40TH ASEAN SOCIAL SECURITY ASSOCIATION (ASSA) BOARD MEETING

20-22 November 2023

PENSION REFORM: WHAT HAS BEEN ACHIEVED AND WHAT REMAINS TO BE DONE?

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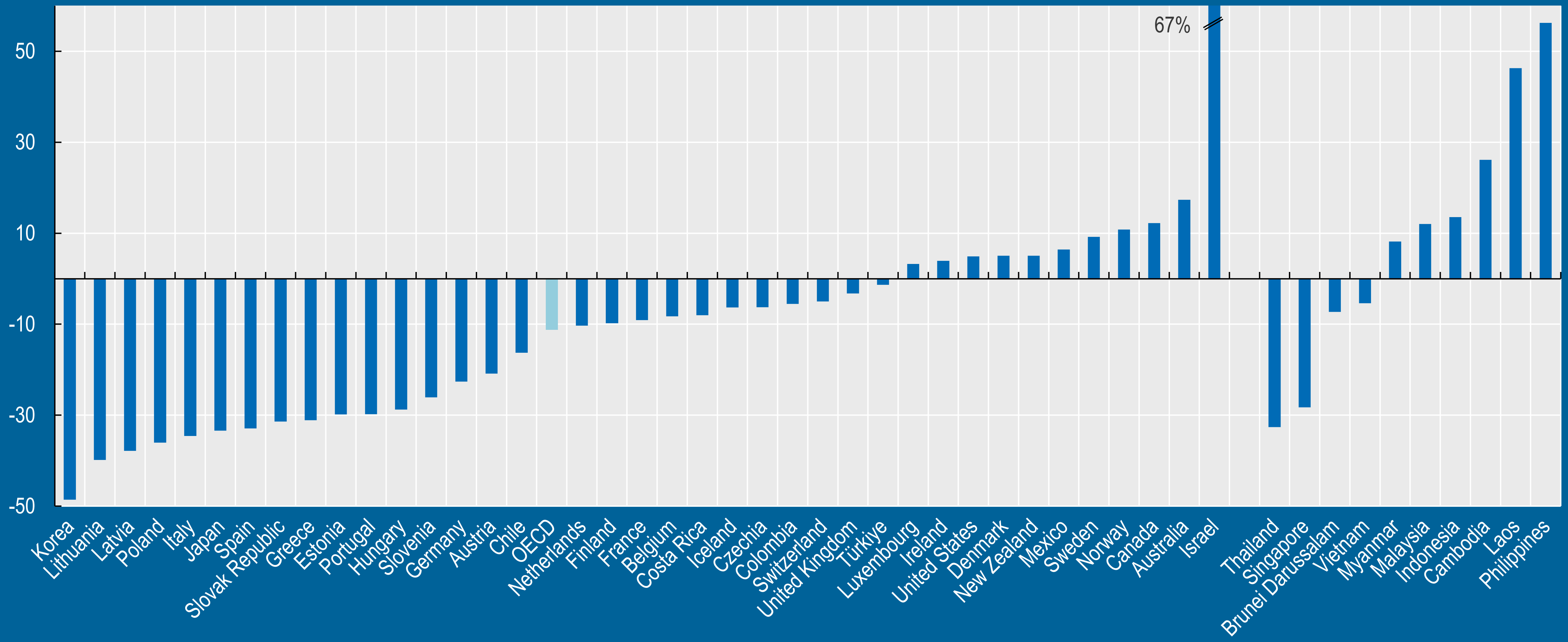
BETTER POLICIES FOR BETTER LIVES

What is happening in the OECD

- Coverage is high for employees – around 90%
- Self-employed are also increasing
- Public sector was normally covered first
- Retirement ages are increasing
- Sustainability measures are becoming more common
- Redistribution is effective
- Career breaks are compensated
- Female employment rates are increasing

Populations are ageing, but at different rates, which will impact future working age populations

Change in the working age population (20-64), 2022-2062



Source: United Nations World Population Prospects: The 2022 Revision.

WHAT HAVE COUNTRIES DONE WITH THEIR RETIREMENT AGES?

