Chapter 1

Pension Reform During the Crisis and Beyond

This chapter discusses trends in pension reform over 2007-11. This period has witnessed a major financial, economic and fiscal crisis, which accelerated the pace of pension reform. Policy initiatives include increases in pensionable ages, the introduction of automatic adjustment mechanisms in public pension systems and the strengthening of work incentives. The dismal financial market conditions of the last five years have also placed major stress on funded, private pension arrangements. Most countries' pension funds are still in the red in terms of cumulative investment performance over this period. Policy makers' reaction to the crisis have focused on regulatory flexibility and better risk management. They include an extension in the period to make up funding deficits in defined benefit pension plans, greater flexibility in the timing of annuity purchases (to avoid locking in unattractive rates), and new rules on default contribution rates and investment strategies to ensure better member protection.

1.1. Introduction

The crisis that hit OECD countries in 2008 has had three phases, all with profound implications for pension systems. The first element – the ***financial*** crisis – involved among other aspects a stock market crash in 2008, with valuations falling around one half, and a costly rescue package for banks and other financial institutions, with capital injections and other direct support equivalent to about 4% of GDP on average in G20 countries.

The financial crisis then spawned an ***economic*** crisis. Economic growth in OECD countries, which had run at about 3% a year in 2006 and 2007, came to a halt in 2008. In 2009, real gross domestic product (GDP) across the OECD fell by 3.8%. Only 3 of the 34 OECD countries – Australia, Israel and Poland – avoided a year of falling economic output. Unemployment across the OECD averaged less than 6% of the workforce in 2007, but rose to around 8.5% in 2009 and remained at a similar level through 2010 and 2011.[1]

The third phase has seen the financial and economic crisis develop into a ***fiscal*** crisis. Budget deficits across the OECD were about 1.2% of GDP in 2006 and 2007. In 2009, average government borrowing was 8.3% of GDP, with deficits exceeding 10% of GDP in seven member countries: Greece, Iceland, Ireland, Portugal, Spain, the United Kingdom and the United States. Many countries have embarked on fiscal consolidation. Nevertheless, budget deficits across the OECD are projected to decline slowly: to 6.6% of GDP in 2011, 5.9% in 2012 and 5.1% in 2013.[2]

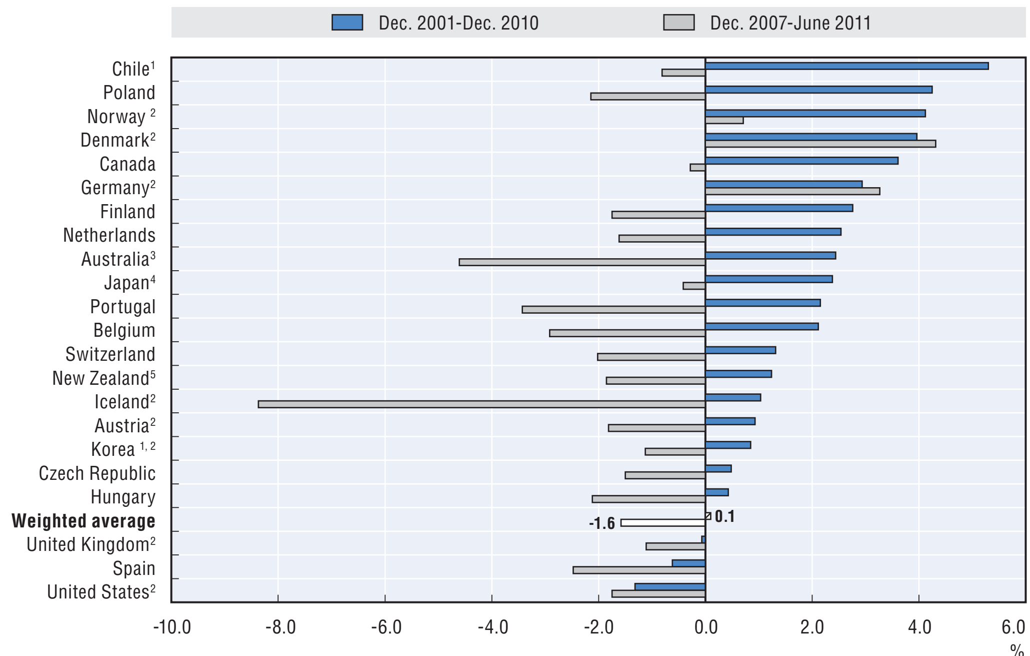
The crises have had an impact on all types of pension systems. Firstly, the crisis has had a negative impact on PAYG-financed public pensions, worsening their financial sustainability as contributions were hit by growing unemployment while expenditure on means-tested benefits increased.

Funded, private pension systems were also severely hit.[3] In 2008, pension funds across the OECD suffered a negative 10.5% real rate of return.[4] Although real rates of return were positive in 2009 and 2010 (at 6.0% and 1.4% respectively), they turned negative again in the first half of 2011 (–1.4%). As a result, most countries' pension funds were still in the red in terms of investment performance over the period 2007-11, with an average real net return of minus 1.6% annually across the OECD (see Figure 1.1). Even when measured over the whole decade 2001-10, performance was a paltry 0.1% yearly on average. Thanks to the continuing flow of contributions, OECD pension fund asset values crawled back to the level they had at the end of 2007 (USD 19.2 trillion in December 2010, 1.5% above the 2007 level), but the outlook remains fragile.[5]

These investment losses have had a direct negative effect on the retirement incomes of many pensioners, particularly in the run-up to retirement in defined contribution (DC) plans. They have also hit funding levels at defined benefit (DB) pension funds, which in countries like the Netherlands and Switzerland fell below 100% at the end of 2011, while in the United Kingdom funding levels fell to 80%. In turn, the weakened solvency status of pension funds has triggered benefit cuts in some countries like Iceland and the Netherlands.

