



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

134 - MULTI-TIER PENSION SCHEMES

EUROPEAN OVERVIEW

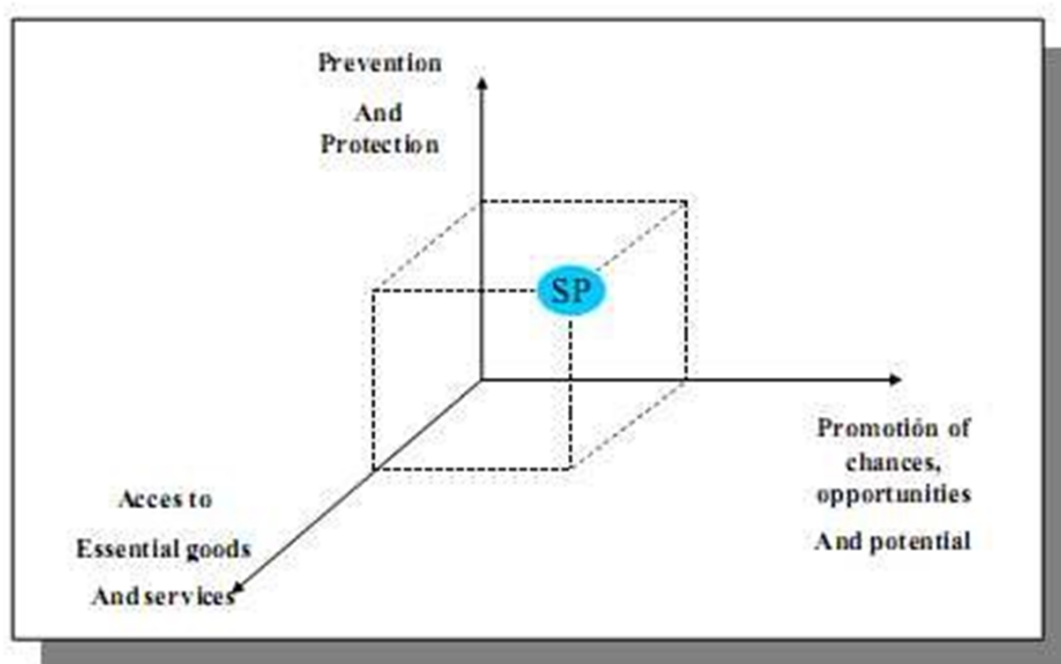
Component 1

The Chinese pension system for salaried employees mostly relies on a two-pronged public pillar, that includes a pay-as-you-go component under which a basic pension more or less proportional to the average salary in the pooling area is paid, and a notional defined contribution component paying benefits directly derived from accumulated nominal pension contributions in individual accounts. Few contributors benefit from enterprise annuity plans (7 to 8% of the stable insured workforce in the modern economy). It is commonly felt in China that the pension system is not diversified enough, and that pension layers corresponding to supplementary compulsory benefits and additional voluntary coverage should top up public pensions. This Note therefore provides some information on the design of multi-tier pension systems in European and OECD

