EU-CHINA
Social Protection Reform Project
中国欧盟社会保护改革项目

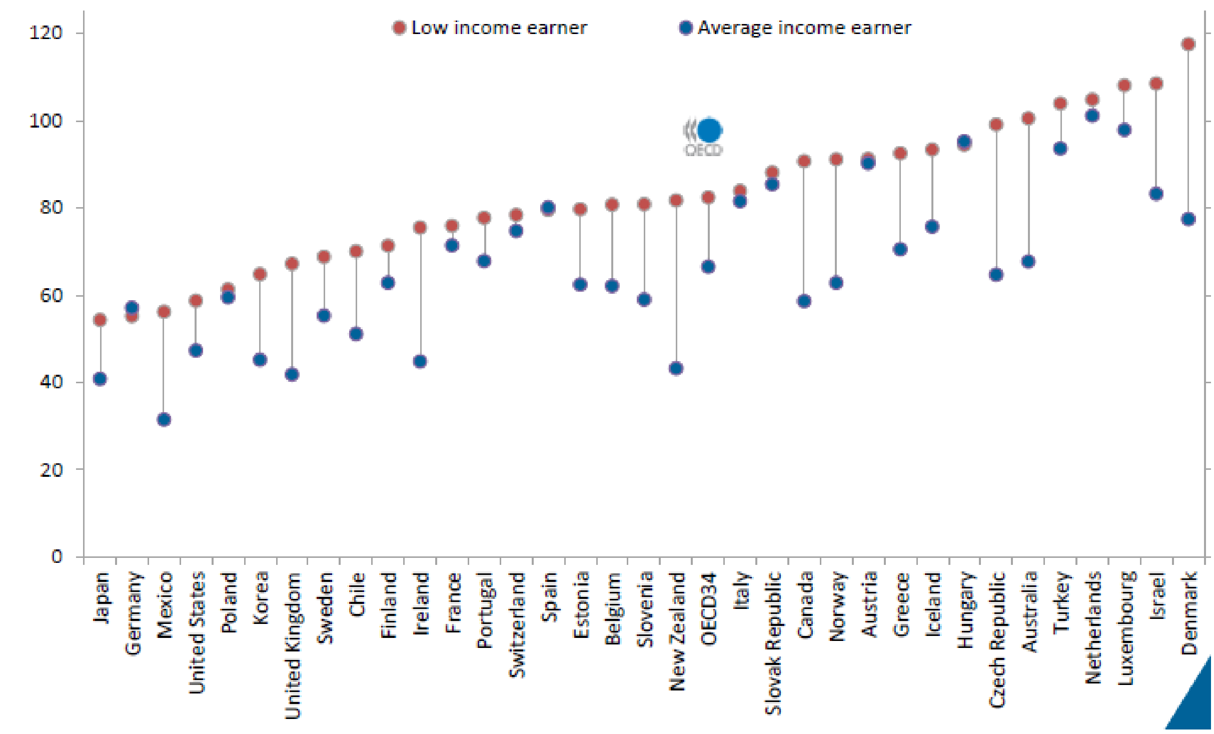
1.3.1 - KEY FEATURES AND RECENT REFORMS OF PUBLIC AND MANDATORY PENSION SYSTEMS IN OECD COUNTRIES

Component 1

The decision recently made in China to integrate civil servants and staff of public organisations in the general scheme for salaried employees has led to adjustments in the pension entitlements of the latter, to avoid a loss in acquired rights. As a matter of fact, public pension schemes in highly industrialised countries – which includes, but is not limited to European countries – have experienced over the recent past several downturns, making the respective public pension schemes less responsive to the needs and expectations of insured persons. This Note, based on a study presented at one of the project events, summarizes recent developments in this field from the view

