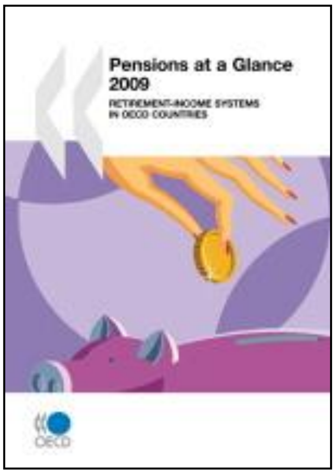
OECD MULTILINGUAL SUMMARIES



Pensions at a Glance 2009:
Retirement-Income Systems in OECD Countries

Summary in English

The crisis and pension policy

The headline figures are frightening. Due to the financial crisis, private pension funds lost 23% of their investment's value during 2008, or some USD 5.4 trillion in the OECD. Across the OECD, economic output is expected to fall by 4.3% in 2009 and growth is not expected to return until 2011. Unemployment is projected to grow from 5.6% of the workforce in 2007 to 9.9% in 2010. What started as a financial crisis has become an economic and social crisis.

Private pension schemes face the most immediate and visible problems from the fall in equity and property prices. The impact is obviously greatest where private pensions already play an important role in providing old-age incomes, such as Australia, the Netherlands and the United States. But no country and no pension system is immune from the crisis. Public pension systems will also encounter financial trouble as contribution revenues dwindle and benefit expenditures increase in the wake of higher unemployment and lower earnings.

Many people have lost a substantial amount of their retirement savings, in pension plans and other assets. The situation is particularly traumatic for older workers. Not only is it much harder for them to find a new job if they become unemployed, but they also have little time to wait for the value of their savings to recover before retiring. Income from savings, including private pensions, on average makes up a quarter of retirees' incomes in OECD countries. In seven of them, it accounts for more than 40%.

Will these losses lead to a resurgence of poverty among retirees? Many OECD countries have programmes that act as "automatic stabilisers", buffering the impact of investment losses on overall retirement incomes. Means-tested benefits, for example, will provide for people whose pensions fall below critical thresholds. But in some countries, old-age safety nets are, or will be, insufficient during times when the income from private savings drops.

The short-term political pressure on governments to deliver immediate solace is immense. One clear and present danger is that policymakers are tempted to reduce the numbers of older unemployed by transferring them to long-term sickness or disability benefits or by reopening early-retirement schemes. However, past experience shows that measures meant to be short-term tend to persist, imposing a heavy cost on public finances and the economy. They should also be avoided because they divert from the need to increase effective retirement ages in the face of population ageing.

The crisis has highlighted the continuing need for reform in both public and private pension schemes. Among the top priorities are reviews of public programmes to ensure that they provide effective protection against poverty, both now and in the future. Automatic pension adjustment mechanisms that many countries have introduced to link pensions to life expectancy and scheme finances, may also need a rethink. Applying the rules now during the recession would often mean cutting benefits, in some cases in nominal terms. Governments must consider carefully whether the rules should be applied now, suspended temporarily until economic recovery starts, or applied selectively by exempting more vulnerable retirees.

Confidence in private pensions is at an all-time low. Some have advocated a move away from diversified pension systems back to an exclusive reliance on public, pay-as-you-go schemes. In the Slovak Republic, for example, workers covered by the new defined-contribution plans have been allowed to switch back to the public system. But rolling back hard-fought reforms is the wrong way to go. The financial and economic crisis has moved the centre of attention away from demographic challenges; but they have not disappeared and addressing them remains urgent.

To prevent such reversals, it is vital to restore people's faith in private pensions. Again, the crisis has made the need for changes in the way private-pension schemes operate painfully clear. Such changes include better regulation, more efficient administration, clearer information about risks and rewards of different options and an automatic switch to less risky investments as people near retirement. If policymakers fail to make a convincing case for diversified retirement-income systems, combining public and private, pay-as-you-go and funded, individual and collective elements, they will be thrown back to square one in their efforts to maintain prosperity in ageing societies.

OECD Pensions at a Glance 2009: a guide

The financial crisis and the deep economic crisis that it spawned have dominated the news for over a year. The first of the special chapters in Part I of the 2009 edition of *Pensions at a Glance* looks at the implications of the crisis for retirement-income systems. The special chapter explores which individuals (especially different age groups), in which types of pension scheme and in which countries are most affected by the crisis.

The actions that governments have already taken to mitigate the impact of the crisis are discussed and evaluated. The chapter shows that pension systems have been affected in two main ways by the economic-stimulus packages that many governments have introduced: increased payments to older people and the use of public pension reserves to finance crisis mitigation. Further responses for pension policy are also assessed, covering the labour market, public safety-nets, regulation of private pension funds and investment choice.

