

An illustration in the top left corner shows a hand with yellow skin and red nails dropping a gold coin into an orange piggy bank. The background is a mix of pink and red circles. The main title is on a dark blue background to the right.

# RECENT PENSION REFORMS AND KEY REMAINING CHALLENGES

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# Context: *difficult times for pension systems*

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- Fiscal pressure is intense
- Low economic growth, high unemployment, low contributions, low returns
  - *imply low internal returns in PAYG schemes, which raises financial sustainability issues*
  - *low financial returns generate retirement-income adequacy concerns*
  - *loss of confidence in private pensions, mistrust that public pensions will deliver promises*
- Population ageing prospects pose a persistent long-term challenge and can amplify those effects



## *Recent policy action*

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- Acceleration of pension reforms
- Future pension entitlements are likely to look very different from those of current retirees
- Financial sustainability of pension systems was improved in the majority of OECD countries
- Pension benefits might be reduced in some as a result. Yet, about half OECD countries introduced measures improving adequacy for certain groups of people
- Serious challenges remain ahead



# *Financial sustainability*

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- About two thirds of OECD countries took measures to improve the financial sustainability of their pension system
- The impact is expected to be especially important in countries worst hit by the crisis (Greece, Hungary, Italy and Portugal)
- No nominal cuts in benefits (except in Greece; in Portugal they were ruled out by the Constitutional Court)



## *Three main types of sustainability measures ...*

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- Less favourable indexation

CZE, ESP, FIN, FRA, GRC, ITA, LUX, POL, HUN, SVK

- Longer working lives (higher retirement age, longer contribution period, tightening of early-retirement, stronger financial incentives)

AUT, AUS, BEL, CAN, DNK, ESP, FIN, FRA, GRC, HUN, IRL, ITA, LUX, NLD, POL, PRT, SVN

- Increased taxation or contributions in DB schemes  
CAN (Quebec), FRA, FIN, HUN, IRL, LUX, NLD



## *But also ...*

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- Move from funded private DC to public PAYG systems

HUN, POL

- Better administrative efficiency in PAYG systems

CAN, DNK, GRC, ITA, JPN



## *Implications for adequacy*

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- As a result pension benefits will be reduced in some countries, in particular in Greece, Italy, Portugal, but also in Finland, the Slovak Republic and Spain (unclear for CZE, FRA, LUX)
- Some countries took some action to address adequacy concerns



# *Main adequacy measures*

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- Extended coverage :
  - pension credits (DEU, EST, FRA, JPN)
  - auto-enrollment/financial incentives (CHL, GBR, LUX, NZL)
  - new schemes (AUS, CAN, CZE, KOR)
- Increase in benefits targeting vulnerable groups (IRL, JPN, LUX)
- Increase in DC contribution rate (GBR, ISR, NZL)
- Lower taxes for pensioners (JPN, MEX, SWE, USA)
- Better governance of DC schemes (AUS, CHL, GBR, NZL)