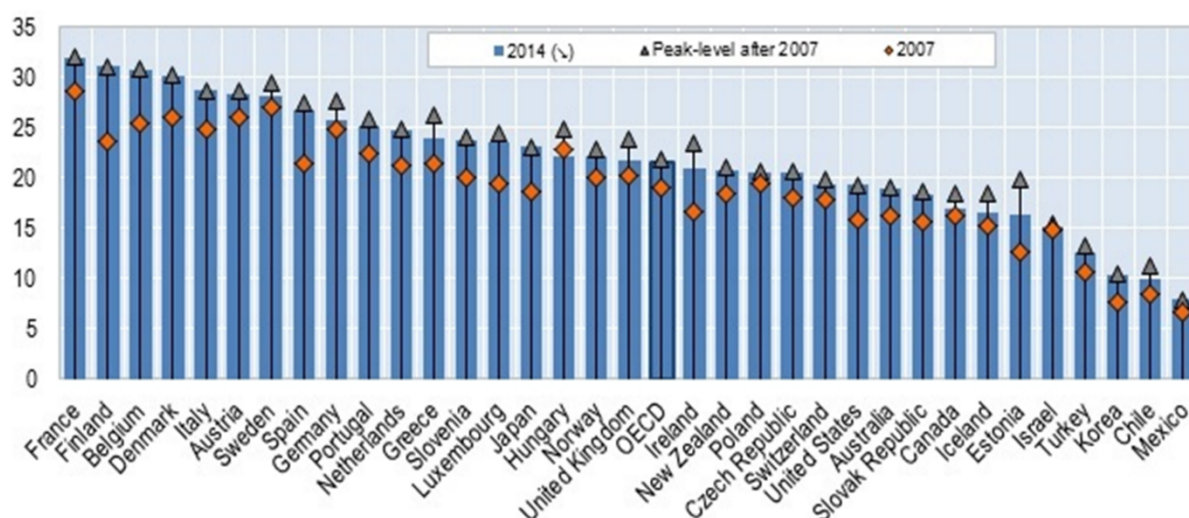
- ▶ Social Insurance was introduced in Europe towards the end of the XIXth century
- ▶ Two schools of thoughts are considered as representing the two main approaches to social security protection, namely the Bismarck approach and the Beveridge approach
- ▶ However, there is a strong convergence over the last few decades among the two systems
- ▶ A typical European (pension) (social security) system would be composed of three tiers – or pillars, or levels:
 - ▶ A general public scheme covering the widest possible segment of the population with strong anti-poverty component
 - ▶ Occupational schemes basing pensions on contributions paid, managed outside public administration
 - ▶ Voluntary saving plans to achieve better replacement rates for best paid segments of the population

RETIREMENT INCOME SYSTEM					
1ST TIER, MANDATORY, ADEQUACY		2ND TIER MANDATORY, SAVINGS		3RD TIER VOLUNTARY, SAVINGS	
BASIC		PUBLIC	PRIVATE		PRIVATE
MEANS TESTED, TARGETED		DEFINED BENEFIT	DEFINED BENEFIT		DEFINED BENEFIT
MINIMUM PENSION		POINTS	DEFINED CONTRIBUTI ONS		DEFINED CONTRIBUTI ONS
		NOTIONAL ACCOUNTS			

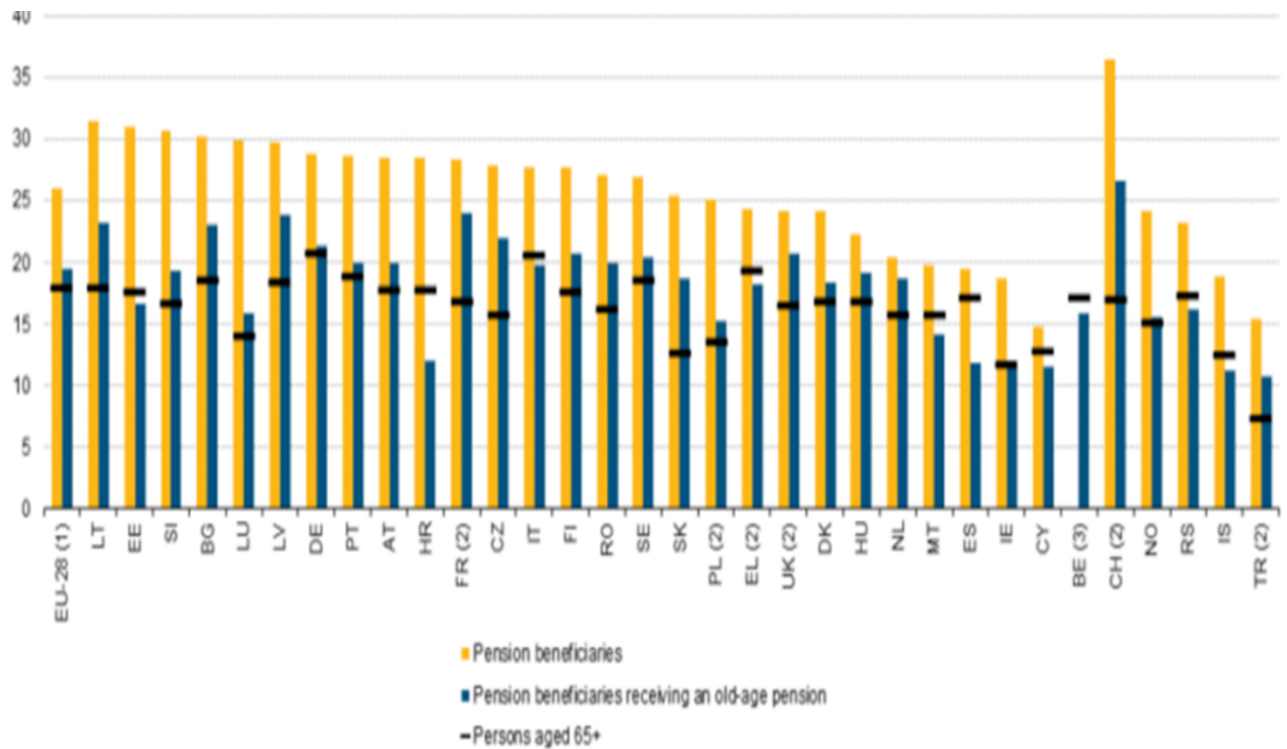
- ▶ European social security systems are currently designed in a manner that they simultaneously expand in three directions, namely
 - that of ensuring access to essential goods and services (livelihood guarantees),
 - that of ensuring prevention and protection against the occurrence of social risks (proactive security - replacing lost income, or income mobilized through occurrence or social security risks), and
 - that of promoting the potentials and opportunities of individuals (facilitating access to social services, to education and training, to credit, to preventative measures, etc.).
- ▶ Pension systems also relate to these three directions
- ▶ They function under the general responsibility of the State, and have universal coverage as their goal



