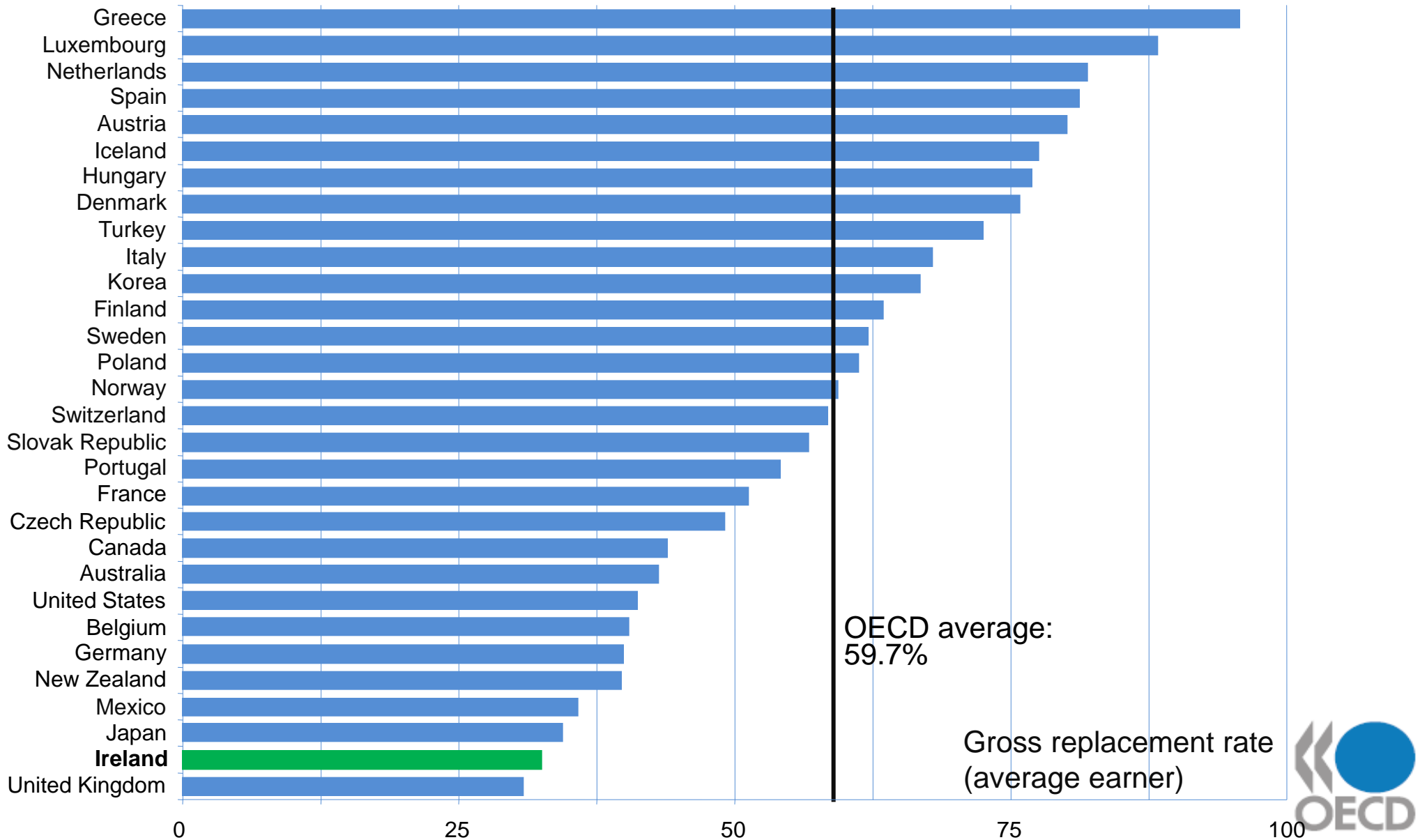
A growing role for private pensions



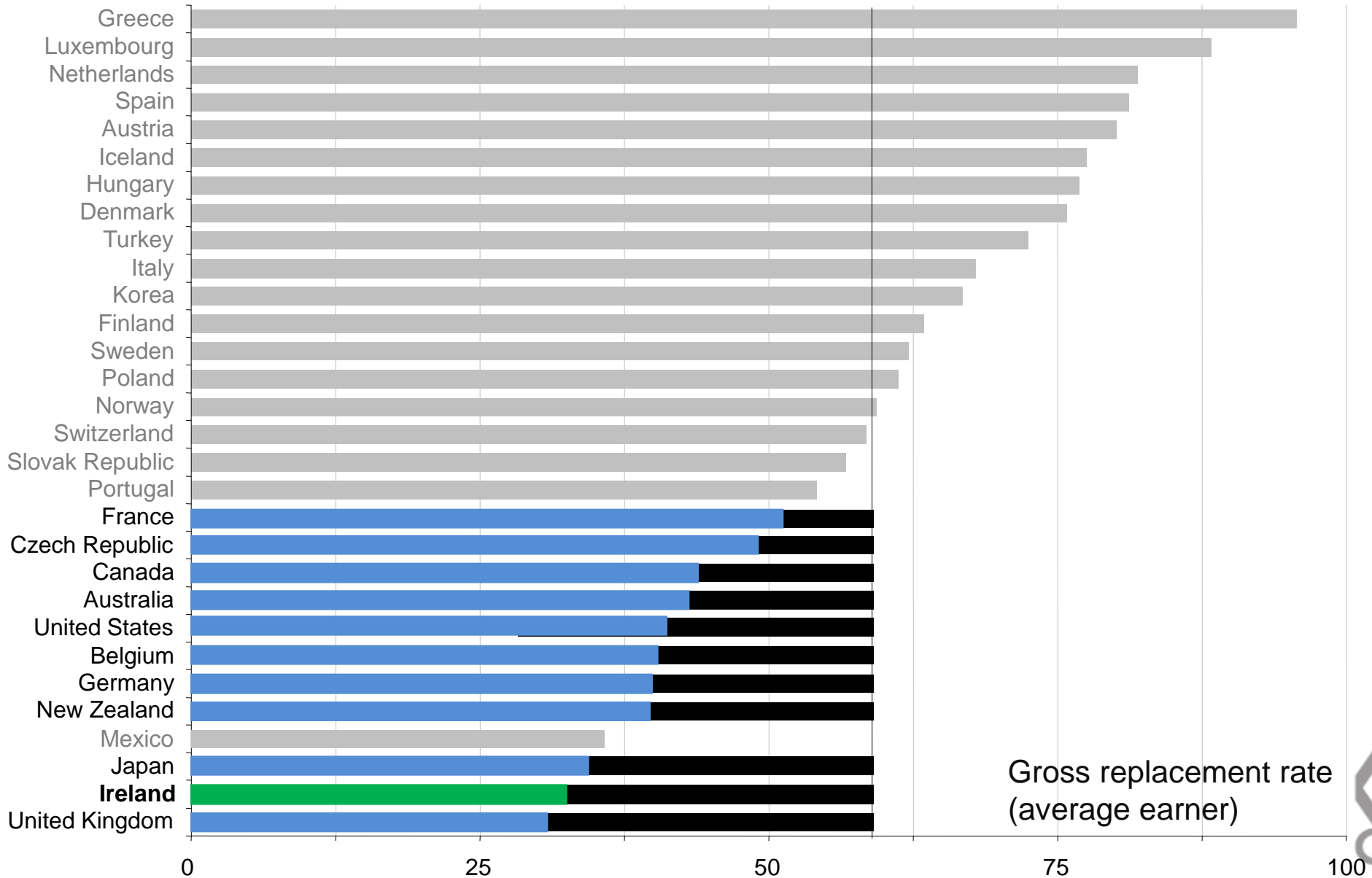
Why has the role increased?