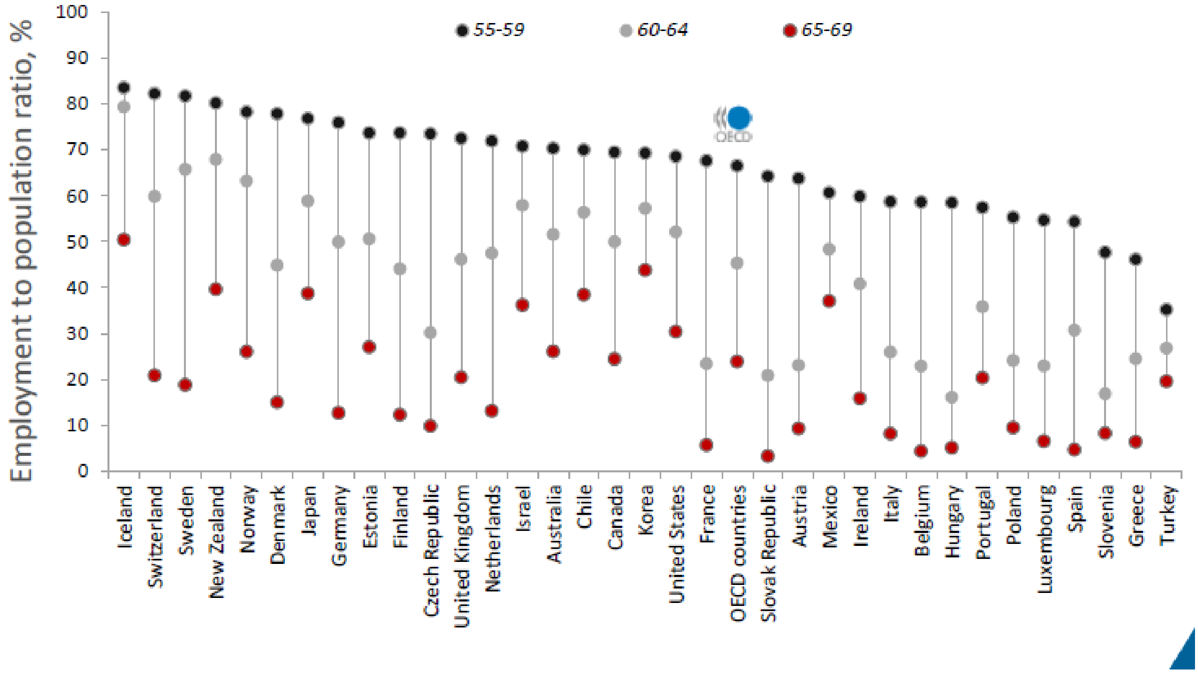
► Net replacement rates vary strongly across countries

The long-term net replacement rate for a person entering the labour market in 2012