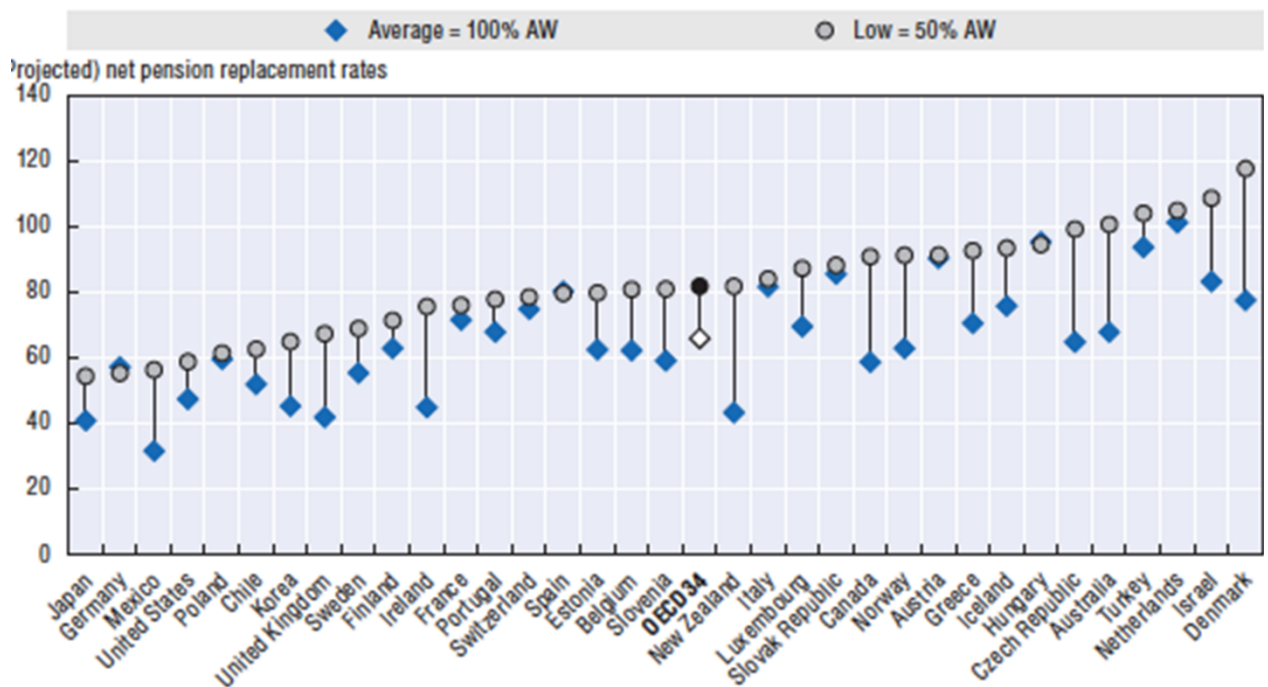
▶ OECD overview – Social cost in % of GDP