- Mandatory private pensions as *substitute* for part of public provision
 - Latin America, Eastern Europe, Central Asia, Sweden
- Mandate private pensions *on top of* public plans
 - Australia, Hong Kong, Italy, Norway, South Africa
- Cuts in public pensions leave a bigger role for private pensions
 - Germany, Japan
- Many countries have always had voluntary private pensions with broad coverage
 - Canada, Ireland, United Kingdom, United States

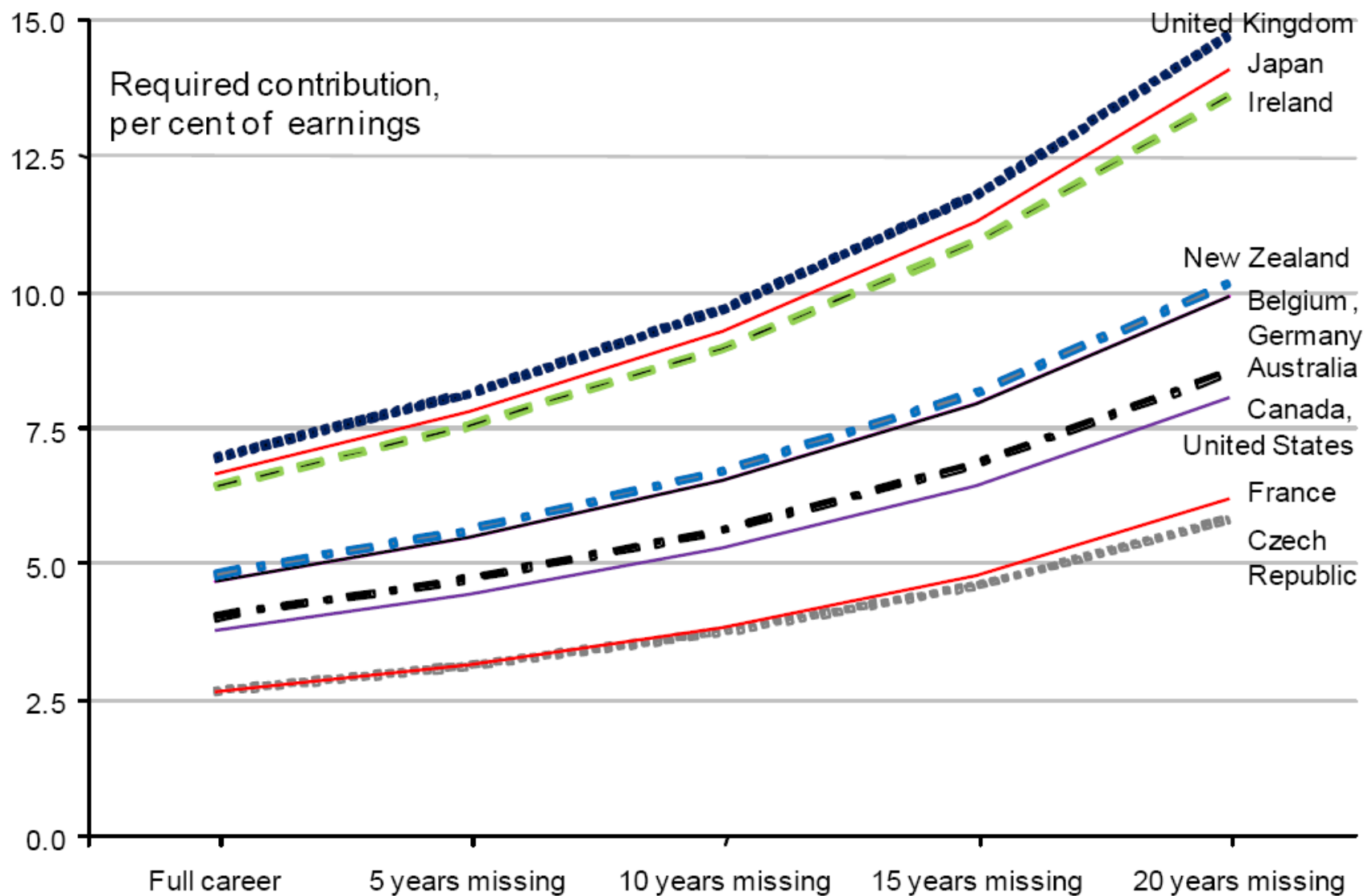
Mandatory pension provision



Pension gap



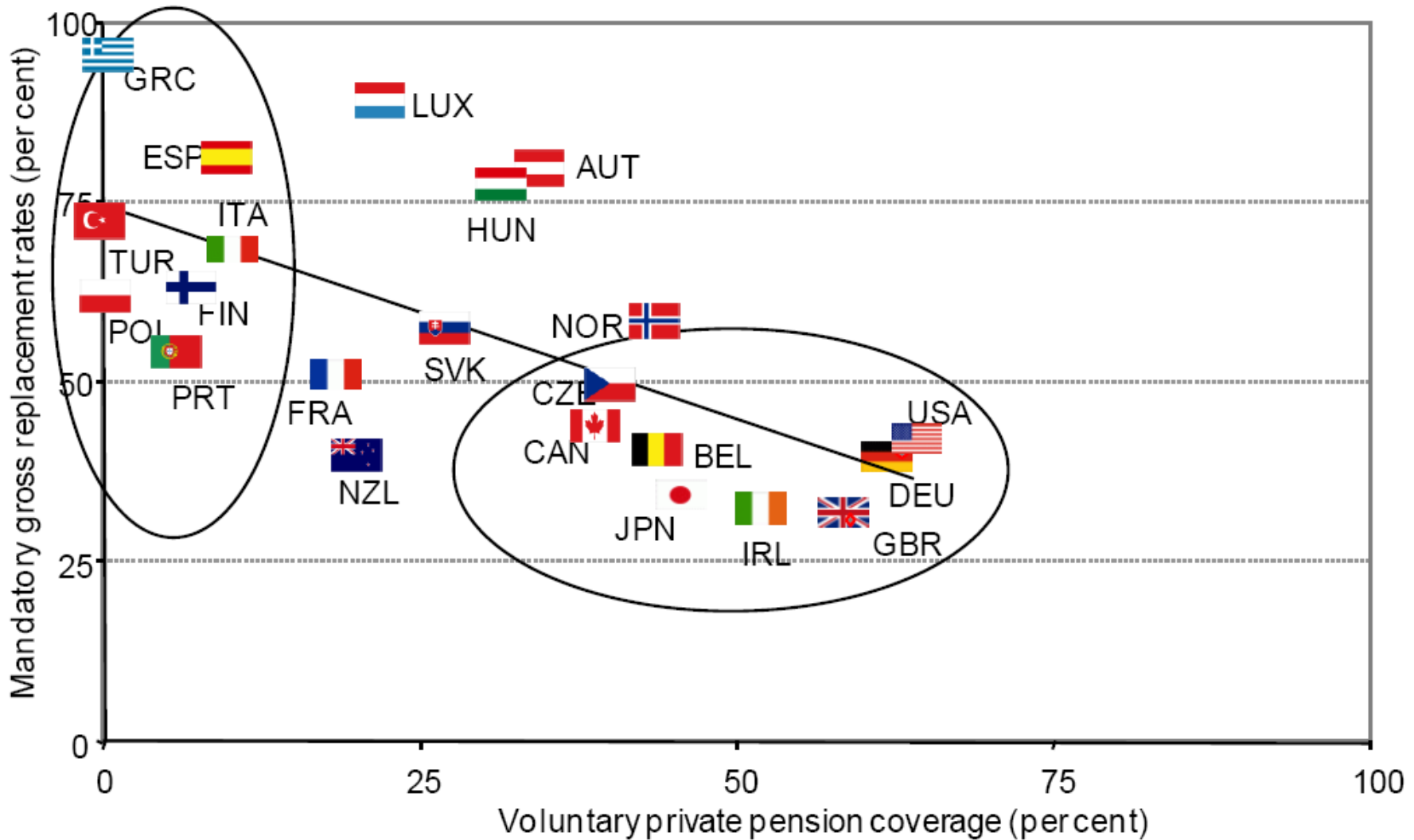
Contributions needed to fill the gap



Issues of concern

- Will enough people save for retirement?
- Will people save enough of their earnings to ensure a decent retirement income?
- Will people save for long enough?