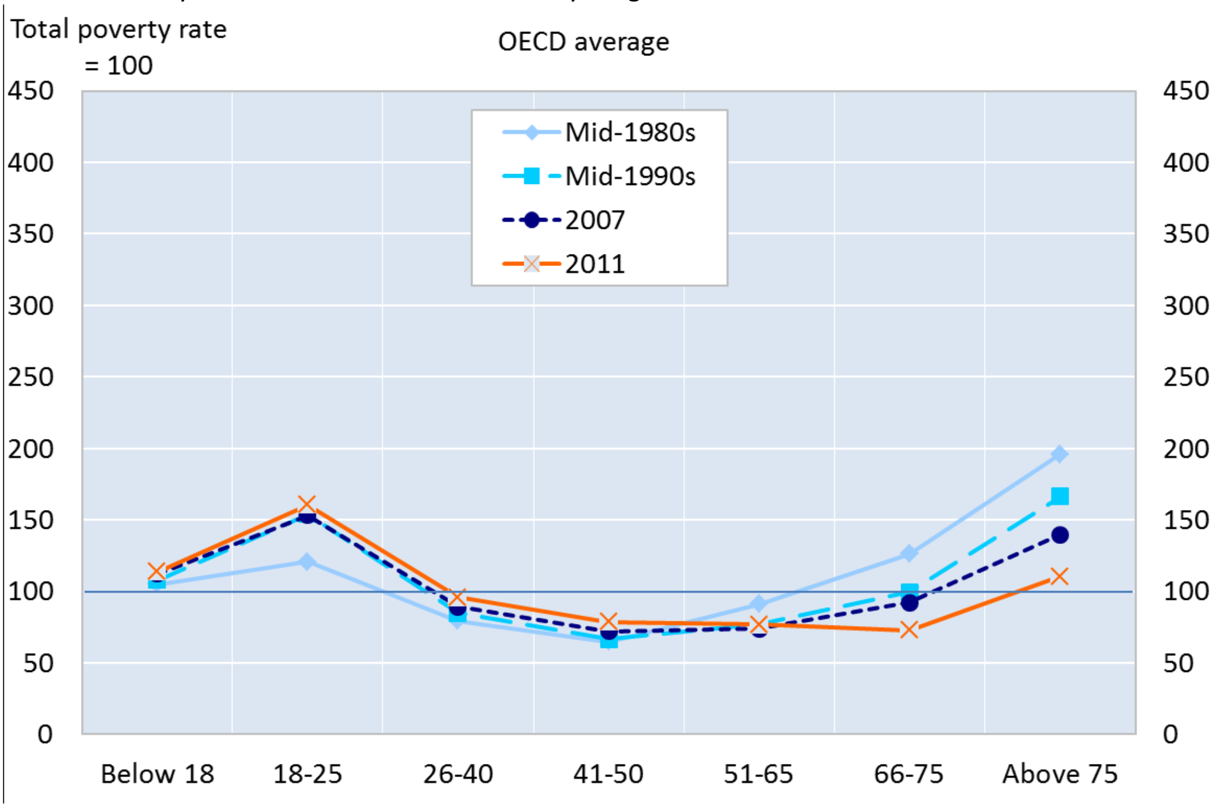


▶ Employment rates of older workers fall strongly from age 60

Employment rate of older people in 2013



▶ Poverty has shifted from the old to the young



Policy action 2012-2014

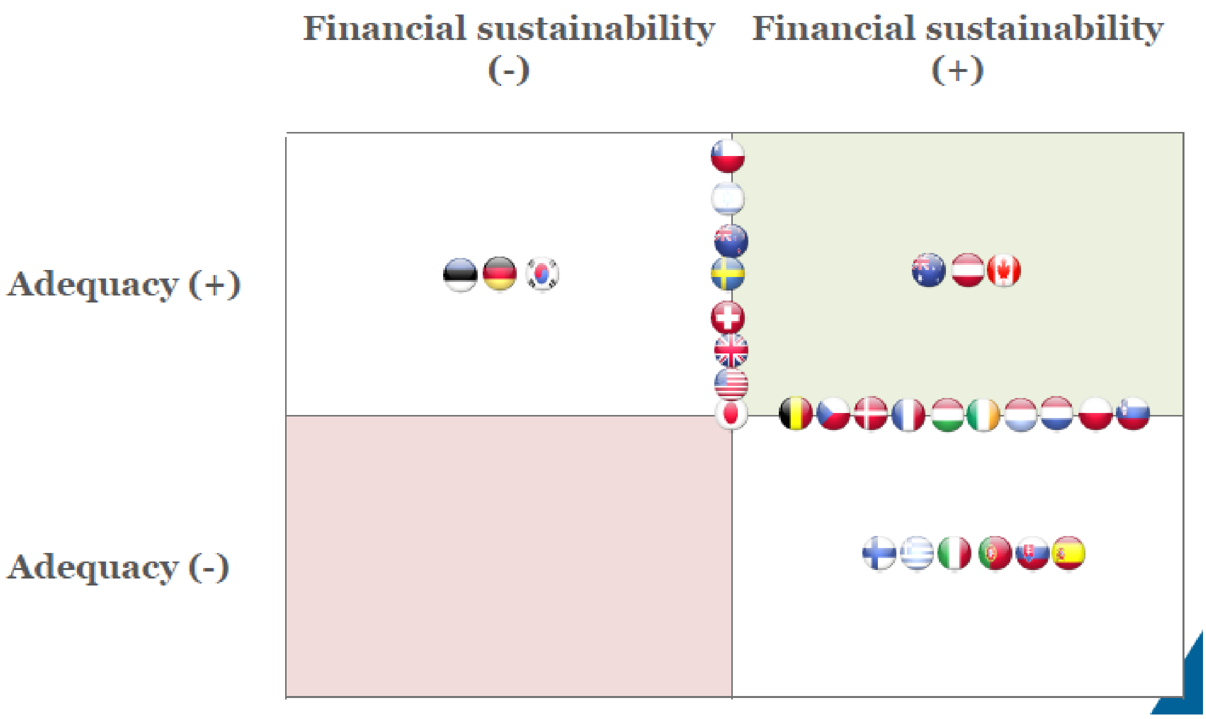
▶ Difficult times for pension systems

・Fiscal pressure is intense

・Low economic growth, high unemployment, lowvcontributions, low returns translate into
- low internal returns in PAYG schemes, andvfinancial sustainability issues
- low financial returns which 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 these effects

► Recent policy action 2013-2014

- Acceleration of pension reforms