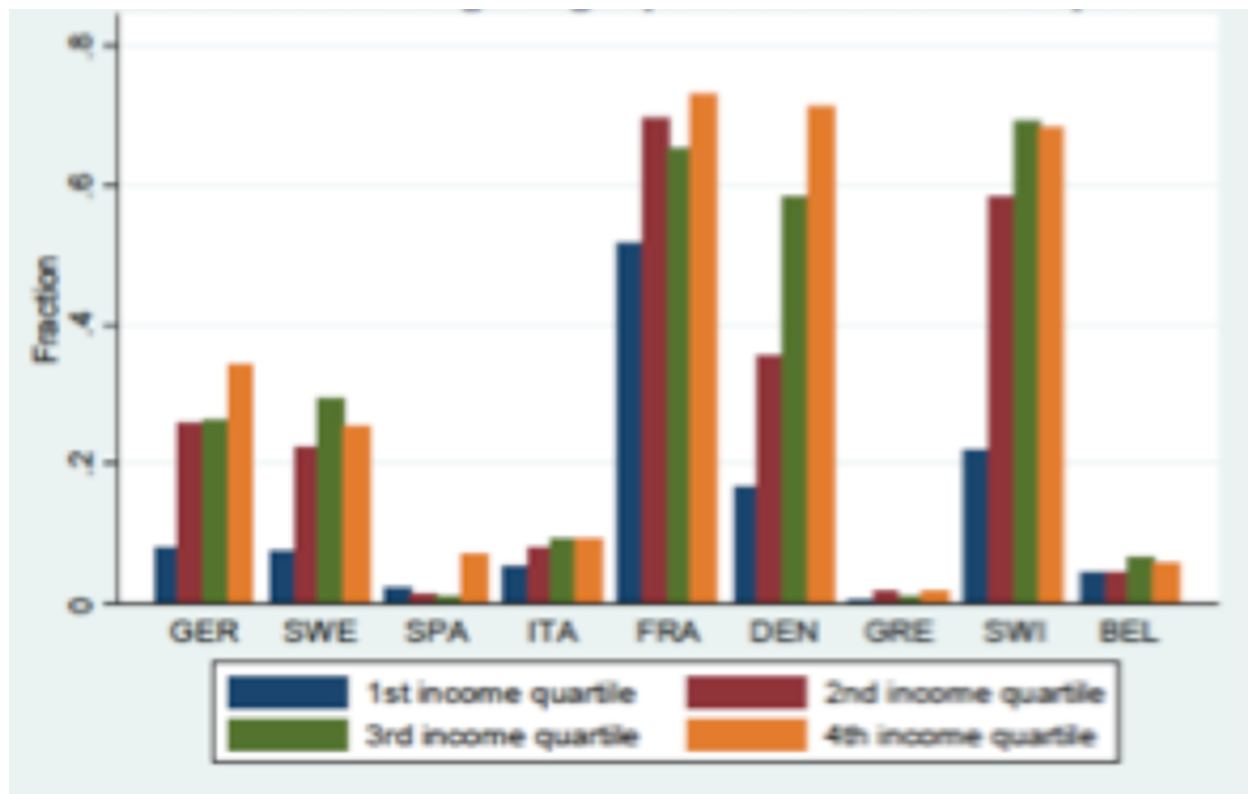
► European overview – Pension recipients



