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INTERNATIONAL PERSPECTIVE ON STATE PENSION REFORMS IN THE OECD

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BETTER POLICIES FOR BETTER LIVES

Main areas of reform

- Increase retirement age
- Reduce benefit entitlements
- Applying more means-testing
- Transferring the risk

WHAT HAVE COUNTRIES DONE WITH THEIR RETIREMENT AGES?

With differing approaches being planned

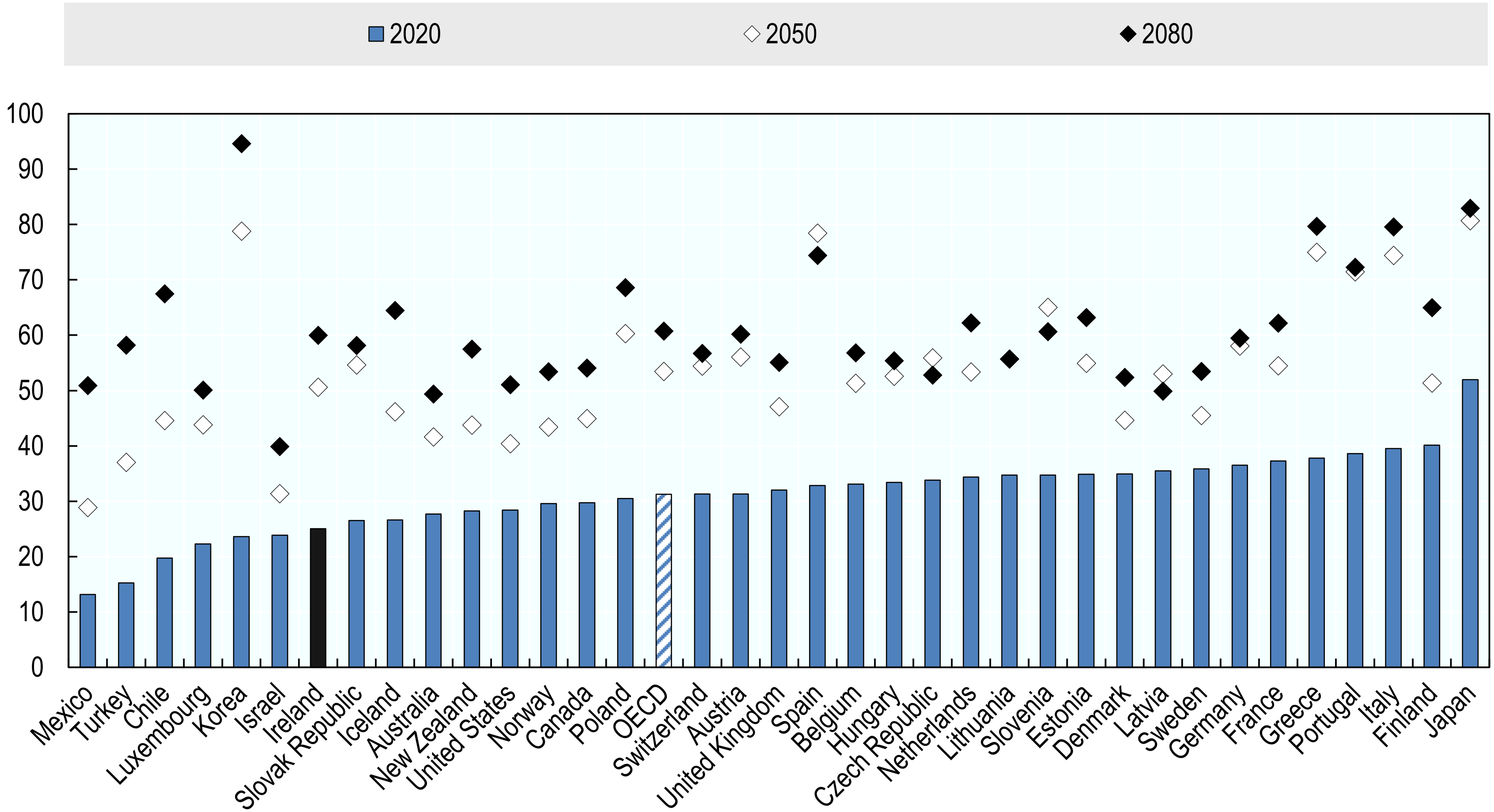
- Automatic links between retirement age and life expectancy: Denmark, Estonia, Finland, Greece, Italy, Netherlands, Portugal and the Slovak Republic.
- Or predetermined increase: Czech Republic by two months every year from 2035. Poland from age 65 to 67 for men and 60 to 67 for women. Ireland and UK increasing to age 68.