Figure 1.1. **Average annual real net investment return of pension funds in selected OECD countries**

Dec. 2001-Dec. 2010 and Dec. 2007-June 2011



1. The average annual return for the long period is calculated over the period December 2002-December 2010.
2. The average annual return for the short period is calculated over the period December 2007-December 2010.
3. The average annual returns are calculated over the periods June 2002-June 2010 and June 2007-June 2011.
4. *Source:* Bank of Japan.
5. The average annual returns are calculated over the periods June 2001-June 2010 and June 2007-June 2010.

Source: OECD, *Global Pension Statistics.*

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It is against this financial, economic and fiscal backdrop that national pension reforms have taken place. Two phases of change are apparent: in the first, changes to retirement-income systems were often part of economic-stimulus packages. There was also a range of reforms designed to address the structural weaknesses of pension provision that had been highlighted or exacerbated by the early stages of the crisis. During the second phase, pension reforms are playing an important part in fiscal-consolidation packages. Overall, the pace of change in retirement-income provision appears to have accelerated over the period 2007-2011, during and after the financial, economic and fiscal crisis.

1.2. Objectives of the pension system

This Chapter sets out the major elements of pension reforms in all 34 OECD member countries over the period from September 2007 to February 2012.[6] It also presents major, official reform proposals that have not been legislated but are very likely to influence public policies in the near future. These are organised into six different categories, which are linked to the different objectives of the pension system, along with a residual grouping for other changes. The groupings correspond to the main objectives and principles of retirement-income systems. These have been set out in numerous OECD reports.[7] They are:

- coverage of the pension system, by both mandatory (public and private) and voluntary (private) schemes;

- adequacy of retirement benefits to maintain a decent standard of living in old age, including both public and private pensions;
- financial sustainability and affordability of pensions to taxpayers and contributors;
- work incentives: minimising the distortions of the retirement-income system on individuals' labour-supply decisions and encouraging people to work longer as populations age;
- administrative efficiency: keeping the cost of collecting contributions, paying benefits and (where necessary) managing investments as low as possible; and
- diversification of retirement savings, between different providers (public and private) and different types of financing (pay-as-you-go and pre-funding), and measures to ensure security of benefits in the face of different risks and uncertainties.

The seventh category covers other types of change, including temporary measures as part of fiscal stimulus, development of and changes to public pension reserve funds and public-education initiatives.

This framework effectively illustrates the trade-offs involved in pension-system design and pension reform. For example, higher pensions would improve the adequacy of retirement benefits but would also worsen financial sustainability. In other cases, there are synergies between the different objectives. Encouraging later retirement also improves financial sustainability. Similarly, extending coverage of pensions should also improve adequacy of retirement benefits for today's workers. The categorisation of the different elements of reform packages is therefore not exclusive: some have effects across more than one of the objectives.

1.3. Overview of reforms

Table 1.1 shows the types of reform measures that countries have adopted in the period from the start of the crisis – September 2007 – to the most recent information available at the time of writing, February 2012. The detailed elements of the reform packages are described briefly further below, in Table 1.A1.1.

Nearly all countries have been active in changing retirement-income provision. The only exception is Luxembourg, which has seen no changes, although Iceland, the Netherlands, New Zealand, Slovenia and the United States have seen only relatively minor adjustments compared with the rest of the OECD.

The liveliest areas of change were financial sustainability, work incentives and diversification/security (half of OECD countries). Efforts to improve coverage and administrative efficiency were the least common areas of reform, with measures to enhance adequacy of retirement incomes taken in around a third of countries.

1.4. Coverage

Pension coverage of the working-age population is a significant policy concern in a number of OECD countries. First, lower income countries have many workers outside of the formal sector who are not in the formal pension system. Only about 60% of the labour force is covered in Chile and Turkey, for example. And this figure is well under 50% in Mexico.[8] This means that many people reach pensionable age with little or no pension entitlement.

Secondly, voluntary private pensions have long been an important complement to (relatively low) public pensions in Canada, Ireland, the United Kingdom and the United

Table 1.1. **Overview of pension-reform measures, September 2007-February 2012**

	Coverage	Adequacy	Sustainability	Work incentives	Administrative efficiency	Diversification/ security	Other
Australia		●	●	●	●	●	●
Austria	●		●	●			●
Belgium		●		●			
Canada		●				●	
Chile	●	●			●	●	●
Czech Republic		●	●	●		●	●
Denmark				●			●
Estonia			●	●	●	●	
Finland		●	●	●		●	●
France	●	●		●			
Germany	●	●		●			
Greece		●	●	●	●		●
Hungary			●	●			●
Iceland						●	●
Ireland	●		●	●		●	●
Israel	●					●	
Italy		●	●	●	●		
Japan	●				●	●	
Korea	●	●	●				
Luxembourg							
Mexico					●	●	
Netherlands						●	
New Zealand			●				●
Norway			●				●
Poland	●		●	●		●	●
Portugal	●			●			
Slovak Republic					●	●	●
Slovenia			●				
Spain		●	●	●			
Sweden		●			●	●	
Switzerland			●			●	
Turkey		●		●		●	
United Kingdom	●	●	●	●	●	●	●
United States							●

Note: See Table 1.A1.1 below for details of the reform packages.

States. Income from capital, predominantly private pensions, accounts for between 25% of income of over-65s (Ireland) and 40% (Canada).[9] This compares with an average of less than 5% in 11 continental European OECD countries – including France, Germany, Italy and Spain – where public pensions and other transfers account for an average of nearly 80% of incomes on old age. Where voluntary pension provision is important, the concern is partly that people are not contributing enough to secure a comfortable retirement income. But it is also that not enough people are contributing or that they are not contributing for long enough, both of which are aspects of the coverage issue.