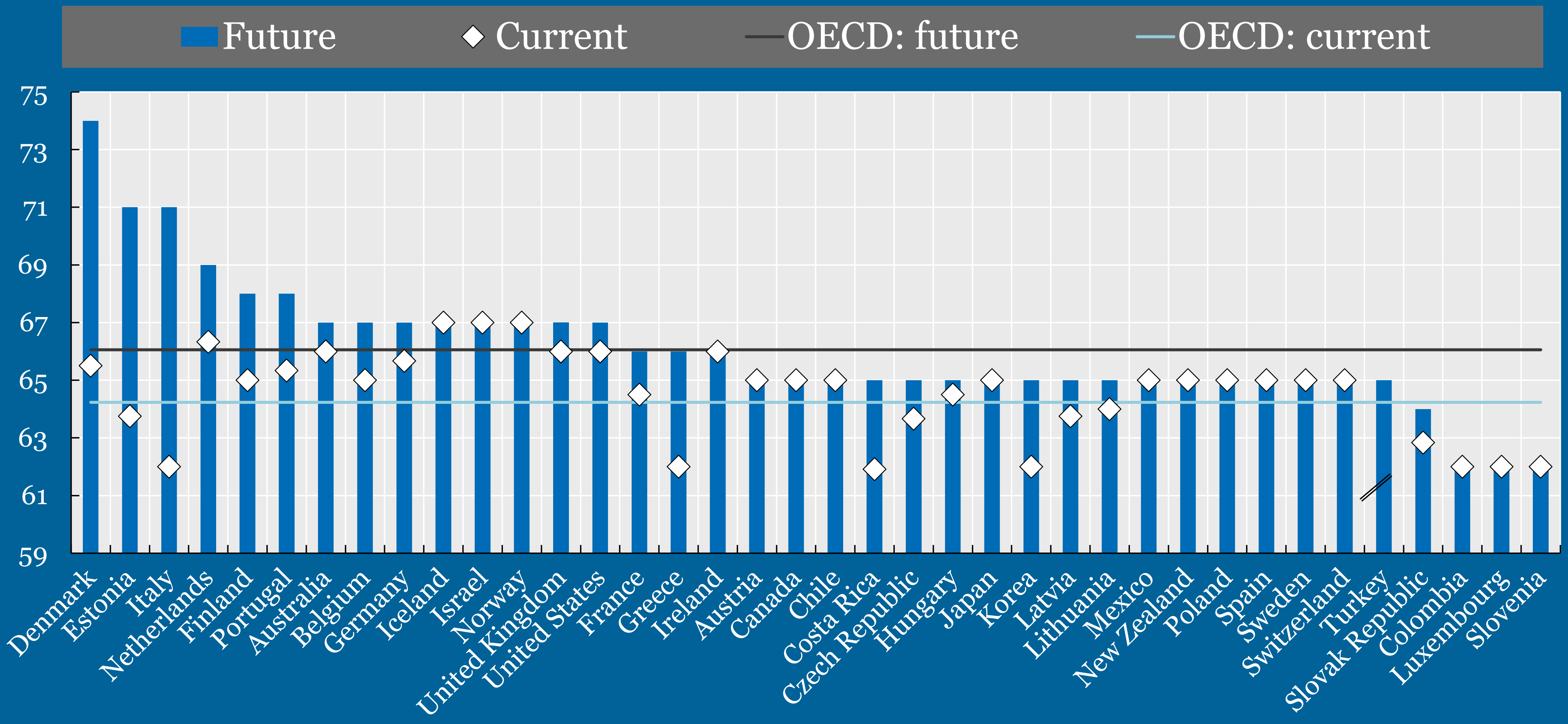
Differing approaches have been planned

- 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.
- Ireland – No longer increasing beyond age 66.

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



Source: OECD Pensions at a Glance 2021

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 (10 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 two countries do not have a mandatory/quasi-mandatory earnings based scheme in addition
  - Ireland
  - New Zealand (residence based basic)

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 IRL have any early retirement option.