But countries reverse many decisions, sometimes before they even start

- Czech Republic – No further increases planned once retirement ages equalise at 65.
- Poland – reversed initial increases and retirement ages remain at 65 for men and 60 for women in the long-term.
- Slovak Republic – suspended planned increases after age 64, but have reversed again, though no new plan is currently in place.
- Ireland – No longer increasing beyond age 66, for now….

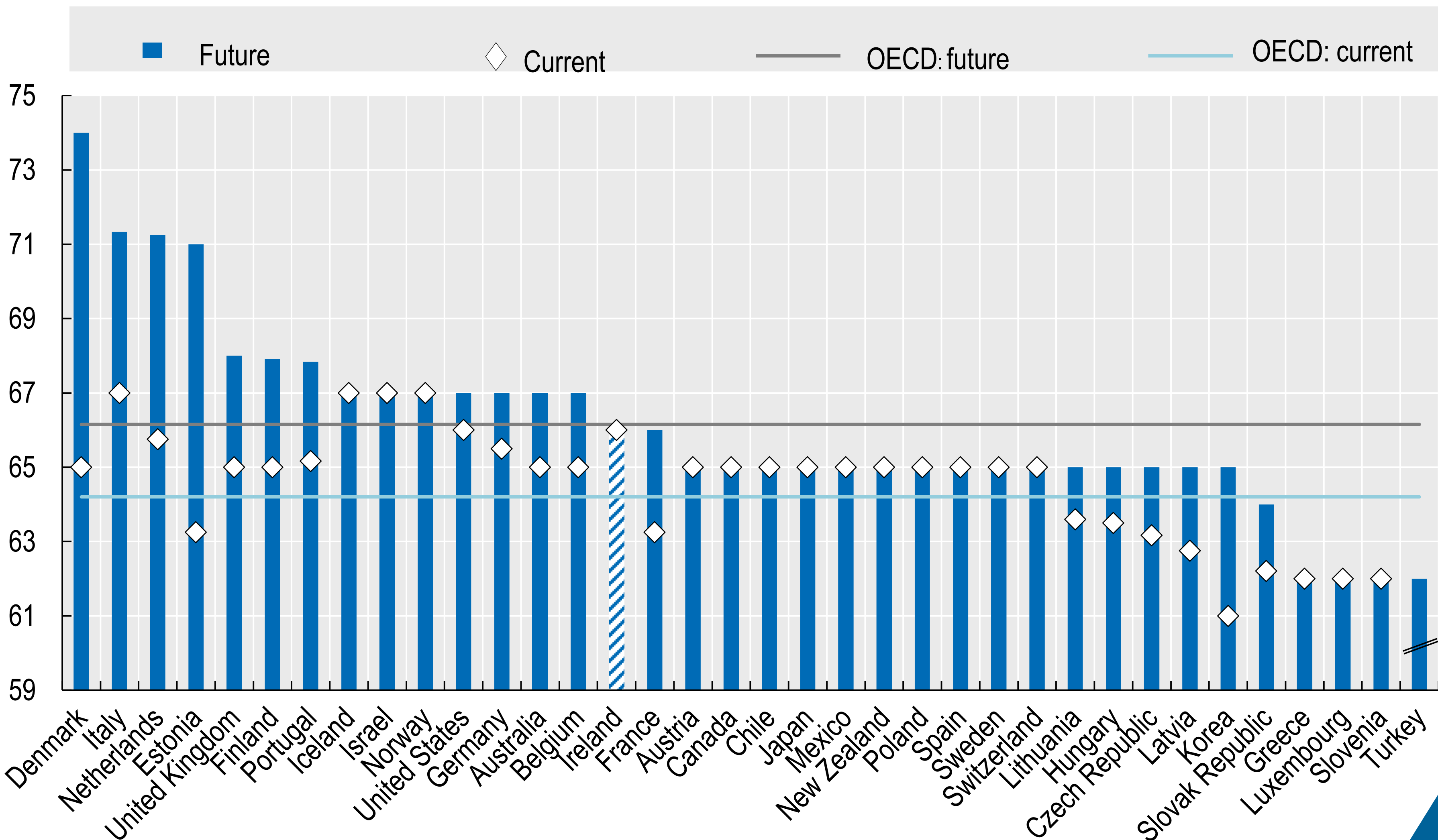
Populations are ageing, and rapidly in many cases