Coverage of private pensions



Issues of concern

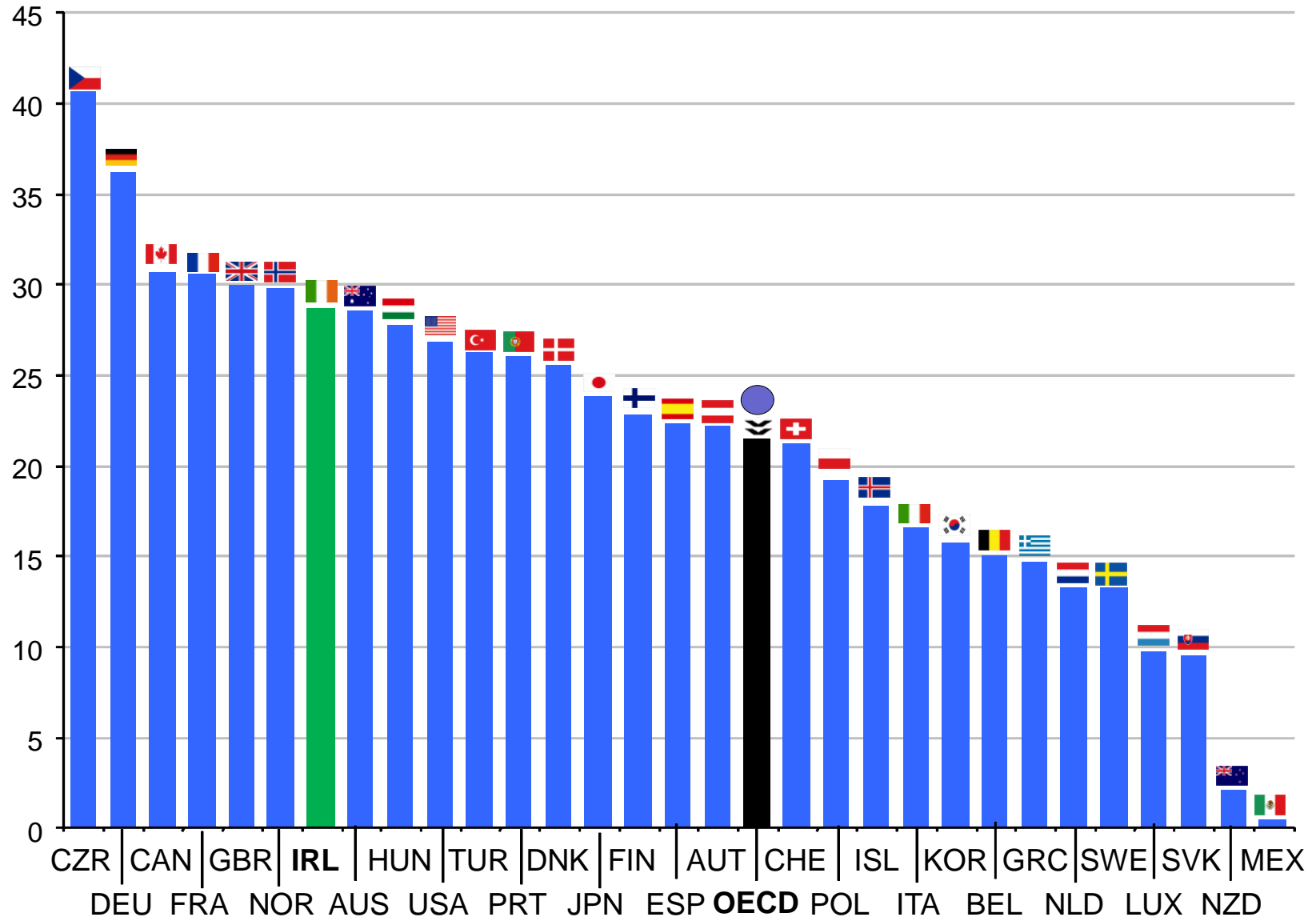
- Will enough people save for retirement?
 - coverage, although broad is far from universal
- Will people save enough of their earnings to ensure a decent retirement income?
 - average (mean) contribution rates (employer plus employee) are 8.5% in Canada, 9% in UK and US and 10% in Ireland
- Will people save for long enough?
 - snapshot versus lifetime views

Encouraging private pension saving

- Compulsion
- Tax incentives

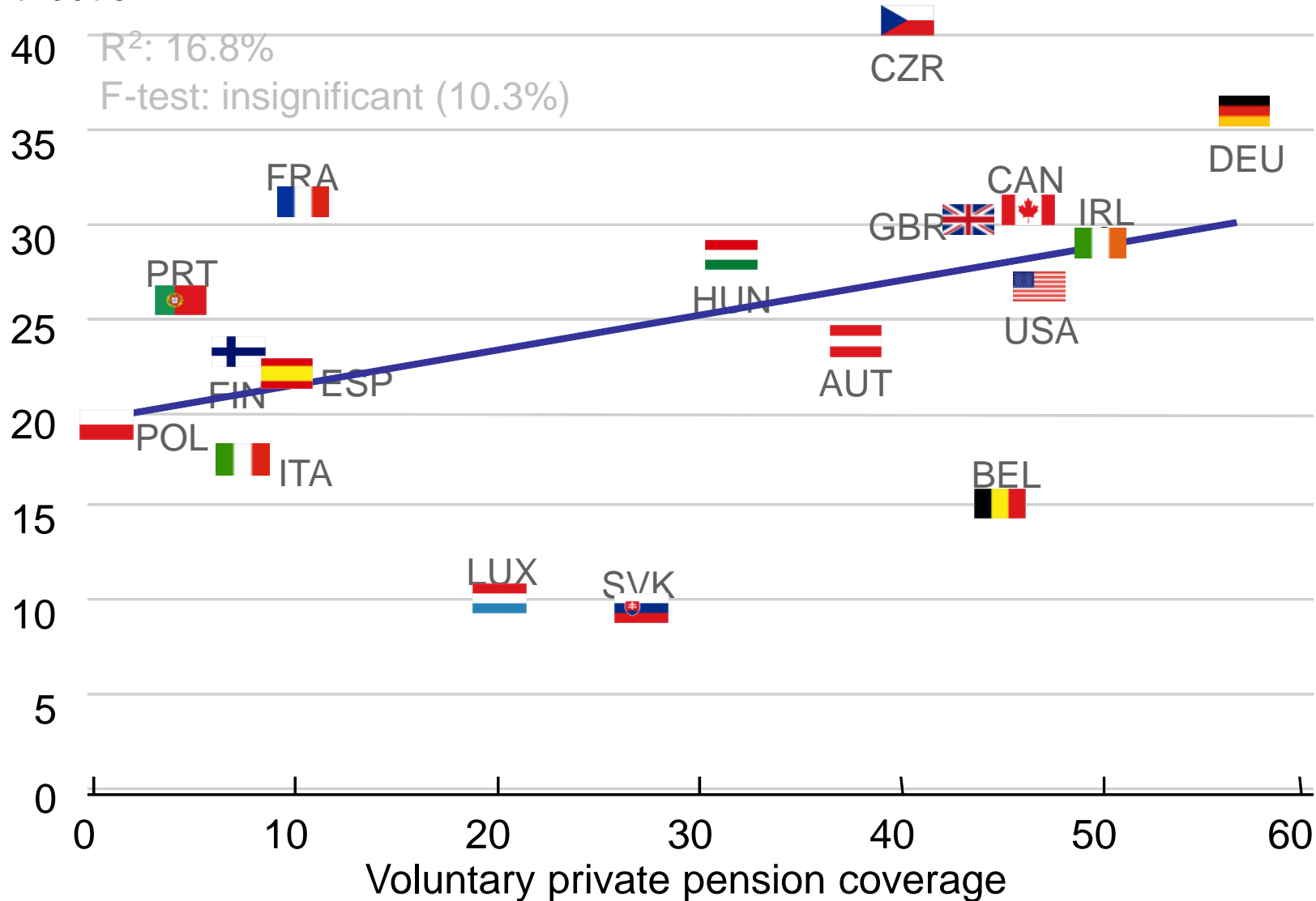
Tax incentives

Tax incentive,
% of contribution



Tax incentives

Tax incentive,
% of contribution



Encouraging private pension saving

- Compulsion
- Tax incentives
- Facilitating access
- Financial education
- Automatic enrolment or “soft compulsion”