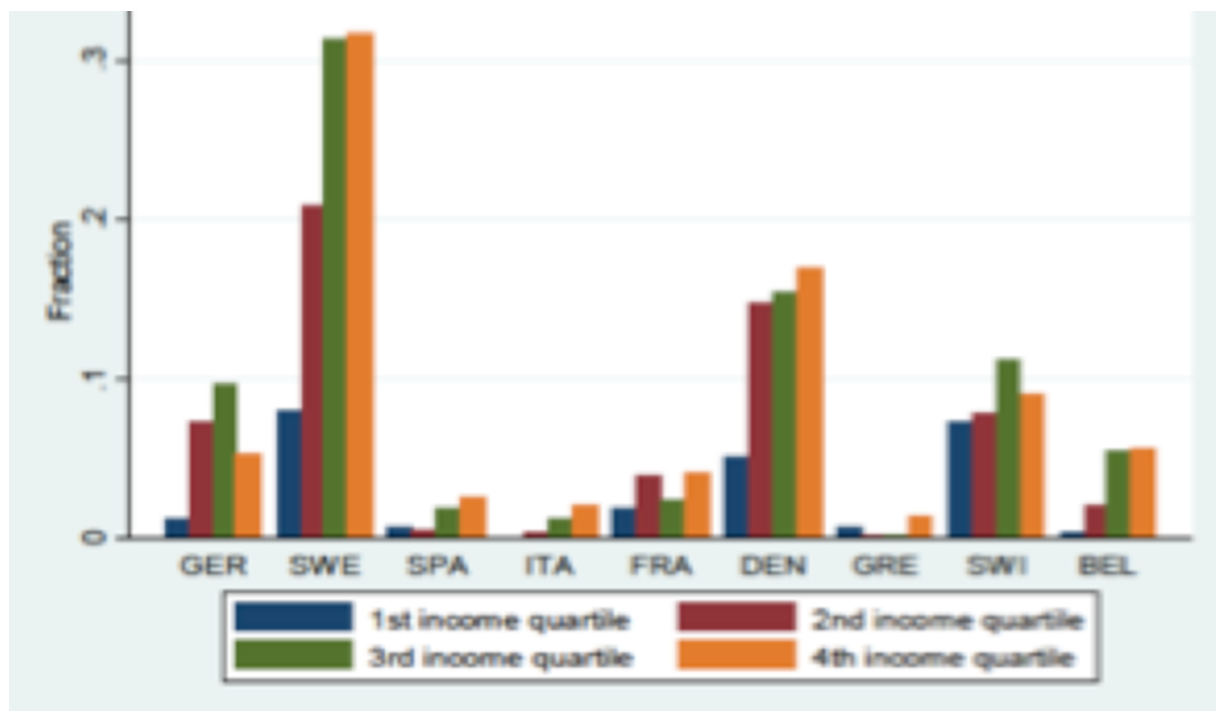
► OECD overview – Net replacement rates



► Fraction of retirees getting a pension from 2nd Tier



► Fraction of retirees getting a pension from 3rd pillar



► European overview – Importance of 3 pillars (value)

COMPOSITION OF RETIREMENT INCOME				
COUNTRY	% OF RETIREMENT INCOME FROM			MEDIAN IRA WEALTH *
	1 ST PILLAR	2 ND PILLAR	3 RD PILLAR	
GERMANY	88.1	4.3	5.3	24.281
SWEDEN	76.6	15.1	5.9	14.535
NETHERLANDS	58.3	29.4	11.7	N.A.
SPAIN	94.9	0.0	2.5	13.528
ITALY	90.9	0.0	6.9	15.880
FRANCE	75.4	19.8	3.5	16.803
DENMARK	72.6	17.4	7.8	10.620
GREECE	90.9	0.0	5.7	1.764
<i>Does not add to 100% because of small proportion of employment income</i>				
* IRA: INDIVIDUAL RETIREMENT ACCOUNT. IN Euros, PPP ADJUSTED – ALL PERSONS				

► European overview – Summary of pension types

MEMBER STATES	1ST TIER UNIVERSAL COVERAGE CONTRIBUTIVE	1ST TIER BIS STATUTORY DC_FUNDED PENSIONS	2 ND TIER OCCUPATIONAL PENSION SCHEMES
BELGIUM	DB		DC
BULGARIA		NDC	
CZECH REPUBLIC	DB		DC
DENMARK	FLAT RATE+MEANS TESTED		DC
GERMANY	DB		DC
ESTONIA	OLD :DB	NDC	
GREECE	DB		DC
SPAIN	FLAT RATE		DC
FRANCE	DB		DC
IRELAND	FLAT RATE /DB		DC
ITALY	OLD :DB	NDC	DC
CYPRUS			DB
LATVIA	OLD :DB	NDC	
LITHUANIA	OLD :DB	NDC	
LUXEMBURG	DB		DC
HUNGARY	DB	NDC DISCONTINUED	DC
MALTA	DB		
THE NETHERLANDS	FLAT RATE		DB
AUSTRIA	DB		DC
POLAND	DB	NDC DISCONTINUED	DC
PORTUGAL	DB		DC
ROMANIA		NDC	
SLOVENIA	DB		DC
SLOVAKIA	DB	NDC	DC
FINLAND	DB		DC
SWEDEN		NDC	DC
UNITED KINGDOM	FLAT RATE		DC

JV Gruat, juillet 2015