Number of individuals aged 65 and over per 100 people of working age defined as those at ages 20 to 64.



Source: UN Population Prospects 2019 Revision

Pension ages are set to increase in over half of OECD countries



Source: OECD Pensions at a Glance 2019

As many countries workers are exiting the labour market early

Source: OECD Pensions at a Glance 2019

NO TWO OECD COUNTRIES ARE ALIKE WITH PENSION SYSTEM DESIGN

More risk is being passed to the individual than the state

- Prevalence of defined-benefit schemes is falling (21 countries have DB or points).
- Defined-contribution are the new norm during reforms
  - DC (9 countries)
  - NDC (5 countries)
- If not mandatory then auto-enrolment is an option e.g. NEST or KiwiSaver.

Basic pensions are reasonably common

- 15 OECD countries have a basic pension
  - Seven of these are based entirely on residence rather than contributions
- But only three countries do not have a mandatory/quasi-mandatory earnings based scheme in addition
  - Ireland
  - New Zealand (residence based basic)
  - United Kingdom

Qualifying conditions for basic pensions

- Most countries give a full benefit after 40 years of contributions.
- Minimum requirement is commonly 10 years, though some start with any contribution.
- Benefits commonly reduced pro-rata based on contribution or residence.
- Each year tends to count equally for qualification.

Early or flexible retirement is possible but not common

- Basic pensions usually restricted to normal retirement age at the earliest.
- CZE, GRC, JPN, KOR and LUX have more flexibility.
  - CZE, JPN and KOR have early retirement with penalty in combination with earnings related.
  - GRC and LUX permit retirement without penalty after 40 years.
  - Neither NZL or GBR have any early retirement option.

An alternative to increasing retirement ages is to adjust future benefit levels

- Defined contribution plans automatically adjust by calculation of annuities.
- Similarly for Notional Accounts Plans: Italy, Latvia, Norway, Poland and Sweden
- Sustainability factors in defined benefit plans: Finland and Spain
- Adjustments to the "dependency ratio" or the financial balance: Germany, Spain, Portugal and Sweden