Conclusions:
Issues and challenges



Issues and challenges

- Fiscal sustainability
- Early retirement
- Social sustainability
- Voluntary savings

Issues and challenges

- Fiscal sustainability ✓
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Issues and challenges

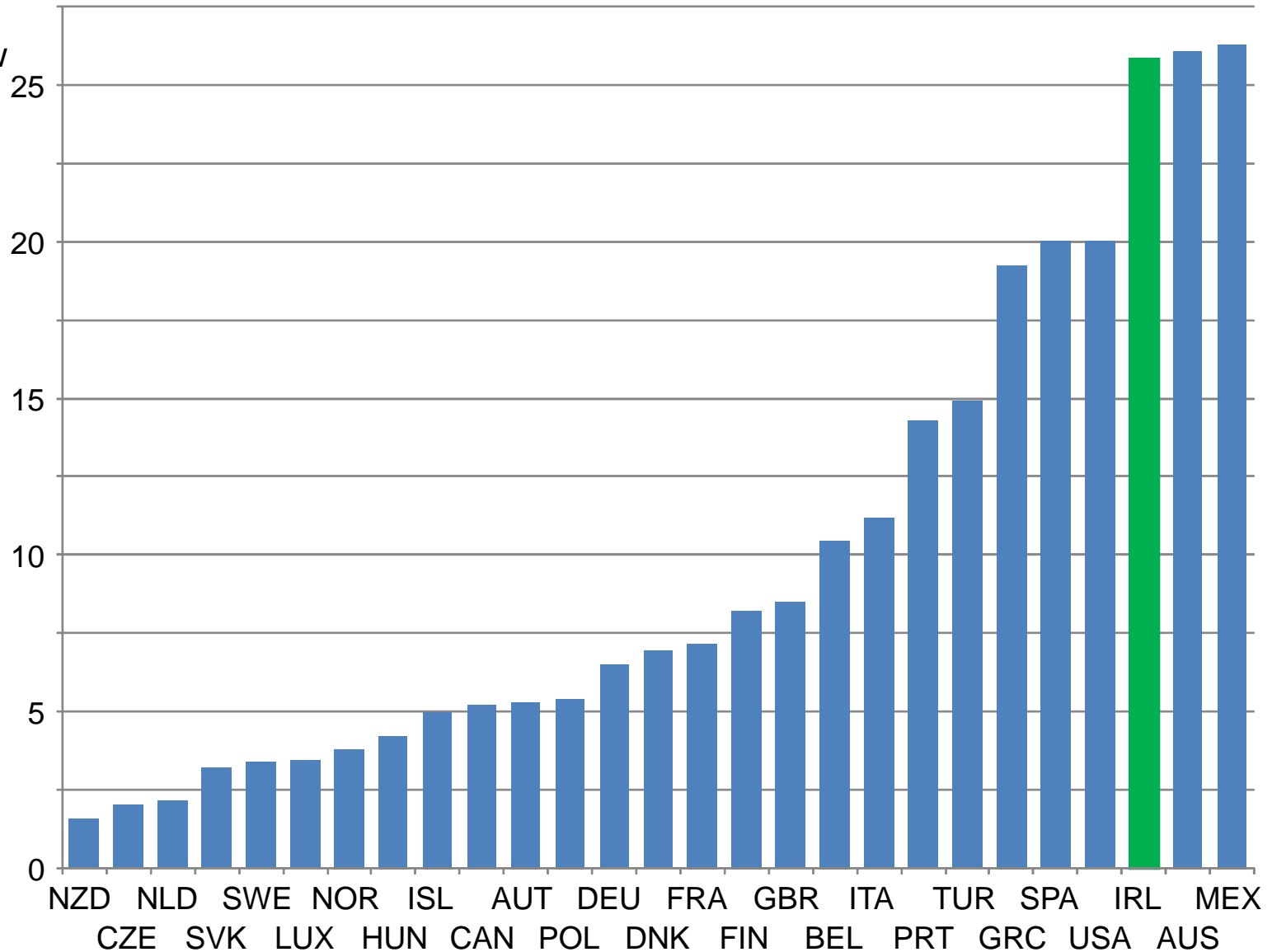
- Fiscal sustainability ✓ ★
- Early retirement
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Issues and challenges