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

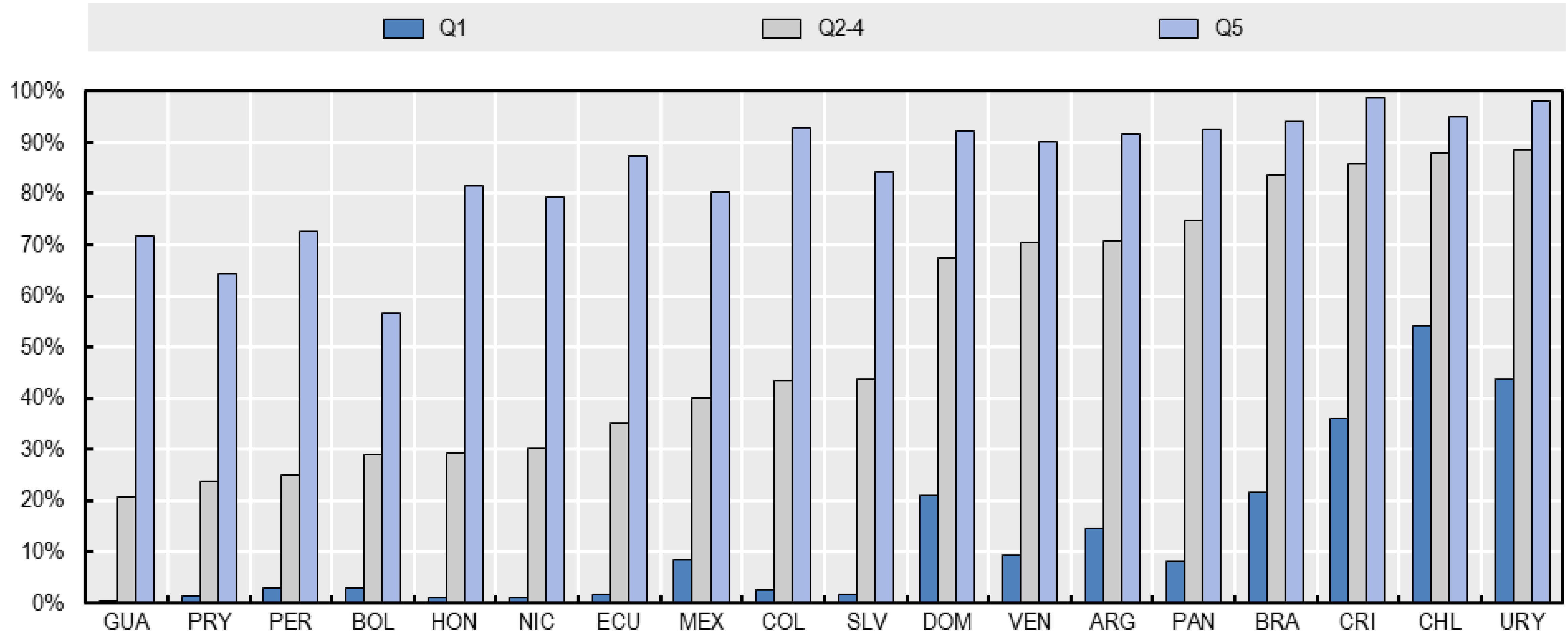
- Defined contribution plans automatically adjust by calculation of annuities.
- Similarly for Notional Accounts Plans: Italy, Latvia, Norway, Poland and Sweden
- Sustainability factors in defined benefit plans: Finland
- Adjustments to the "dependency ratio" or the financial balance: Germany, Spain,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

What can be done?

- Pensions could be universal, flat-rate, tax-financed for all residents.
- Higher earners could supplement pensions of those with lower incomes through a ceiling to benefit levels.
- Governments could offer subsidies to encourage participation.
- Safety-net benefits will still be needed.