Thirdly, voluntary private provision for old age will become increasingly important in a range of other countries as future public benefits have been cut back. The OECD's analysis of the impact of reforms shows that benefits for today's workers will be 23% lower than they would have been had the old rules continued on average in seven countries.[10] These countries – Austria, Germany, Italy, Japan, Korea, Portugal and Turkey – cut benefits "across-the-board", with equal impact on low and high earners. Another group protected low earners from some or all of the benefit reductions. Average earners in Finland, France and Sweden, for example, will receive pensions 15-20% less than under the old rules, while lower earners are less affected. This retrenchment of public pension provision was motivated by the challenge of fiscal sustainability. Indeed, it is moot whether the public purse could have continued to afford the benefits promised under the pre-reform rules. Nevertheless, this creates a significant "pension gap" in most of these countries. This will need to be filled with later retirement or private retirement savings if future pensioners are not to face a significantly lower standard of living in retirement than today's retirees.[11]

Within this context, about a third of OECD countries have taken significant steps to improve coverage in the period since September 2007. Four have introduced relatively modest measures to expand the numbers in the *public* pension arrangements: Austria (people providing care for family members), France (recipients of maternity benefits), Ireland (low earners) and Japan (the self-employed).

However, most efforts have been made to expand the reach of private pensions. Israel mandated occupational private pensions in 2009, building on already broad coverage of such schemes. Norway adopted a similar policy in 2007, just before the window of reforms analysed here. Chile will bring the self-employed into the mandate for private pensions. Chile, Germany and Poland all acted in the area of tax incentives for private pensions. However, a number of countries have reduced tax incentives or imposed stricter ceilings on them to cut their fiscal cost. (This is discussed under "Sustainability" below.)

A development with significance for the future direction of pension policy has been automatic enrolment of individuals into private pensions. By requiring people to opt out of private pension plans, this policy aims to use natural inertia to turn the reluctant into retirement savers. New Zealand's KiwiSaver, the archetype for such an arrangement on a national scale, began in July 2007 (again just before the window analysed here). Although less successfully than New Zealand, Italy also put in place a nation-wide auto-enrolment mechanism in the first half of 2007. The United Kingdom will phase in such a scheme from 2012 and the national pension arrangement in Ireland envisages a similar approach. In the United States, it has been made easier for employers to use automatic enrolment for their pension schemes. These policies to encourage participation in private pensions are discussed in greater detail in Chapter 4 of this volume.

1.5. Adequacy

Most countries that addressed issues of adequacy of retirement incomes in the past four-and-a-half years did so through changes to safety-net benefits. There were one-off increases in means-tested benefits in Australia, Canada and Korea beyond the normal rises due to indexation. Belgium, France and Spain followed the same policy with their means-tested benefits. New targeted programmes were introduced in Chile, Finland and Greece, in the last two cases at a significantly higher level than existing benefits. Additional tax reliefs were given to older people in Finland and Sweden which will be of greatest benefit to low-income retirees. The Czech Republic increased the value of the basic pension and the threshold in its earnings-related scheme up to which a 100% replacement rate is applied.

In four cases, improvements to adequacy took place in the context of an income poverty rate among older people significantly higher than the OECD average: Australia, Greece, Korea and Spain. In contrast, Canada, the Czech Republic and France have old-age poverty rates much lower than the OECD average, with Belgium placed at around the average.[12]

These measures improve the *current* adequacy of retirement incomes; the measures to increase coverage of public and private pension outlined above will improve the *future* adequacy of pensions. Another measure with an eye to the future is Australia's increase in mandatory contribution rate to private pensions from 9% to 12% of earnings by 2019. New Zealand is also planning to raise the default contribution rate in the KiwiSaver to 3% in 2013. Italy has also increased the contribution rate for the self-employed in the national DC system. Finally, other measures such as more generous indexation of benefits and increases in pensionable ages (described below) will also have a positive effect on adequacy.

1.6. Indexation

The way that pensions in payment are adjusted to reflect changes in costs and standards of living is generally described as "indexation". Most OECD countries have policies to link these benefits adjustments to indices, generally of wages or prices. Analysis of the adjustment of benefits in practice over a long time period has shown that governments have systematically over-ridden these rules and changed pensions by larger or smaller amounts than the rules would require.[13]

Such policies are again in evidence in the period analysed here. Some of them imply a more generous treatment – and so are mainly classified under "adequacy" in Tables 1.1 and 1.A1.1 – while others are less generous, and so are shown under "financial sustainability" in the Tables.

Starting with Germany, pensions were increased during the three years 2008 to 2010 by a cumulative 3.5% compared with an increase of just 0.1% specified under the link between indexation and financial sustainability of the system.[14] Finland, too, froze pensions rather than reduce them as the index would have implied. Countries faced with fiscal problems – Greece and Slovenia, for example – have frozen the nominal value of pensions for a period rather than increase them. Austria and Italy have frozen the value of larger pensions, although small and medium-sized pensions were increased in line with prices.

Other countries have changed the indexation rules. In Turkey and the United Kingdom, this involves a more generous procedure for public pensions than the one it replaced. The basic pension in the latter will increase by the highest of price inflation (as measured by the retail prices index, RPI), earnings growth and 2.5% per year. However, the United Kingdom has moved to less generous procedures for public-sector pensions and in the indexation requirements imposed on defined-benefit occupational schemes. These will now use the consumer prices index (CPI), which is typically 0.5-1.0% below the RPI (due to the design of the two indices). Sweden altered the indexation rules that are implied by the "balancing mechanism" in its public pension scheme. Instead of the link in the "balancing mechanism" to the short-term investment performance of the reserve fund, a longer period will be taken into account. The cut in benefits imposed after the initial crisis was 3.0% rather than the 4.5% required under the old rules. As in Germany, this difference will be clawed back in the future.[15] Finally, Norway will move to less generous indexation policies and Hungary has made a number of changes.[16]