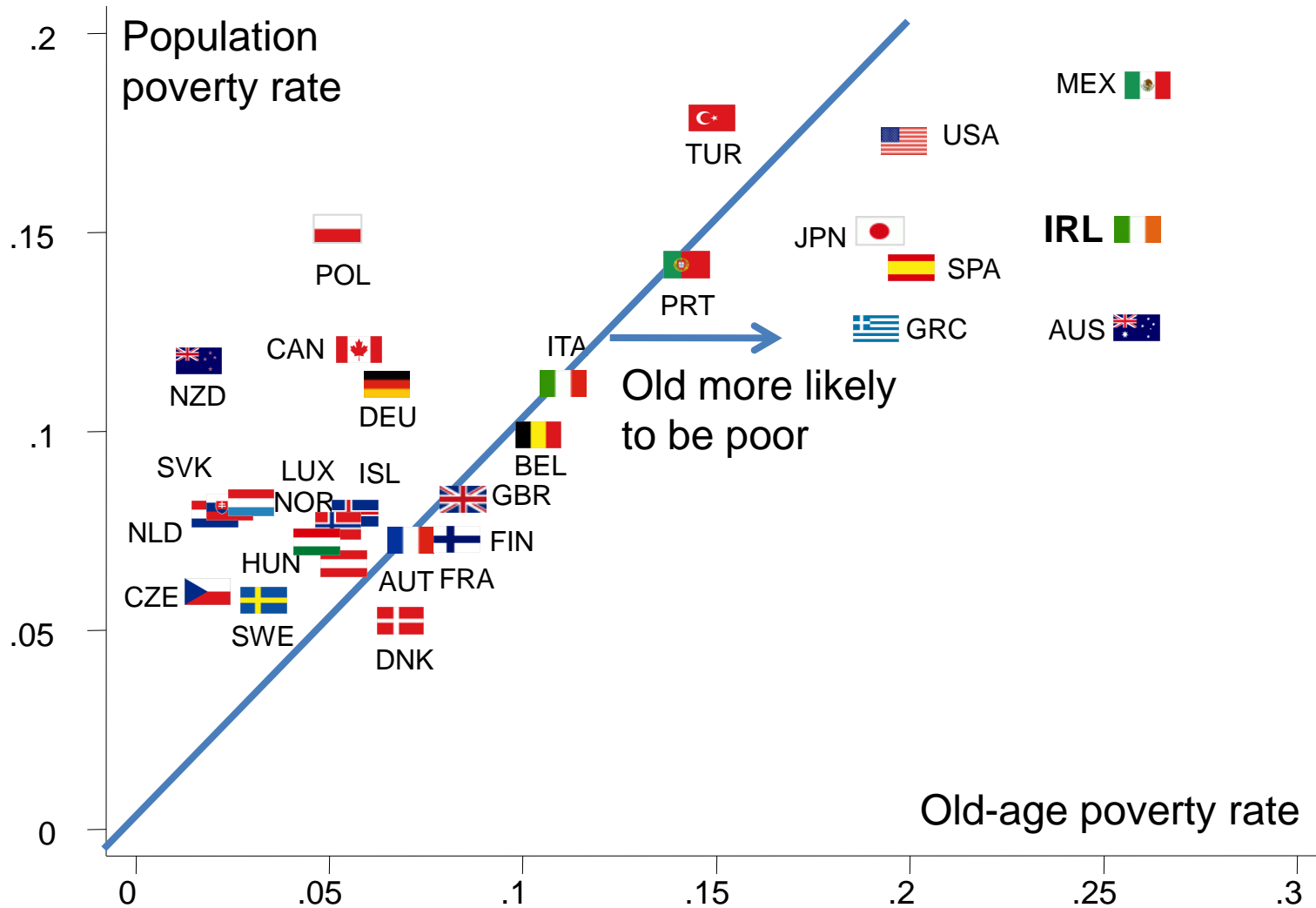
- Fiscal sustainability ✓ ★
- Early retirement ✓
- Social sustainability
- Voluntary savings