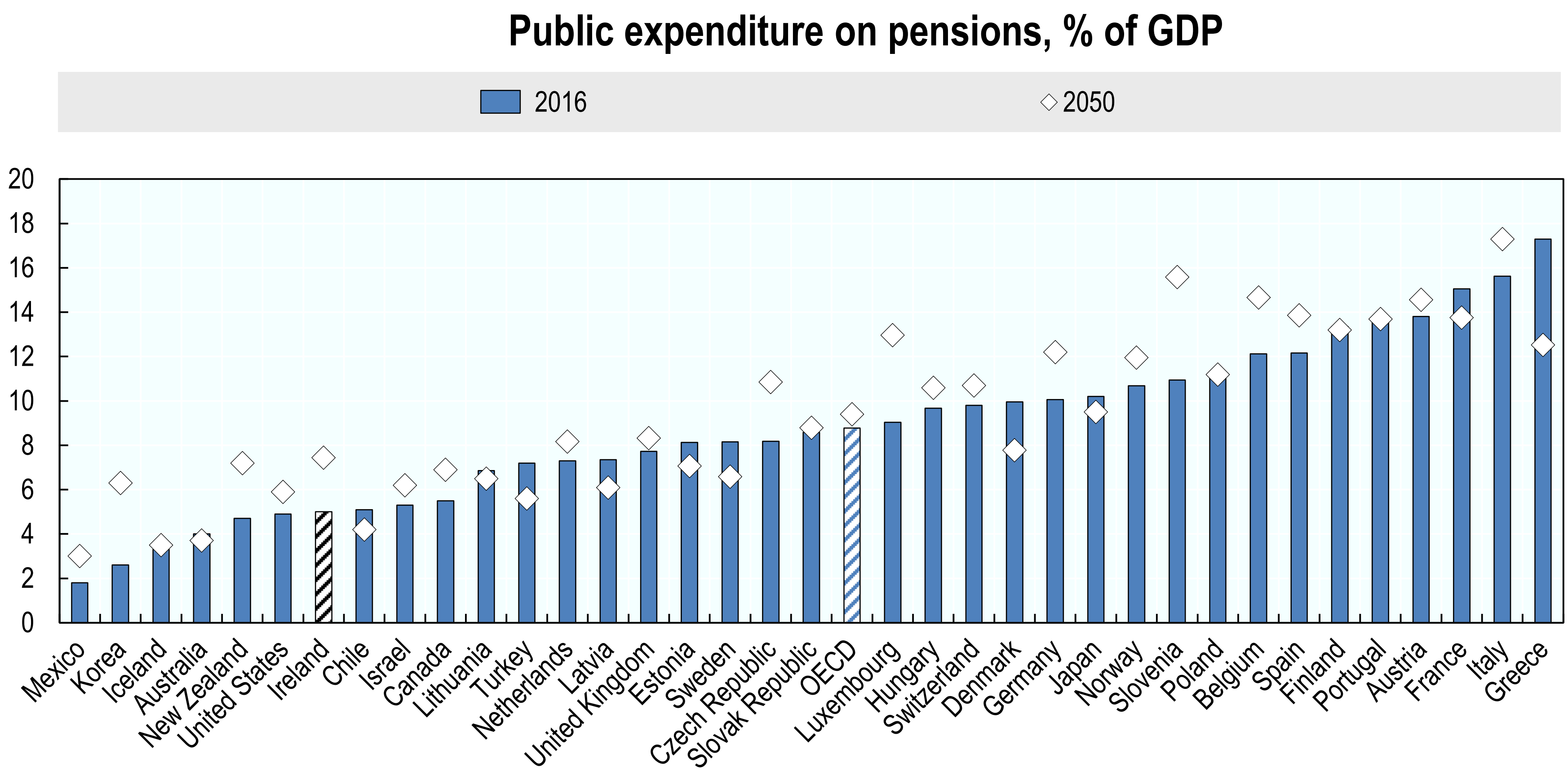
BUT MANY MORE ISSUES STILL REMAIN

Mandatory retirement ages are still commonplace

- Only Denmark, Poland the United Kingdom among European countries have abolished.
- Australia, Canada, New Zealand and the United States have also done so.
- Finland (68), Sweden (67), Iceland, France, Portugal (all 70), Norway (72).
- The ages are usually above the normal retirement age – Korea is the main exception in OECD.