1.7. Pensionable ages

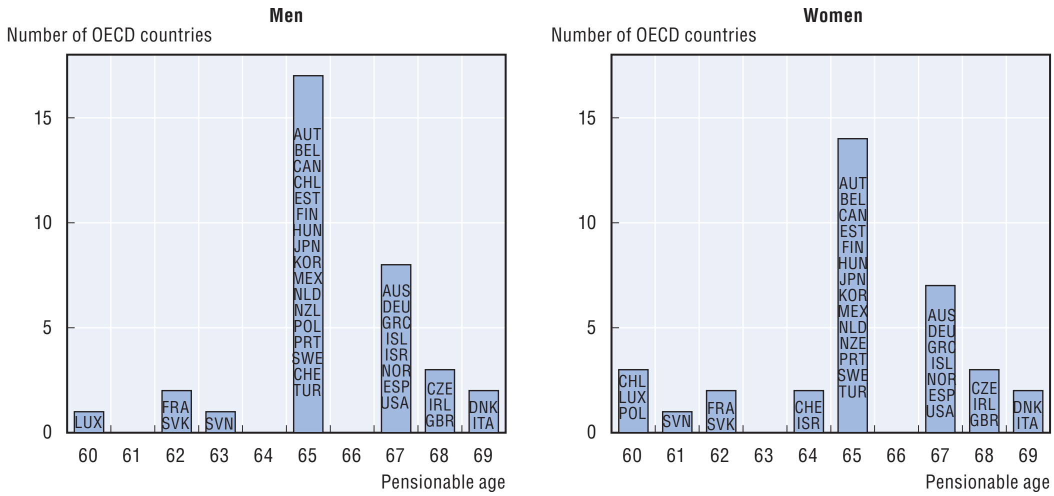
The pensionable age is the most visible of the many numbers in the pension system. Indeed, it is often the only one of which the majority of the population is aware. It provides a clear signal for people choosing when to cease work. This visibility means that increases in pension age have proved among the more contentious elements of pension reforms.

Tables A1 and A2 in the statistical annex show a time-series of the normal pension ages for men and women spanning a century: back to 1949 and forward – on current legislated plans – to 2050.[17] Despite the controversy, most OECD countries have already begun to increase pensionable ages, or plan to do so in the near future. The exceptions include the Netherlands (where a bill to increase ages to 67 is already before parliament), Poland (where the government has announced plans for a pension age of 67) and Sweden (where a commission is investigating the case for an increase). Iceland and Norway can comfortably be excused from increases in pension age: it is already 67 in both cases. In Austria, Belgium, the Slovak Republic and Switzerland, women's pension age is increasing, while that for men has not been changed. A referendum in Slovenia rejected an increase in pension age to 65, although an increase for women is already underway. This leaves only Chile, Finland, Luxembourg and Mexico with no change.

The distribution of pension ages in the long term, under current legislation, is illustrated in Figure 1.2. Age 65 remains the modal age at which people normally draw their pensions, accounting for 17, or half, of OECD countries for men and 14 countries for women. But 67 – or higher – is becoming the new 65. Some 13 countries (12 for women) are either increasing pension ages to this level or, in the cases of Iceland and Norway, are already there. Italy, which links pension age and seniority requirements to life expectancy from 2013 and Denmark, which plans to link pension age to life expectancy from the mid-2020s, are forecast nearly to reach age 69 in 2050. At the other end of the scale, there is only a handful of countries with pension ages below 65. Of these, the binding condition for people in France is generally the number of years of contribution rather than pensionable age (62 from 2017 on). For people with an incomplete contribution history, the pension age for a full rate pension will be 67 from 2022 on.

As noted previously, the Polish government aims to increase pension age for both sexes to 67. In Chile, the lower pension age for women applies only to the defined-contribution scheme: public benefits are available for both sexes only at 65. Along with Israel, Slovenia and Switzerland, these are the only countries that have currently legislated different pension ages for men and women in the long term.

Figure 1.2. **Pensionable age under long-term rules, by sex**



1. Ages have been rounded where necessary.

Source: Statistical Annex, Tables A1 and A2.

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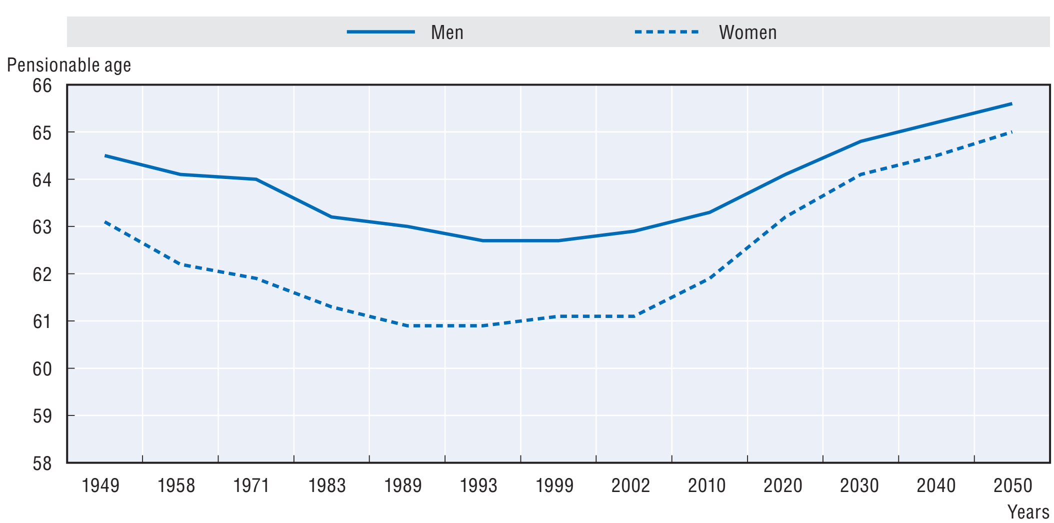
Figure 1.3 returns to the changes in pensionable ages over time, showing the OECD average age from 1949 to 2050. It surprises many that pension ages were often falling for over four decades, to a nadir of 62.7 for men and 60.9 for women in 1993. During that period, 10 OECD countries cut pension ages for men and 13 did so for women. The average pension age around 1950 had been 64.5 for men and just over 63 for women. From the low-point in 1993, the average pension age for men had risen by 0.6 years. The larger increase for women, of one year, reflects the equalisation of pension ages between the sexes in Australia, Belgium, Italy and Portugal, for example.