Old-age poverty rates

Percentage of
over 65s below
poverty line

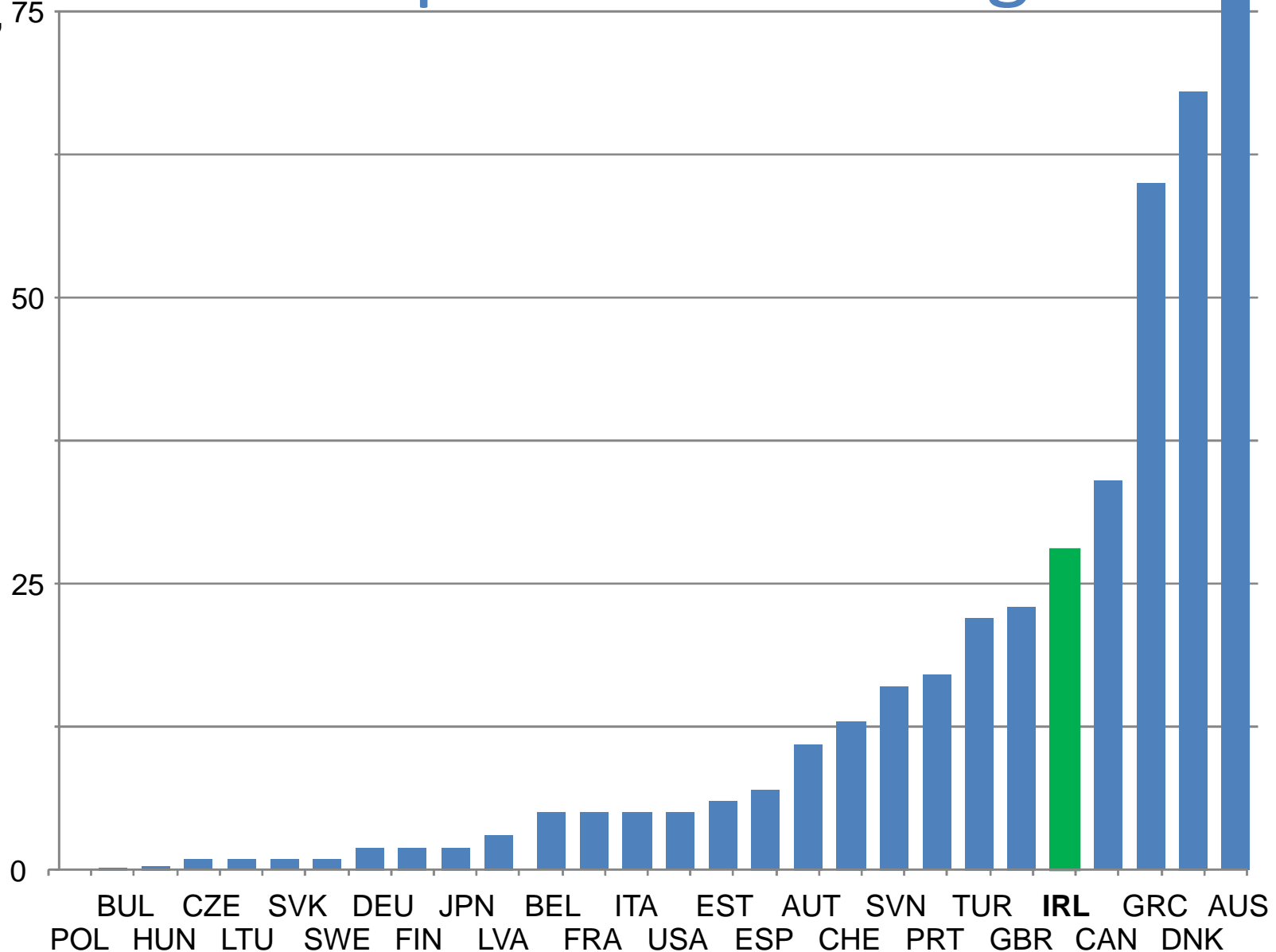


Poverty by age group



Social-pension coverage

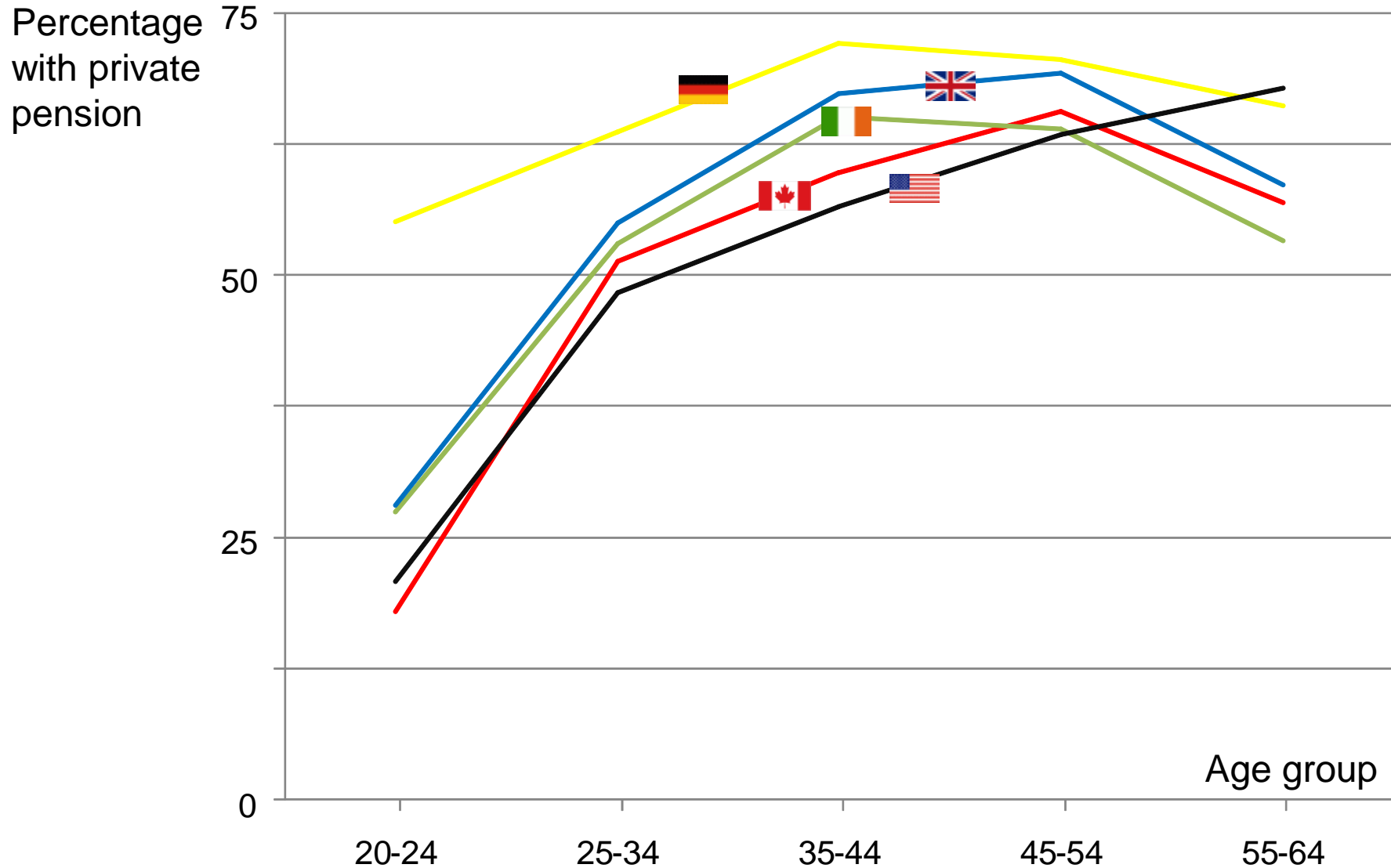
Recipients, per cent of over 65s



Issues and challenges

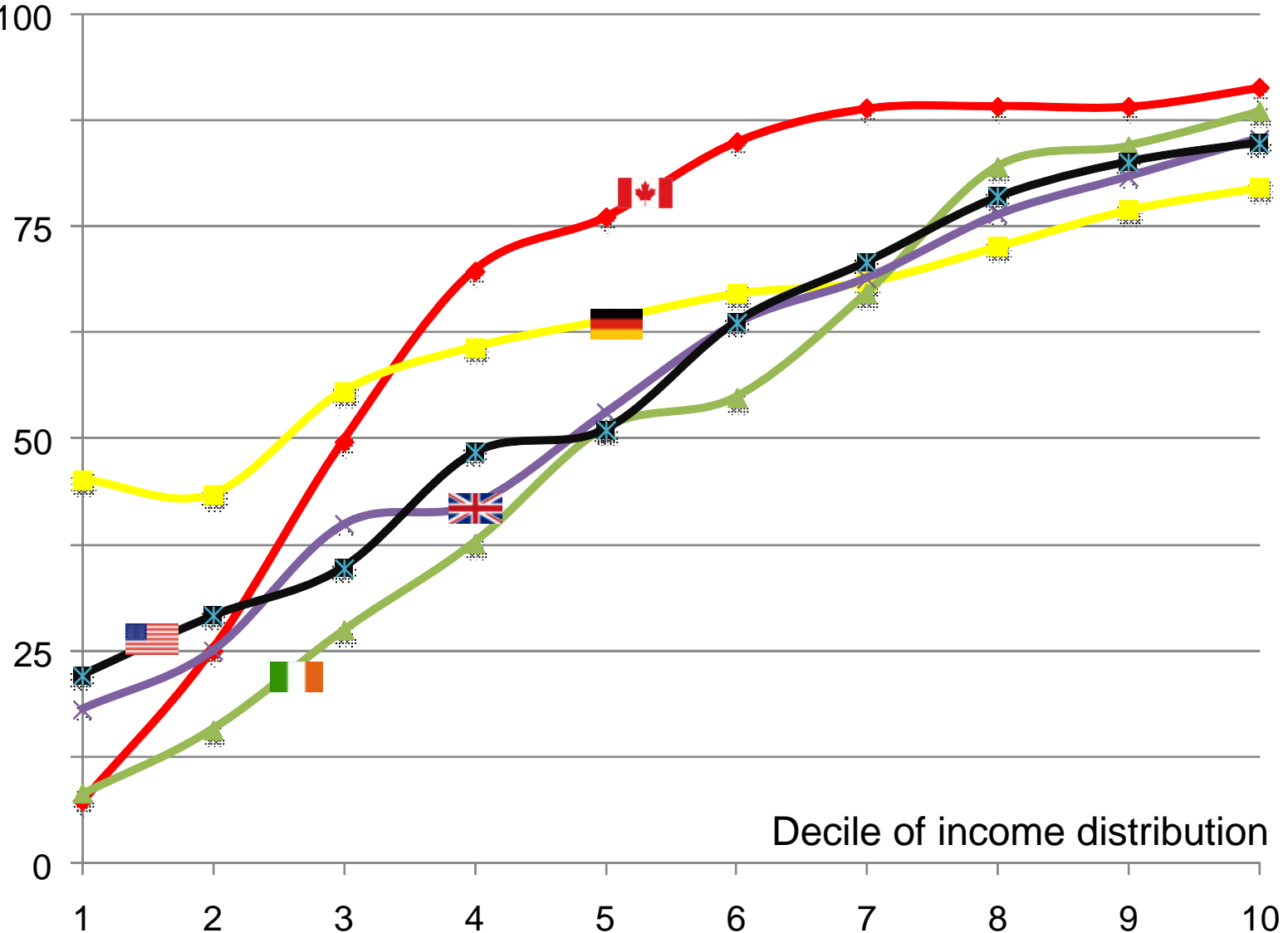
- Fiscal sustainability ✓ ★
- Early retirement ✓
- Social sustainability ?
- Voluntary savings

Private pension coverage by age



Private pension coverage by income

Percentage with private pension



Decile of income distribution

Issues and challenges

- Fiscal sustainability ✓ ★
- Early retirement ✓
- Social sustainability ?
- Voluntary savings ?

Further information

- www.oecd.org/els/social/ageing/PAG
- e-mail: edward.whitehouse@oecd.org
- telephone: +33 1 45 24 80 79

Pensions at a Glance

PUBLIC POLICIES
ACROSS OECD COUNTRIES

Private pensions

A growing role

Private pensions play an important and growing role in OECD countries. In 11 of them – Australia, Denmark, Hungary, Norway, Poland, the Slovak Republic, Sweden, Switzerland, the United Kingdom – the private sector delivers part of the mandatory old age. In addition, voluntary private pensions have become an important part of OECD economies.

Three kinds of policy have increased the role of private pensions. First, Hungary, Mexico, Poland, the Slovak Republic and Sweden have recently introduced mandatory private pensions as a substitute for part of the public pension provision. Secondly, Australia and Norway have added a mandate for a private pension on top of existing public plans. Finally, many countries have scaled back their public pensions, leaving a greater role for voluntary, private savings. These include – most notably – Germany and Japan.