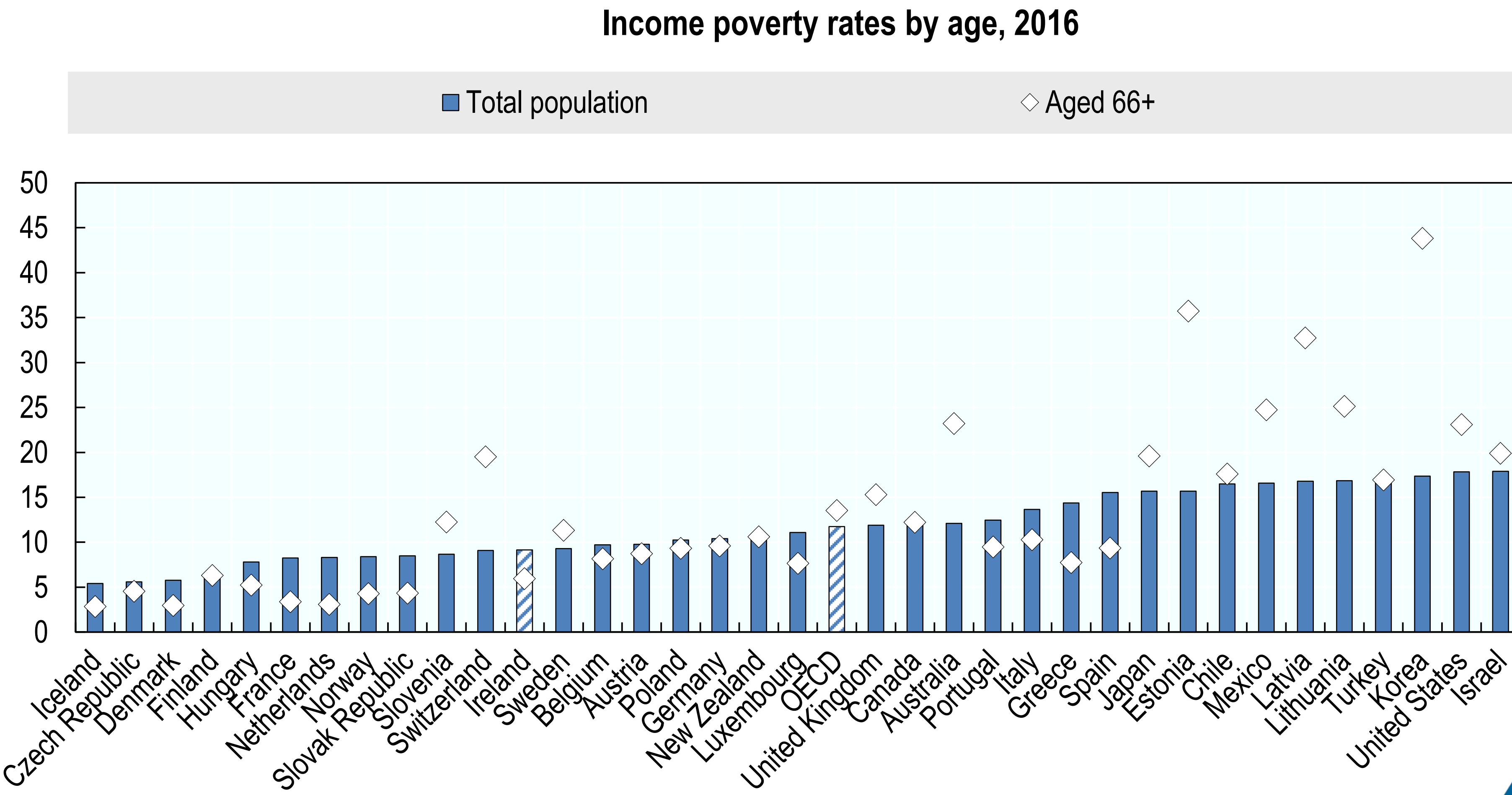
Expenditure is forecast to increase in many countries, including Ireland

- Spending in Ireland is forecast to increase from 5.0% in 2015 to 7.4% in 2050.