# *Main trends*

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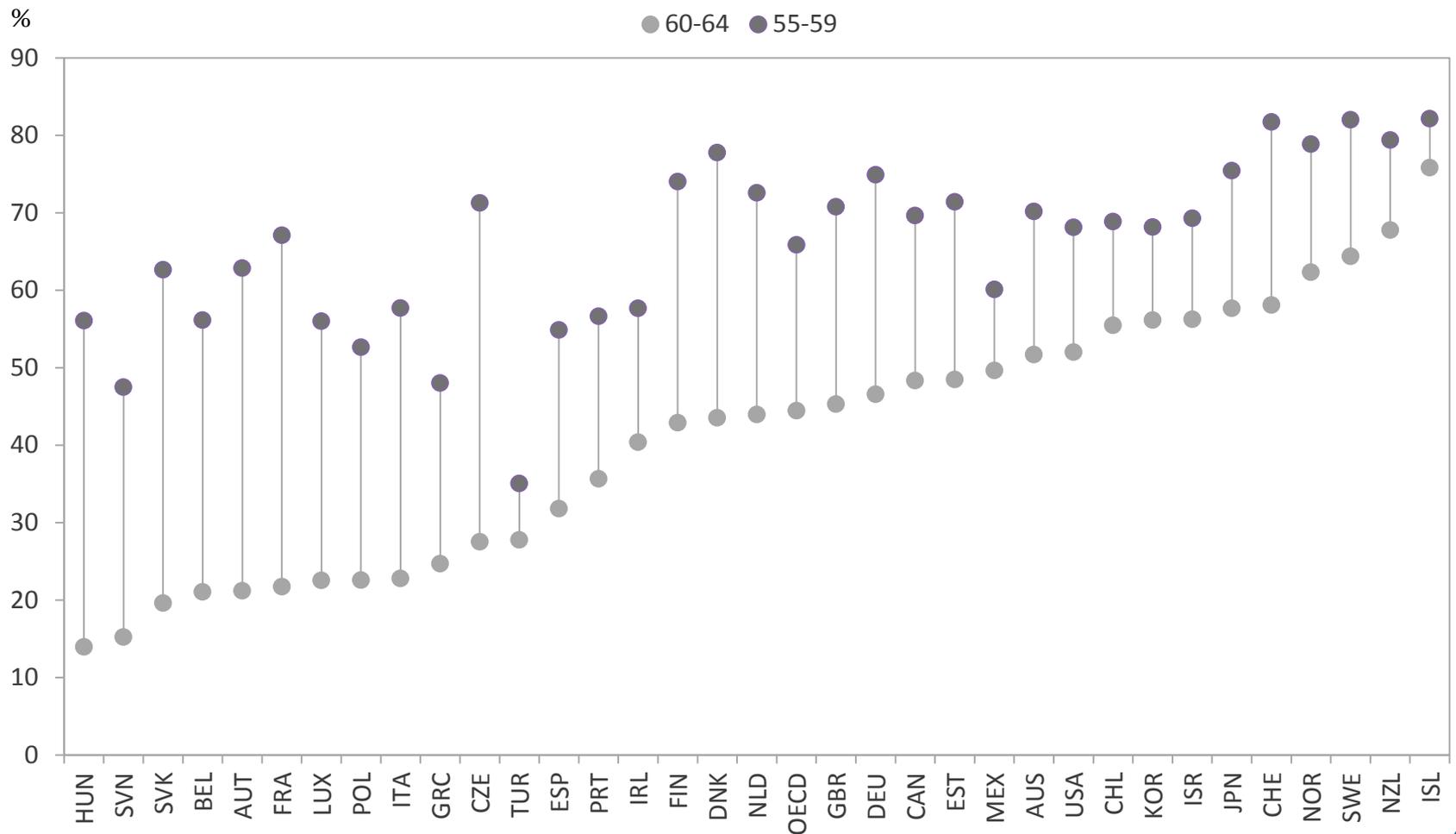
(1) A very positive development

*employment rate of older workers has increased in most countries throughout and despite the crisis (past pension reforms, tightening of early retirement, age composition and gender effects).*

