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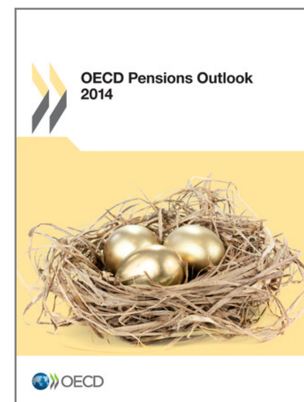
OECD Pensions Outlook 2014

Summary in English



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This edition of the OECD Pensions Outlook explores how pension systems are responding to the challenges they are facing. Population ageing and the challenging economic environment characterised by low returns, low growth and low interest rates, create serious problems for pension systems, affecting both pay-as-you-go (PAYG) financed public pensions and funded pensions.

Contributing more and for longer periods partially addresses the challenge that population ageing poses to pension systems

As a result of population ageing and, in particular, the continued improvements in mortality and life expectancy, PAYG pensions face financial sustainability problems, defined benefit funded pensions need to secure their continued solvency, and defined contribution (DC) pensions need to consider ways to ensure that individuals have an adequate income during retirement. Contributing more and for longer periods, especially by postponing retirement as life expectancy increases, is the best approach to face these challenges.

Pension funds and annuity providers are exposed to longevity risk owing to uncertainty about future improvements in mortality and life expectancy. To address the risk of unanticipated increases in liabilities, regulators and policy makers should ensure that pension funds and annuity providers use regularly updated mortality tables, which incorporate future improvements in mortality and life expectancy. The regulatory framework could also help ensure that capital markets offer additional capacity to mitigate longevity risk, by addressing the need for transparency, standardisation and liquidity. Index-based financial instruments and the publication of a longevity index to serve as a benchmark for the pricing and risk assessment of longevity hedges would be helpful in this regard. Furthermore, the regulatory framework should recognise the reduction in risk exposure these instruments offer.

Countries are accelerating the pace of pension reforms in order to stabilise both unsustainable government debt and public pension expenditure while addressing adequacy concerns in ageing societies

Most countries have been very active in changing their pension systems between February 2012 and September 2014. A majority of countries implemented reforms to improve the financial sustainability of their pension systems; some have done so while maintaining or improving the retirement-income adequacy for vulnerable groups. Only a few countries – those hit more severely by the economic crisis – resorted to nominal benefit cuts. A larger number increased taxes on pension income or contributions to public defined benefit schemes, while reducing or deferring the indexation of pension benefits was widely used to mitigate spending.

Many countries have planned increases in the statutory retirement age, thereby enlarging the contribution base while preserving adequacy for those effectively working longer.Work incentives have been strengthened through tighter access to early-retirement and/or increased financial incentives to work. Measures to curb pension administration costs to obtain efficiency gains have been quite common.

To address income adequacy concerns some countries have extended the mandatory coverage of pension benefits to previously excluded groups (such as self-employed workers), and others have introduced new benefits. A number of countries have increased mandatory contributions to funded DC schemes. And policies to increase diversification and secure private pensions savings have also been common in the aftermath of the financial crisis.

A combination of higher coverage rates, contribution levels, effective age of retirement and a positive economic environment would enhance the complementary role of private pensions

Private pensions play an important role in supporting the adequacy of retirement income.Yet they do not generally represent the main source of retirement income with the exception of higher income individuals. Younger generations may be more likely than older generations to rely on private pensions at retirement, except in countries where private pensions have already been in place for a long time.

Policy options to increase the complementary role of private pensions include increasing coverage rates, for example, through compulsion or automatic enrolment; encouraging people to contribute more and for longer periods, for example, by postponing retirement; targeting population subgroups that need better access to private pensions; and improving the alignment between public and private pensions. A positive economic environment with higher returns on assets and higher productivity growth would also help.

The success of automatic enrolment schemes in raising private pension coverage depends on its design, the communication and education campaigns that accompany its launch and implementation, and the interaction with other existing incentives

The available evidence from six OECD countries shows that automatic enrolment has a positive impact on coverage. However, coverage levels are not yet on par with those found in mandatory systems. The main elements of a consistent policy strategy for automatic enrolment programmes to successfully increase coverage include identifying which population subgroups would need higher private pension coverage; making sure that entry barriers to automatic enrolment schemes (e.g., age or earnings level) do not prevent people from beginning to contribute early and do not exclude individuals who may benefit from a complementary private pension; defining default contribution rates in coherence with the overall pension system; carefully assessing its complementarity with other existing incentives; and developing effective communication and education campaigns to accompany its launch and implementation. Employers often have an essential role in administering automatic enrolment but can incur substantial compliance costs on top of any contributions. Costs to the State mainly relate to subsidies and matching contributions.

Pension statements and national pension communication campaigns (NPCCs) are key tools to the success of pension systems addressing the challenges they face

Individual pension statements should provide clear simplified information. Ideally, they should combine information from all national pension sources relevant for the individual. Organisers of pension statements should set clear and measurable objectives. The pension statement should aim to engage and encourage members to take active actions to improve adequacy of retirement income, for example, by increasing contributions and/or postponing retirement. Policy makers need to evaluate whether the pension statement should provide pension projections given the trade-off between simplicity and the potential effect of projections on encouraging active choices.

NPCCs should ideally form part of an overall national strategy and major events such as pension reforms and crises call for specific NPCCs. Successful NPCCs are driven by clear, realistic and well-targeted objectives that produce outcomes that can be measured, evaluated and monitored against their goals and processes. Robust evaluation processes are thus essential. Evaluation should form an essential element of the campaign budget, even where resources are limited. NPCCs should avoid having multiple messages and should focus on less accessible groups. Finally, policy makers should find ways to harness the power of the press, use innovative communication channels, and develop outreach programmes to increase engagement.

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