Coverage is not always high

Coverage in Latin American and Caribbean countries by income quintile

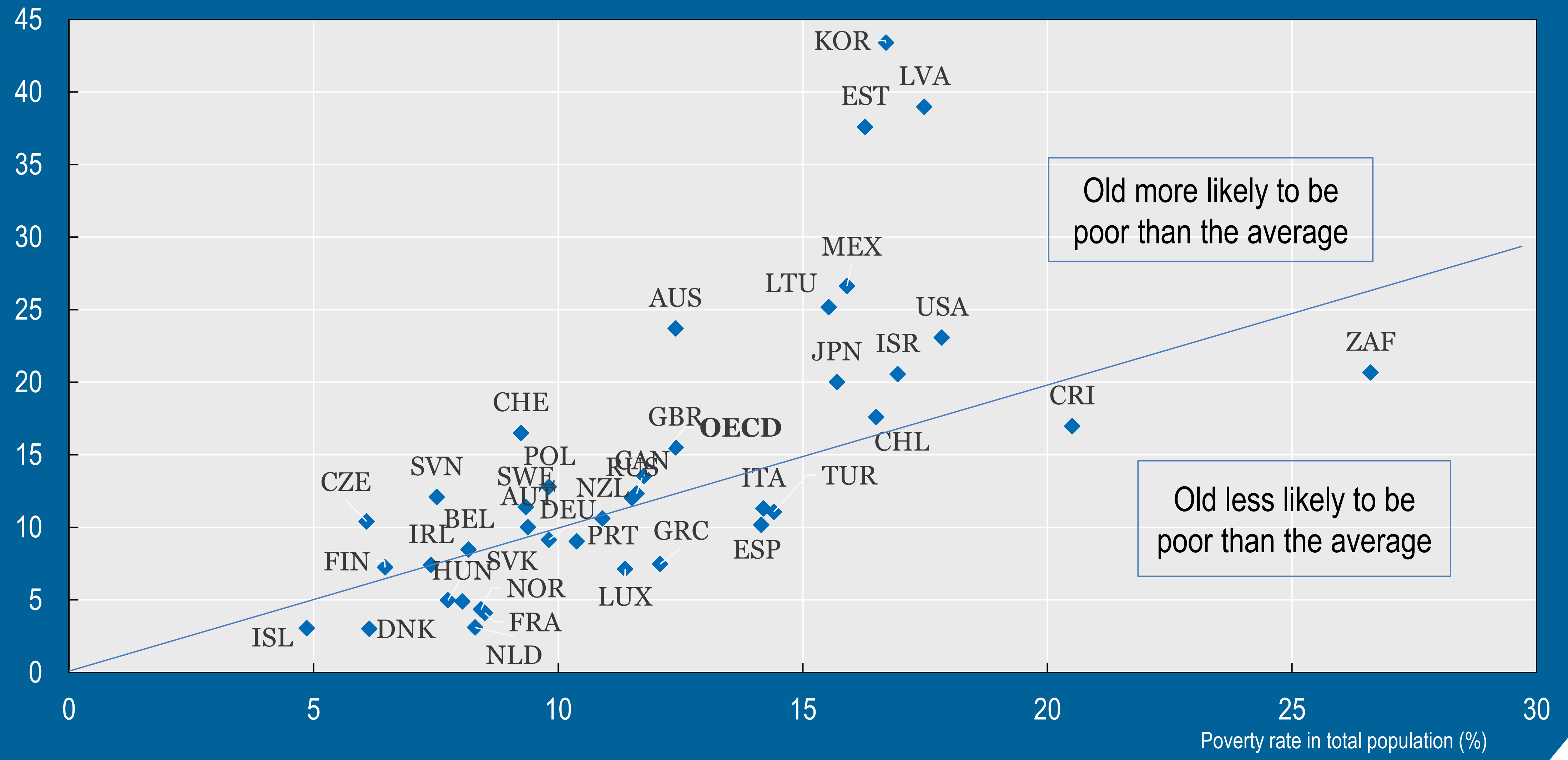


Source: Pensions at a Glance Latin American and the Caribbean, 2014

Increasing coverage is harder

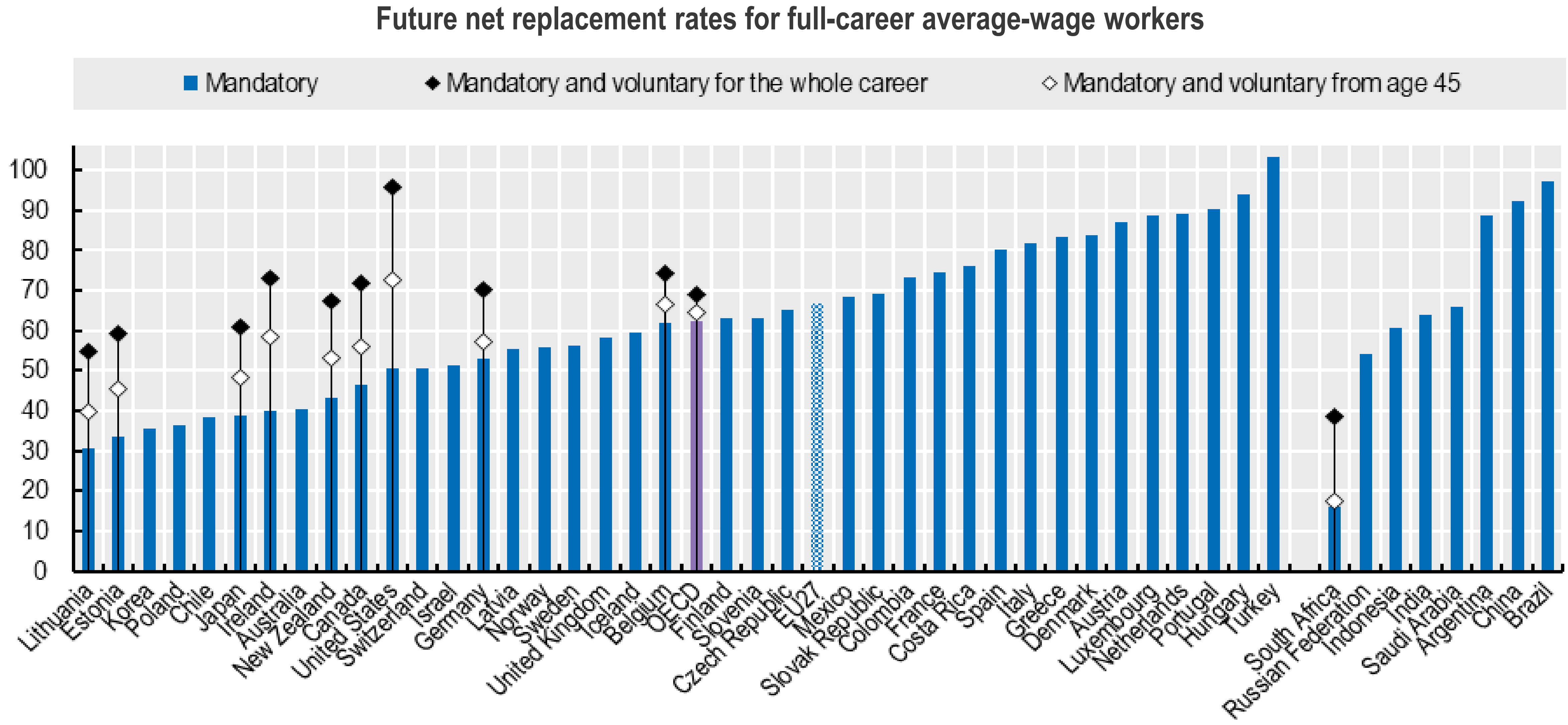
- Three approaches
  - Push: require participation from more individuals – reduce company size or thresholds
  - Incentives: flexible contributions or flexible access to benefits, tax incentives, matching contributions
  - Behavioural change: Financial education, transparency

Older people are commonly at higher risk of falling into poverty



Source: OECD Pensions at a Glance 2021

Future benefit levels may not be able to meet the needs of the elderly: Pensions to replace 62% of earnings on average



Source: OECD, 2021, Pensions at a Glance; Figure 1.12

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Key messages

- Social pensions are critical.
- Better to have the same system for all.
- Redistribution plays an important role.
- All workers need to be included irrespective of residency/ nationality.
- Government assistance is likely to be needed at the beginning.
- Current retirees cannot be ignored.

THANK- YOU

http://oe.cd/pag

Pensions at a Glance 2021

OECD and G20 INDICATORS

Pension Reviews:

Ireland (2014)

Mexico (2016)

Latvia (2018)

Portugal (2019)

Peru (2019)

Czech Republic (2020)

Slovenia (2022)

Korea (2022)

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