Yet, it remains too low in many countries

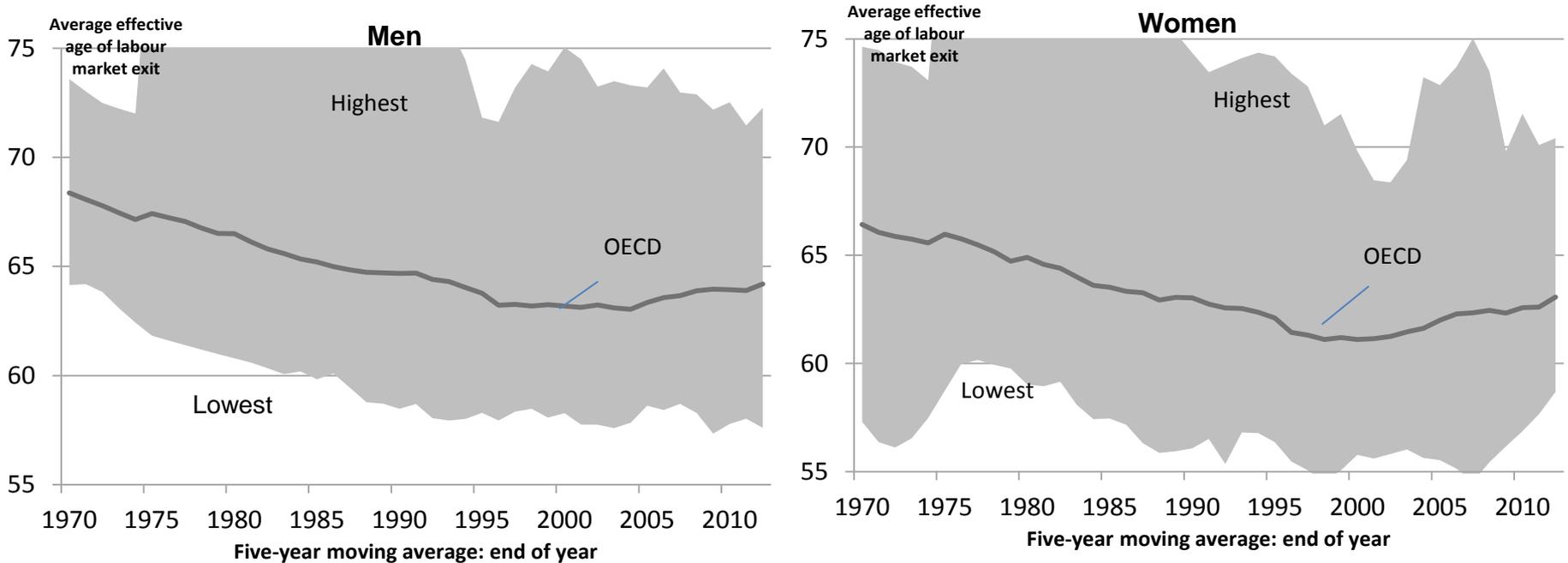
# Older workers' employment rate, 2012, %

*tomorrow's 60-64 to become today's 55-59 ?*





# The average labour market exit age has slightly increased, although from a very low level



Improvements in health facilitate reverting to past performance in terms of the employment rate of older workers (who are less old at the same age than in the past)