Who has a private pension?

Data on coverage of private pensions, unfortunately, can be very difficult to obtain and are often difficult to compare between countries due to institutional differences in the markets for long-term savings. Table 1 draws on a number of sources; the OECD is working to improve these preliminary data.

Table 1 shows coverage by type of scheme – personal or occupational – and by whether plans are voluntary or mandatory.

Coverage is naturally higher when private pensions are mandatory (Australia, Iceland, Norway, Switzerland). In Hungary, Poland and the Slovak Republic, coverage of private pensions is only mandatory for younger workers and/or new labour-market entrants, whilst others had a choice as to whether to

take out a private pension. In many countries, 60% of the current population is thought of as a

This briefing for pension providers either employer or occupational plan have to join a

Pension reforms

Early birds and laggards

Reforming pensions has loomed large over the policy agenda of OECD countries. It is often said in the United States and elsewhere that reforming public pensions is the “third rail” of politics: touch it and you die. Pension policy involves long-term decisions in the face of numerous short-term pressures. Before the long-term benefits of reform appear, most governments will have left office.

Nevertheless, much has been done since the early 1990s to make pension systems fit for the future; often, more than governments are given credit for. Nearly all the 30 OECD countries have made at least some changes to their pension systems in that period. In 14 of them, however, there have been major reforms that will significantly affect future benefits.