Figure 1.3. **Normal pension ages by sex, 1949-2050**



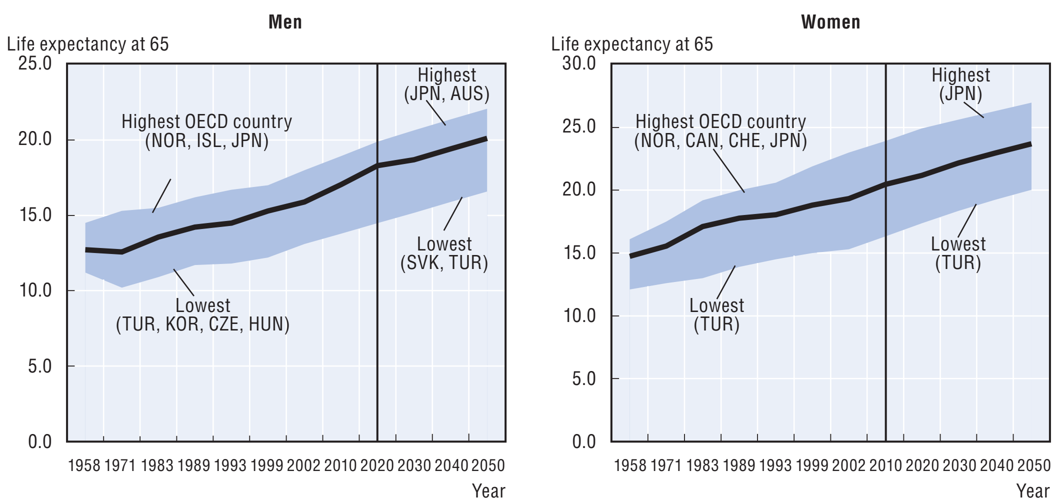
Source: Statistical Annex, Tables A1 and A2.

StatLink http://dx.doi.org/10.1787/888932598151

Pension ages are on the rise in most of the OECD: 19 out of 34 countries for men and 23 for women. Current legislation will push the pension age for men to 65.6 in 2050 and 65.0 for women. However, these hard-fought increases look less impressive in an historical perspective. Only in 2030 for men and 2020 for women will the average pension age in OECD countries be at the same level as many years ago, back in 1949.

Throughout most of the relatively long time horizon studied here, life expectancy has been increasing. This is illustrated in Figure 1.4, which shows the additional years of life that 65 year old men and women are projected to survive. The line gives the OECD average, while the shaded area presents the range across OECD countries. The only time that the life expectancy of 65-year-olds declined was for men in the early 1960s: otherwise, there has been a continuous increase in the expected duration of life for older people. In 2010, 65-year-old women could anticipate 20.5 years of life on average, ranging from 16.3 years in Turkey to 23.9 years in Japan. For 65-year-old men, the shortest life expectancies in 2010 were in Hungary, the Slovak Republic and Turkey at around 13.8 years. Men in Australia and Japan could expect to live 18.9 years after age 65, compared with an OECD average of 16.9 years. Life expectancy is projected to increase further in the future, to an average of 23.7 years for women and 20.1 years for men in 2050.

Figure 1.4. **Life expectancy at age 65 by sex, 1960-2050**

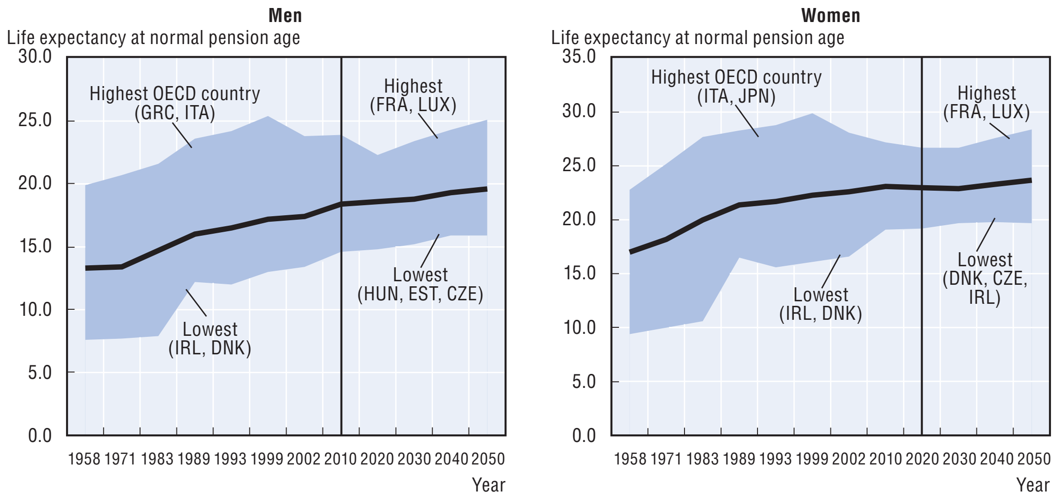


Source: *OECD Health Database* (1960-2005) and *United Nations Population Division Database, World Population Prospects – The 2010 Revision* (2010-2050).

StatLink http://dx.doi.org/10.1787/888932598170

Combining the analysis of pension ages and life expectancy over time, it is possible to calculate the expected duration of retirement; that is, life expectancy at normal pension age. The full results are shown in Tables A3 and A4 in the Statistical Annex. Figure 1.5 summarises these data. Between 1960 and 2010, the expected retirement duration for men grew by five years on average in OECD countries. About a quarter of this change was due to reductions in pension ages with the rest a result of longer lives. For women, the increase in life expectancy was larger: six years. Longer life expectancy made up four-fifths of this change, with reductions in pension ages accounting for the rest.