- Future pensions 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



► Financial sustainability

・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 …

· Less favourable indexation

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

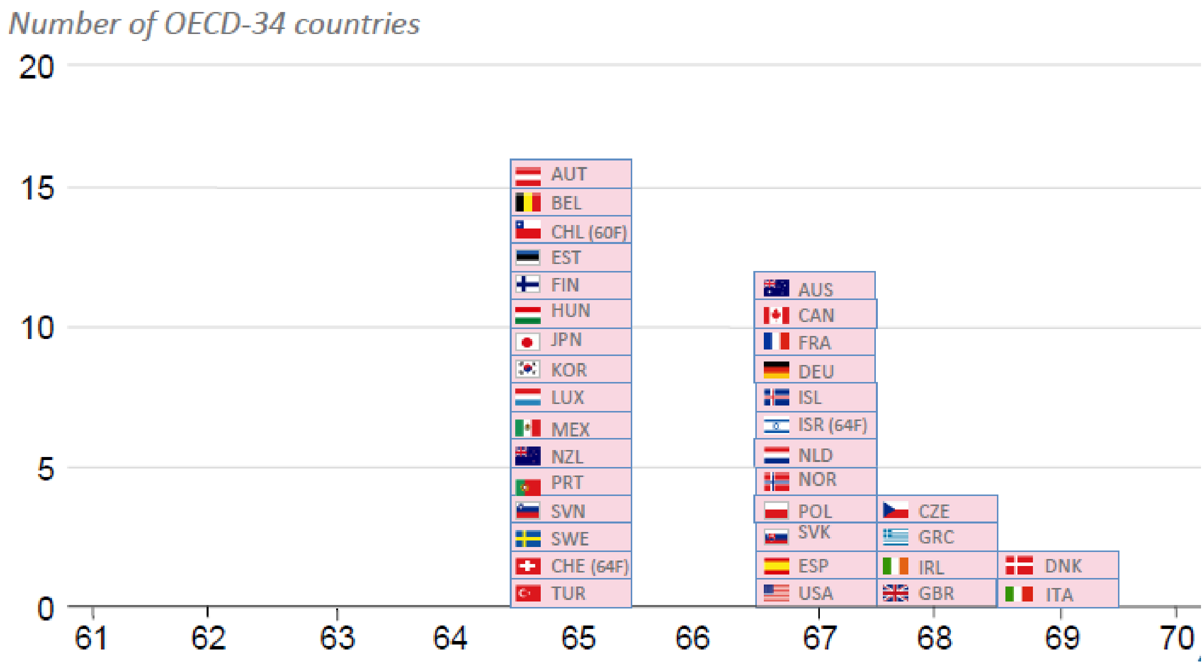
Example: In Czech Republic, the indexation of pension benefits (old age, survivor and disability) was lowered from full annual inflation adjustments to only 33% of inflation adjustments between 2013-2015.

• 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

Example: In Ireland the pension age increased from 65 to 66 in 2014; and will continue to increase to 67 from 2021 and to 68 from 2028.