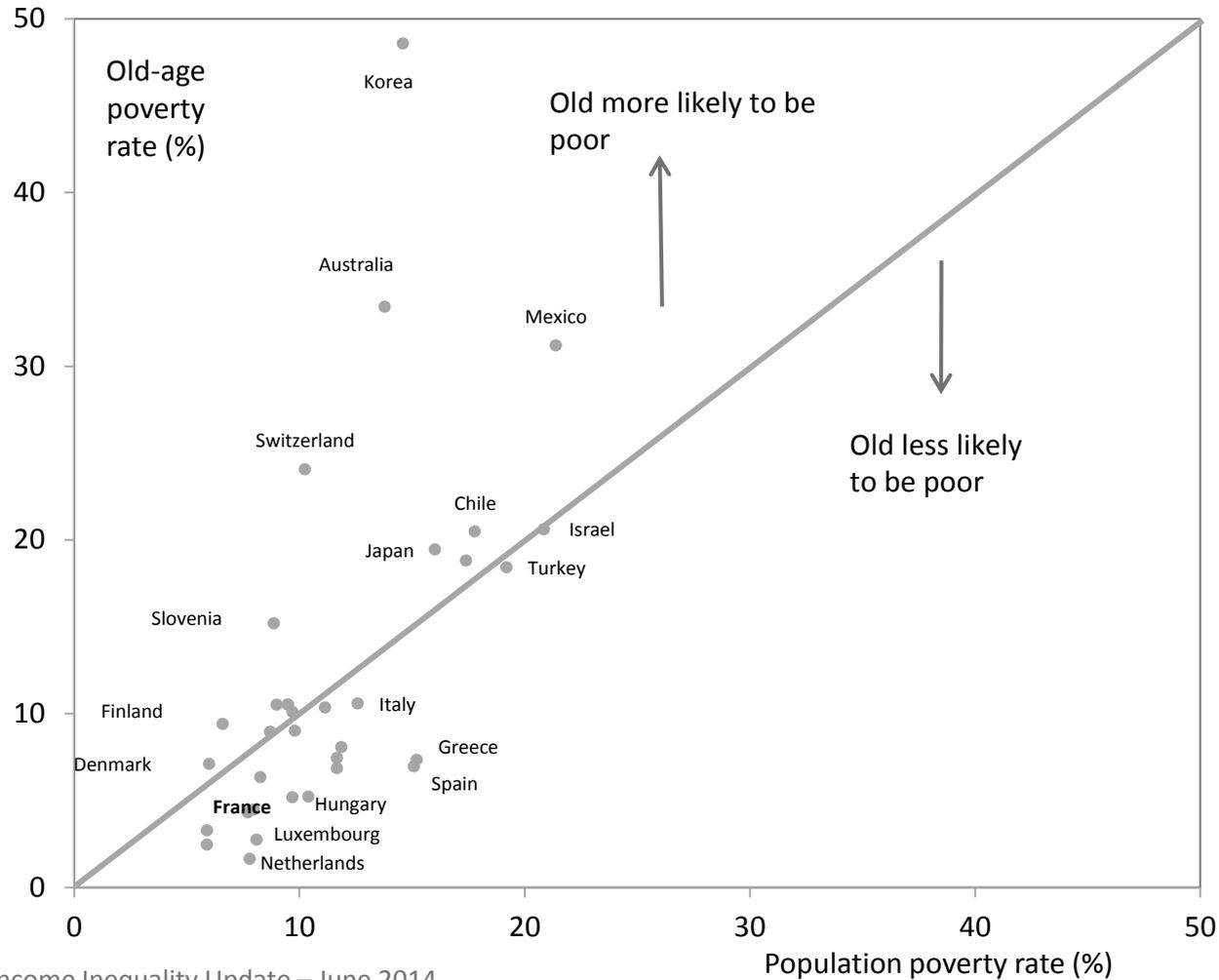
## *Main trends*

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- (1) Increase in employment of older workers
- (2) The poverty risk has shifted away from the elderly to the young