Which countries reformed?

Six of the ten countries with the highest public expenditures on pensions as a percentage of national income in 1990 – Austria, France, Germany, Italy, Sweden and Finland (ordered from highest to lowest spenders) – have undertaken major pension reforms since 1990. These reforms have cut benefits and will lead to lower pension spending in the future.

However, the ten OECD countries with the lowest pension expenditures in 1990 were almost equally active. This group of reformers, which includes Australia, Japan, Korea, Mexico and Turkey, currently has a low level of pension expenditure. Nevertheless, these countries will face significant financial challenges in the future which they are aiming to ease by acting now.

In Japan, the need for change to the pension system is driven by the pace and scale of population ageing. Pension expenditure in Japan almost doubled from

8% of gross domestic product (GDP) in 1990 to 9.3% in 2003.

In Korea, Mexico and Turkey, pension systems are less mature and populations in these countries are currently younger than in other OECD economies. There are still relatively few recipients of old-age pensions and so public pension spending is low. However, Korea is undergoing particularly rapid demographic change, moving from one of the youngest to one of the oldest populations in the OECD in the space of only one generation.

Pensions at a Glance
PUBLIC POLICIES
ACROSS OECD COUNTRIES



This media briefing is one of a pair prepared for the launch of the second edition of OECD Pensions at a Glance in Paris on 7 June 2007.