67 will be the new 65

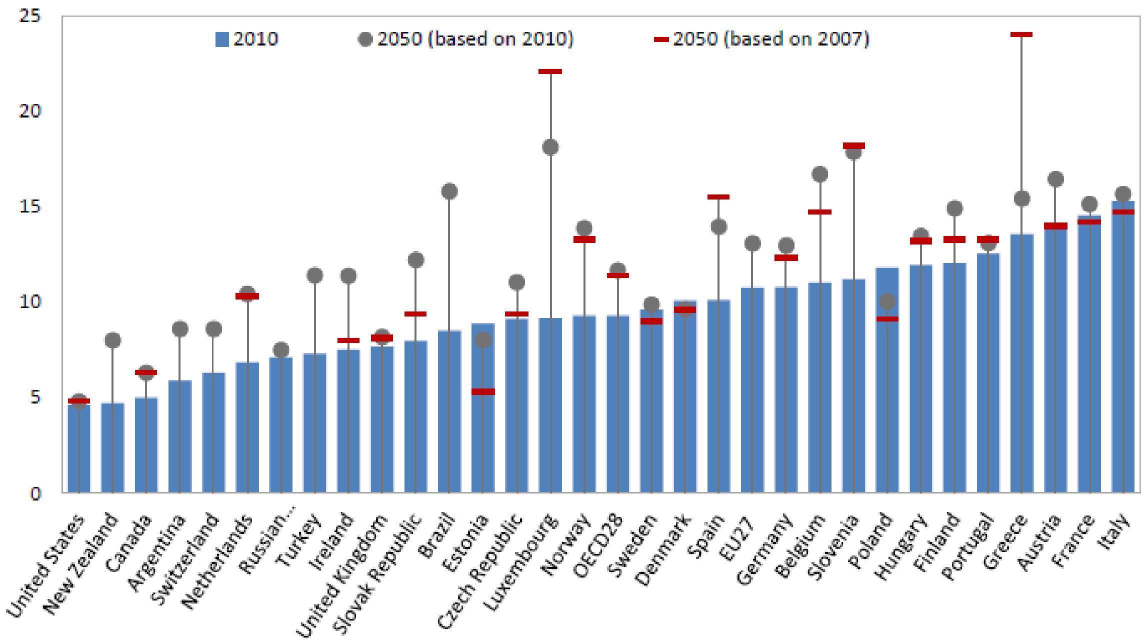


• Increased taxation or contributions in DB schemes

CAN (Quebec), FRA, FIN, HUN, IRL, LUX, NLD

Example: In France the contribution rate will increase by 0.3 percentage points for both employees and employers by 2017.

► Financial sustainability remains a challenge



► Implications for adequacy

· 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)

Example:

· Some countries took some action to address adequacy concerns

► Main adequacy measures

· Extended coverage :

- pension credits (DEU, EST, FRA, JPN)
- auto-enrolment/financial incentives (CHL, GBR, LUX, NZL)
- new schemes (AUS, CAN, CZE, KOR)

Example: In Korea a new basic pension was introduced in July 2014.

• Increase in benefits targeting vulnerable groups (IRL, JPN, LUX)

Example: In Luxembourg the basic pension is increasing slightly as a result of the new pension reform (on average by about 0.44% per year) from October 2012.

· Increase in DC contribution rate (GBR, ISR, NZL)

Example: In Israel employees' contribution to the mandatory DC occupational plans increased from 2.5% to 5% in 2013 and employers' contribution increased from 2.5% to 10%.

· Lower taxes for pensioners (JPN, MEX, SWE, USA)
Example: In Sweden the basic pension income tax deduction for people over 65 was increased in 2014. This measure reduced taxation of pension benefits by slightly more than SEK 100 per month.
• Better governance of DC schemes (AUS, CHL, GBR, NZL)
Example: In New Zealand KiwiSavers (DC) providers will be required to post information on their websites regarding performance, fees, returns, portfolio and key staff information on quarterly basis (2013).

► Remaining key challenges

· 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 pension administration costs and management fees (including in the provision of annuities ?)

AGEING UNEQUALLY

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