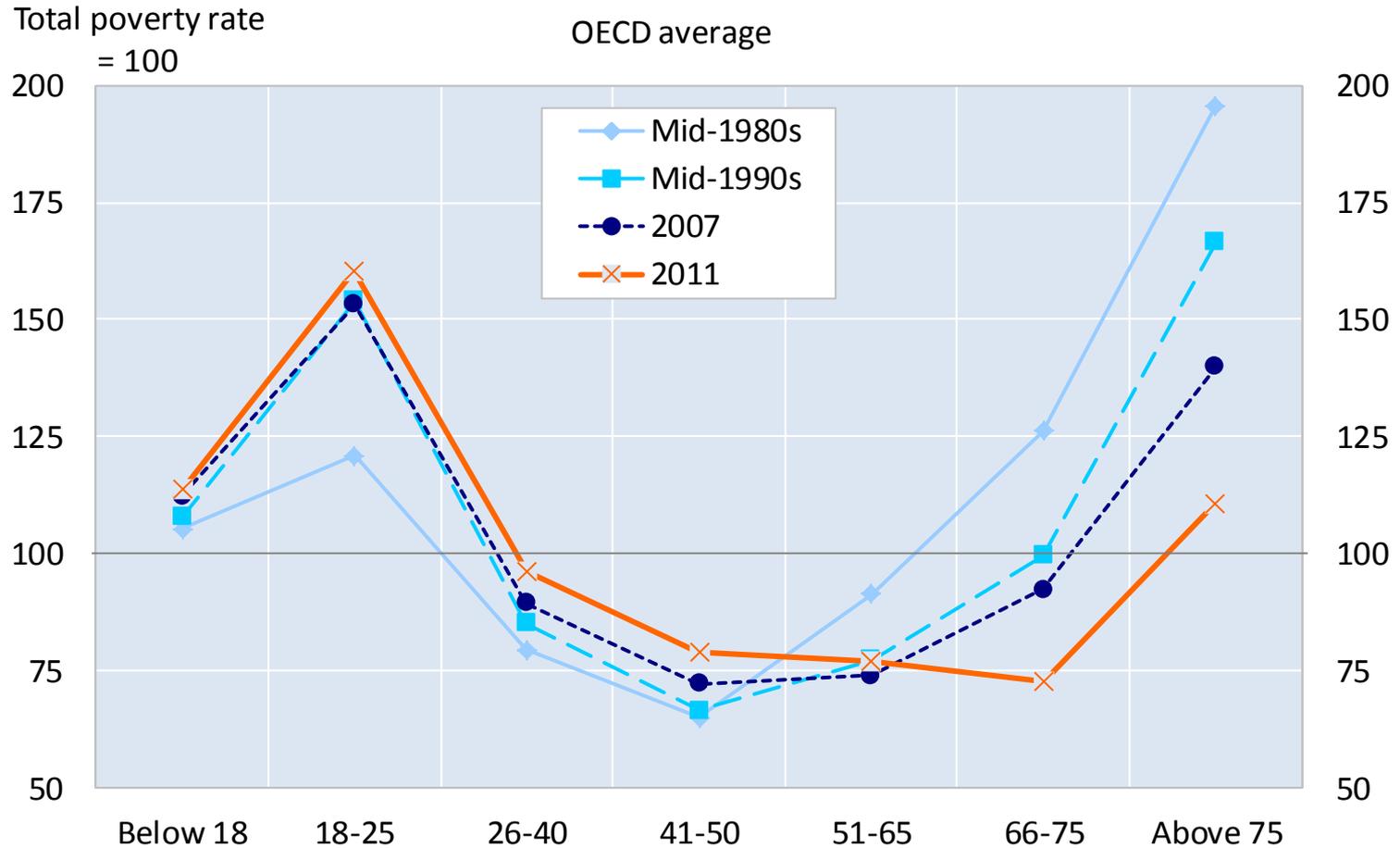
# Old-age poverty-rate has declined



Source: OECD Income Inequality Update – June 2014



# Relative poverty rate by age, OECD avg





## *Main trends*

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(1) Increase in employment of older workers

(2) The poverty risk has shifted away from the elderly to the young

This second trend raises complex inter-generational equity issues



# *Main trends*

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- (1) Increase in older workers' employment
- (2) The poverty risk has shifted from the elderly to the young
- (3) Labour market problems faced by youth in many countries might have long-term adequacy effects
- (4) Differences in life expectancy across socio-economic groups / income seem to have increased
- (5) Fast population ageing compounds some of these difficulties



## *Remaining key challenges – a very brief summary*

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- Ensuring longer effective working lives: both demand and supply issues
- Maintaining income adequacy while concerns arise from labour market, social and financial risks
- Dealing with fiscal pressure on pension systems induced by population ageing
- Better sharing the financial burden across generations
- Addressing inequalities in remaining life expectancy
- Increasing coverage / contributions in private schemes
- Reducing administration costs and management fees (including in the provision of annuities ?)

Pensions  
at a Glance

Pensions at a Glance

Pensions at a Glance  
2009

Pensions at a Glance  
2011

RETIREMENT-INCOME SYSTEMS IN OECD  
AND G20 COUNTRIES

Pensions at a Glance  
2013

OECD AND G20 INDICATORS

OECD



## Pensions at a Glance 2013

OECD and G20 INDICATORS

*New Pensions at a Glance  
forthcoming in November 2015*

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<http://www.oecd.org/social/pensionsataglance.htm>