The incomes and poverty of today's older people are examined in the second special chapter of Part I. In the mid-2000s, net incomes of people aged over 65 were worth 82% of those of the population as a whole on average in OECD countries (taking account of differences in household size). But there is a large difference between countries. Also, old-age poverty is practically non-existent in some countries, but over 40% of the old live in income poverty in Korea, for example. Poverty rates average 13.2% for older people in the OECD, compared with 10.6% for the population. The chapter also discusses how incomes and poverty of older people are likely to evolve in the future as a result of pension reform, and social and economic change.

Recent pension reforms are the topic of the third special chapter of Part I. Updating the analysis in the previous edition of *Pensions at a Glance*, this chapter shows that OECD countries have continued to reform their pension systems in the period since 2004; indeed, in only five of them was there little or no change. These recent reforms are grouped around key objectives for the pension system: coverage of workers, adequacy of retirement benefits, financial sustainability, economic efficiency (minimising distortions to labour-supply and savings incentives), administrative efficiency and security of retirement incomes in the face of different risks and uncertainties.

The assessment of reforms shows that the period of 2004-08 has been one of evolution rather than revolution. There was none of the wide-ranging, systemic reforms that took place in the decade up to 2004. In some countries, such as the Austria, Ireland, Norway and the United States, the reform process has now stalled. In other countries, the reform process has slowed or even gone into reverse. Legislated changes to the pension system in Italy, for example, were postponed. In the Slovak Republic, workers covered by the new defined-contribution plans have been allowed to switch back to the public system and similar roll-backs of reform are being discussed elsewhere. The crisis may lead to further changes that are not consistent with the long-term strategy needed for a sustainable pension policy.

The final special chapter of Part I, again updating and extending work from the previous edition of *Pensions at a Glance*, looks at the coverage of private pensions. It focuses on countries where public pensions are low and so individuals bear a greater responsibility for providing for their own old age. Yet again, the financial crisis is a real concern, particularly if it undermines people's confidence in private pensions. Nevertheless, fiscal constraints mean that private pensions must remain part of the equation in providing for old age. Policies to ensure that people do save for retirement, including automatic enrolment and tax incentives, are evaluated.

A range of pension indicators is presented in Part II of the report. The first nine indicators look at individual pension entitlements, calculated with the OECD pension models. The values of the parameters reflect the situation in 2006. The calculations are designed to show future entitlements for workers who entered the labour market in 2006 and spend their entire working lives under the same set of rules. For workers on average earnings, the gross replacement rate – pension benefits relative to earnings when working – averaged 59% in the 30 OECD countries. It varies from 31% in the United Kingdom and 34% in

Ireland and Japan all the way to 96% in Greece. A new indicator showing replacement rates including typical voluntary private pension schemes has been added in the 2009 edition.

Many countries offer concessions in their incomes taxes to older people and most pensioners do not pay any social security contributions. Thus, for average earners, the net replacement rate (taking taxes and contributions into account) is 70% on average. Replacement rates are shown separately for men and women and at different levels of earnings.

What matters for government spending is not just the replacement rate at the time of retirement but the overall pension promise. This is measured by the indicators of pension wealth, which show the lifetime value of benefits taking account of differences in pension age, life expectancy and indexation of pensions in payment. On average, men in Luxembourg will receive around USD 825 000 in pensions over their lifetimes and women, around USD 1 million. Luxembourg may be an extreme example, but lifetime pensions are worth USD 400 000 for men and USD 475 000 for women on average in OECD countries.

A second set of four indicators, new to the 2009 edition of *Pensions at a Glance*, explores broader elements of retirement-income systems. It presents information on contributions, and how pension contribution rates have changed over time. In fact, contribution rates have been remarkably stable given the demographic pressures on pension systems, increasing from an average of 20% in 1994 to 21% in 2007. However, these pressures are apparent when looking at public pension spending, which increased 17% faster than national income between 1990 and 2005, from 6.2% to 7.2% of gross domestic product. The indicator on pension spending also includes information for mandatory private pensions and in-kind benefits, such as housing benefits and subsidies. Two indicators of retirement-income systems concern private pensions, with data on coverage of voluntary private pensions and the value of assets in pension funds. Coverage of private pensions is virtually zero in around a third of OECD countries, but in seven of them, 45% or more of the workforce are members of voluntary private pensions and in a further 11, private pensions are mandatory. Before the crisis hit, pension funds were worth the equivalent of 75% of total OECD national income.

The final set of four indicators looks at the background and context in which pension systems operate. Three are demographic: life expectancy, fertility and the dependency ratio (the number of pensioners per person of working age). These indicators show that all OECD countries are ageing but at different rates. Korea is expected to move from being the third youngest OECD country to the second oldest in 2050 (after Japan). Others, such as France, the Netherlands, Sweden and the

United Kingdom, are already demographically old and so do not age very quickly over the next few decades. Data on average earnings, which underlie much of the other indicators, can also be found here.

Finally, the country profiles in Part III of *Pensions at a Glance 2009* give key indicators for national pension systems, set out the parameters and rules in a consistent way and give the main results for individual pension entitlements: replacement rates and pension wealth. At the beginning of Part III, a handy summary table of key parameters and rules for all 30 OECD countries can be found.