Figure 1.5. **Life expectancy at normal pension age by sex, 1960-2050**



1. Figures for Turkey – with much the longest life expectancy at normal pension age – have been excluded from the range covered. The countries indicated with the highest figures are therefore excluding Turkey.

Source: Statistical Annex, Tables A3 and A4.

StatLink http://dx.doi.org/10.1787/888932598189

Looking forward, life expectancy is forecast to continue increasing. Even with the increases in pension ages outlined above, the expected duration of retirement will expand on average across OECD countries. For men, this amounts to an extra 1.2 years of life expectancy after normal pension age by 2050. The increase for women – 0.6 years – is smaller, mainly due to larger increases in pensionable age. Only in a few countries will pension age increases keep pace with forecast improvements in life expectancy: the Czech Republic, Greece, Hungary, Italy, Korea and Turkey. In Austria, Estonia, the Slovak Republic and the United Kingdom, pension age increases exceed the projected growth in life expectancy for women, but not for men.

1.8. Work incentives

Often in addition to increases in pension ages, 14 countries have adopted other measures to foster longer working lives. Australia and France have improved incentives for people to continue working after the normal pension age in the pension system. Sweden aims to do the same through the tax and contribution system, providing an in-work tax credit to the over 65s at a higher level than for under 65s and an exemption from employee social security contributions. Portugal has also exempted older workers from contributions. Austria, the Czech Republic, France, Greece, Hungary, Italy and Spain have all tightened the conditions for receiving a pension early. Denmark has reduced the attractiveness of its voluntary early-retirement scheme, while Finland has tightened the conditions for the part-time pension and unemployment pathways into retirement. Poland will remove early-retirement privileges for large groups of workers. France and Ireland have taken steps within public-sector pension arrangements to encourage people to work longer.

Taken together with the increases in pensionable ages, nearly all OECD countries are taking action to ensure that people "live longer, work longer".[18]

1.9. Sustainability

Three routes to reducing pension expenditures – indexation of benefits, higher pension ages and tighter rules for early retirement – have been outlined in the preceding sections. But there has been a range of other measures designed to bolster the long-term financial sustainability of retirement-income provision. Korea will directly reduce the pension replacement rate for full career workers with average earnings from 60% to 40%. Changing the measure of earnings used to calculate benefits from the best five of the final ten to career-average should reduce costs of pensions in Greece. Final salaries are generally higher than those in earlier years, especially for the higher paid who see the most growth over their careers. Both Greece and Hungary abolished additional, seasonal pension payments (often called 13th month benefits). They are replaced with much more modest pension bonuses.

Norway – joining Italy, Poland and Sweden – introduced notional accounts. These schemes entail an automatic reduction in the level of pension benefits as life expectancy increases (conditional on claiming the pension at the same age). With the reform at end-2011, Italy made the transition of the system from defined benefit to notional defined contribution much quicker. The first reduction in new pensions due to a life-expectancy link in Finland took place in 2010. Spain, too, will adopt an automatic-adjustment mechanism after 2027, but the details have not yet been spelt out. Policies to put pensions on auto-pilot are discussed in Chapter 2 of this volume.

Many of the financial gains have been reaped through changing taxes. Australia, Ireland, New Zealand and the United Kingdom have moved to restrict tax incentives for voluntary retirement savings. In addition, Ireland is levying a tax of 0.6% of assets on pension funds for each of four years.

1.10. Administrative efficiency

Administrative costs of and charges for private pensions has remained a significant policy concern. This applies both to the 13 OECD countries where private pensions are mandatory or quasi-mandatory[19] and the many others where voluntary plans are an important part of the retirement-income system. Charges often eat up between 20% and 40% of individual's pension contributions, according to the International Organisation of Pension Supervisors.[20]

Australia and the United Kingdom are aiming to reduce costs substantially through centralisation of part of the management and record-keeping of the individual pension accounts. This echoes the model of a central clearing-house adopted with the earlier introduction of mandatory funded accounts in Sweden. The recent merger of this clearing-house with the management of public pensions aims to reduce costs further. Chile and Mexico have engineered lower costs for new entrants to the pension market: a new private provider in the former and the manager of individual accounts for public-sector workers in the latter. Administrative charges with these new providers are around 30% lower than the industry average. In both countries, new labour-market entrants are directed to low-cost providers (in Mexico, unless they actively choose another provider). Chile, Estonia and the Slovak Republic have changed the type of fees that fund managers can levy, with the last two also introducing ceilings on the amount that can be charged.

There are some cases where an improvement in administrative efficiency is the objective of changes to public pension provision. Greece started with 133 public pension institutions, which are first being rationalised into 13 and afterwards into just three. Japan has established an entirely new agency to manage public pensions, both to reduce costs and improve service. Italy merged two other major agencies in its main Agency for pension provision (INPS).

1.11. Diversification and security

There are three main kinds of measure under the heading of diversification and security. First, individuals have been given choice (or greater choice) over the way their retirement savings are invested in private plans in Australia, Estonia, Mexico and the Slovak Republic. Generally, this is accompanied by measures to move people automatically into less risky investments as they get closer to retirement via the use of lifecycle funds, a policy recommended by the OECD.[21] Lifecycle investment strategies will also become more prominent in the United Kingdom with the advent of the new national, auto-enrolment system. The default provider – the National Employment Savings Trust, or Nest – will provide these kinds of investments.

Secondly, Canada, Chile, Mexico, Poland, the Slovak Republic and Switzerland have relaxed some restrictions on pension funds' investments, allowing for greater diversification of their portfolios. By contrast, Iceland outlawed new foreign investment by pension funds in order to contain capital outflows during the financial crisis. But the effect of limiting diversification of investments in this way can increase risk, reduce returns or have both effects, to the detriment of future retirement incomes.