Source: OECD Pensions at a Glance 2019

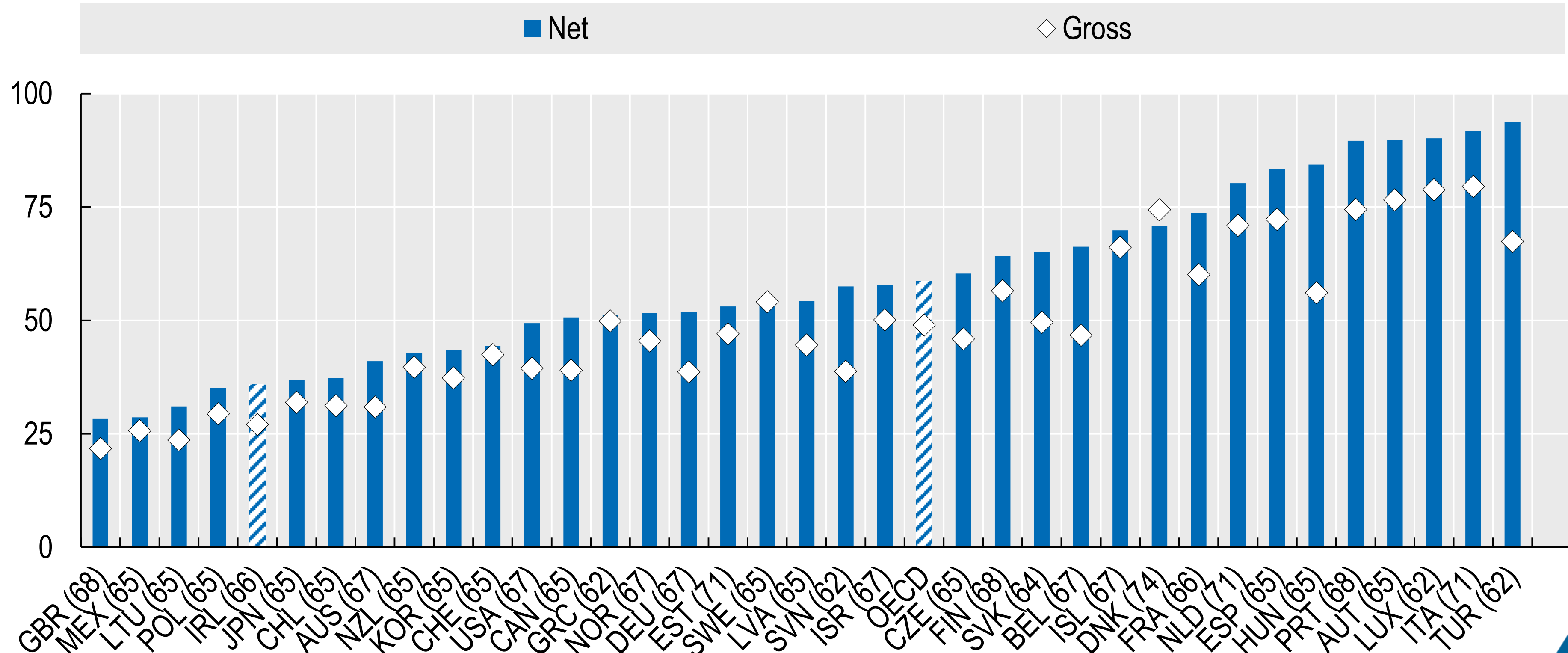
Older people are commonly at higher risk of falling into poverty



Source: OECD Pensions at a Glance 2019

Future benefit levels may not be able to meet the needs of the elderly

- Only New Zealand has a higher level of basic pension than Ireland.



Source: OECD Pensions at a Glance 2019

CONCLUSION

Limited options available in many cases

- Little choice in many countries beyond increasing retirement age.
- Basic pensions less commonplace and sometimes now means-tested.
- Mandatory retirement ages need to be removed or at least less restrictive.
- Flexible retirement more common with earnings-related schemes than with basic pensions.

Thank you for your attention

oecd.org/els/public-pensions
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