The third category of changes relate to pension funds' solvency: whether defined-benefit plans have enough assets to meet their liabilities. Canada, Ireland, Japan and the United Kingdom have improved protection for members of insolvent funds, particularly when those funds are terminated or wound up. Finland and the Netherlands temporarily relaxed solvency rules to allow funds longer to recover from the loss in asset values after the financial crisis. Similar measures in Canada, Ireland, Norway and the United States were discussed in OECD (2009) and Antolín and Stewart (2009).

1.12. Other reform measures

This category covers a diverse range of significant developments in pension policy. One set of changes involves the reversal of earlier reforms that had introduced mandatory private pensions into retirement-income provision. Some of these reversals are meant to be temporary, some permanent while some involve an entire retreat from compulsory individual accounts and others a partial change. Estonia, Hungary, Poland and the Slovak Republic are all affected: changes in these OECD countries along with those in other EU member states – Bulgaria, Latvia, Lithuania and Romania – are the subject of Chapter 3 of this report. The Czech Republic, in contrast, will soon introduce mandatory defined-contribution pensions.

Other countries have also retreated from earlier commitments to pre-fund future public pension liabilities. In Ireland, the assets in the public pension reserve were used to recapitalise the country's banks while further contributions to the fund have been suspended in the face of a large deficit on the government's budget. Contributions to the New Zealand Superannuation Fund have also been stopped, with one further contribution to be paid in 2020 with the fund being run down from 2021 onwards. The French government began withdrawals from its fund (the Fonds de Réserve pour les Retraites) earlier than originally envisaged: in 2011 rather than 2020. Other countries, however, have maintained their commitment to partly pre-funding their public pension systems. This includes, among others, Australia, Canada, and Chile, which suffered less during the financial and economic crisis and are not facing fiscal difficulties.

In response to the financial crisis, many countries aimed to stimulate the economy and ease households' economic hardship with packages of measures, many of which involved the pension system. First, there were one-off payments to retirees in Australia, Greece, the United Kingdom and the United States. These were in addition to permanent increases in safety-net benefit levels in most cases. Secondly, some early access to pension savings was allowed in Denmark and Iceland, with the safeguard that funds ring-fenced for retirement were sufficient. The objective was to persuade people to spend the money to support domestic demand. Spain allowed early access to private-pension pots in the case of unemployment and financial hardship. Finally, Israel's government offered to protect older workers from further investment losses in their private pensions after November 2008.

1.13. Conclusions

The word "reform" has a sinister resonance for people resisting changes to retirement-income provisions. This is especially the case when benefits are being curtailed and pension ages are on the increase. Indeed, pension reform has brought protesters to the streets in a number of OECD countries in the past few years.

Despite this political pressure, the status quo has only rarely prevailed. Virtually all OECD countries have changed some parts of the retirement-income systems since the beginning of the crisis in September 2007.

The dominant motive for most of these recent pension reforms is undoubtedly financial sustainability. The most obvious change is increases in pension age, with around a third of OECD countries already having or soon to have a normal pensionable age of 67 or more. Just as significant – but not nearly so visible – have been other measures to restrict access to early retirement or to improve the financial incentives for people to work longer. Changes in indexation of pensions in payment, extensions in the period to calculate benefits, and cuts in benefit accrual rates also feature in many countries' reforms to make pensions more affordable. Chapter 2 of this volume looks at automatic measures designed to achieve financial sustainability in the long term.

Given how recent many of these reforms are, it is not yet possible to see whether they will mitigate the well-known effects of population ageing on future pension costs. Long-term financial projections, taking account of the impact of the changes, are available in only a few cases. Nevertheless, this Chapter has shown that future growth in life expectancy is expected to outstrip increases in pension ages in all but a handful of cases.

Efforts to improve financial sustainability mean lower public benefits for future generations of retirees. This will lead to "pension gaps" that need to be filled with later retirement and private pension savings. Chapter 4 looks at measures to encourage participation in private plans. But the way private funds invest, benefits are provided and they are regulated could also be improved. Many of these policy issues are discussed in Chapter 6.

The crisis has accelerated the pace of pension reform in OECD countries. Much has been achieved. But much remains to be done.

Notes

1. *Source:* OECD (2011c).
2. *Source:* OECD (2011c).
3. See Antolín and Stewart (2009) and the special chapter on "Pension Systems during the Financial and Economic Crisis" in OECD (2009).
4. Weighted average data, with the weights based on country's pension fund asset values. The calculation is based on about twenty countries that report investment performance data.
5. *Source:* OECD (2011b), Figure 1 and Table 3.
6. This chapter updates earlier analysis – "Recent Pension Reforms" in OECD (2009) and Whitehouse *et al.* (2010) – that covered the period from 1990 to 2008. Putting these together gives a comprehensive picture of pension reforms over 21 years.
7. OECD (1998, 2001, 2009 and 2011a), for example.
8. *Source: World Bank Pension Database.*
9. *Source: OECD Income-Distribution Database.* See Table A10 in the Statistical Annex of this volume and the indicator of "Incomes of older people" in Part II.3 of OECD (2011a). The special chapter on "Incomes and poverty in old age" – Part I.2 of OECD (2009) – and OECD (2008) provide a detailed discussion of methodology, definitions and data sources.
10. See the special chapter on "Incomes and poverty of older people" in OECD (2009) and Whitehouse *et al.* (2010) for more details.
11. See the indicator of "The pension gap" in Part II.6 of OECD (2011a) for recent empirical information along with the special chapter on "The pension gap and voluntary retirement savings" in Part II.4 of OECD (2009) and Antolín and Whitehouse (2008) for details of the calculations.
12. *Source:* The special chapter on "Incomes and poverty of older people" in OECD (2009). See also OECD (2008).
13. See Whitehouse (2009); Figure 4 in Chapter 2 shows the impact on the real value of benefits over time.
14. However, the German government intends to claw-back these increases in the future.
15. Chapter 2 of this volume provides greater detail on developments in the "automatic"-adjustment mechanisms in Germany, Sweden and other countries.
16. Automatic adjustment of pensions through changes in indexation is discussed more fully in Chapter 2 of this volume.
17. These "headline" pension ages differ in some cases from the "normal" pension ages set out in Chapter I.1 of OECD (2011a) and in Chomik and Whitehouse (2010). The earlier studies employed a strict definition of normal pension age : the age at which a full-career worker, starting at age 20, would be entitled to actuarially unreduced benefits. In countries where most workers claim the pension after the earlier possible age (*e.g.* Belgium) and those where most are likely to claim at the normal age in future (*e.g.* Germany and Spain), the higher headline pension age is shown in the Annex Tables A1 and A2.
18. The title of an OECD (2006) report on population ageing and employment policies.
19. Occupational plans in Denmark, the Netherlands and Sweden achieve near-universal coverage (80% or more of the labour force) and are therefore commonly described as "quasi-mandatory".
20. Gómez Hernández and Stewart (2008). See also Tapia and Yermo (2008).
21. See Chapter 6 of this publication and the special chapter on "Pension systems during the financial and economic crisis" in Part I.1 of OECD (2009).

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ANNEX 1.A1

Table 1.A1.1. **Details of pension-reform measures, September 2007-February 2012, by primary objective**

	Coverage	Adequacy	Financial and fiscal sustainability	Work incentives	Administrative efficiency	Diversification/security	Other
Australia		Mandatory DC contn 9↗12% 2013-19; tax rebate for 3.5 m low earners' DC accounts (May 2010). Additional increase in targeted benefits (age pension) of 12% for single pensioner, 3% for a couple from Sep. 2009: implies an increase in single person's rate to 66.3% of a couple's.	Cut in ceiling on voluntary private-pension contns getting tax relief. Replacement of DB schemes for public-sector workers with DC schemes.	Pension age for public scheme 65↗67 2017-23; earliest access age for private schemes 55↗60 by 2025; tax penalty on access to private pensions before age 60. Work bonus: concession in the income test that enables public pensioners to earn up to AUD 6 500 a year (single) and AUD 13 000 (couples). This is in addition to the income test free area of AUD 3 744 in the year 2010.	New clearing house for firms with < 20 workers from July 2010; measures to cut charges for DC pensions by 40% (Dec. 2010). New "MySuper" – simple, low-cost DC plan, to be introduced and replace all default schemes from July 2017. New "SuperStream" to improve admin. Consolidation of multiple DC accounts.	Cooper review recommends changes in investment choice in DC plans (July 2010).	One-off payment of AUD 1 400 to single pensioners and AUD 2 100 to couples in Dec. 2008 as part of economic-stimulus package. Tax bonus of up to AUD 900 to eligible taxpayers in 2009 as part of Nation Building Economic Stimulus Plan.
Austria	Extension of state payment of pension contributions to family carers to lower level long-term care benefits.		Only monthly pensions up to EUR 2000 were fully indexed to CPI in 2011	Access to early retirement tightened: higher minimum age, stricter rules on "substituted insurance periods" (Ersatzzeiten), abolition of buying retrospective insurance (for periods in full-time education) and 4.2% actuarial decrement to be applied for early retirement on this basis from 2014.			One-off lump-sum payments to lower-income pensioners (2010).
Belgium		Increase in minimum pensions beyond standard indexation.		Increase in employer contn to early-retirement benefits (April 2010).			
Canada		Enhanced means-tested benefits (guaranteed income supplement, GIS): new annual top-up of up to CAD 600 for single pensioners and CAD 840 for couples; annual cost of more than CAD 300 million on 680 000 beneficiaries.				Change in solvency rules for DB plans, protect workers when DB plans terminated, relax investment rules (Oct. 2009).	

Table 1.A1.1. **Details of pension-reform measures, September 2007-February 2012, by primary objective** *(cont.)*

	Coverage	Adequacy	Financial and fiscal sustainability	Work incentives	Administrative efficiency	Diversification/security	Other
Chile	Gradual extension of mandatory DC scheme to self-employed over 7 yrs from July 2008. Introduction of employer-sponsored voluntary private pension arrangements (APVC) from 2008; less restrictive conditions from 2011 due to low take-up: tax incentives can be accrued either when contributing or at retirement. Subsidy for contns for hiring young workers with low incomes.	New means-tested non-contributory benefit for all over 65s from July 2008; new supplements paid to 40% of lowest-income pensioners in 2008-09, rising to 60% from June 2011. Abolition of healthcare contn for low-income pensioners and reduce it for middle-to-high income retirees. Women and men to be charged the same premium for the disability and survivorship insurance (SIS). Since men are expected to have higher risk rates, the difference in premiums will be deposited in women's DC accounts.			New *Modelo* plan won contract to manage DC accounts for new entrants 2010-12: fees 24% lower than existing average; also won 2012-14 contract with 30% lower fees. Disability and survivors' insurance contracted through bidding; cost of insurance separated from fees paid to fund managers. Fixed fees to fund managers eliminated: only a percentage fee on contributions remains. Outsourcing authorised for many functions of plan managers and tax disadvantages to sub-contracting eliminated.	More flexible investments for DC plans: only structural limits remain while other limits fixed in secondary regulation with support of Technical Investment Council. Permitted foreign assets 60↗80% of portfolios of DC plans 2010-11. Investment choice between five funds per manager made easier by renaming funds "A" to "E" in a more informative way: riskier to conservative. Members can choose beforehand their fund allocation for their remaining time in the workforce. Shift in regulation to principles of risk-based supervision. Introduction of an adjustment factor for payment through programmed withdrawal to avoid people outliving their retirement resources; new estimation methodology for programmed withdrawal technical rate (TITRP) to improve projections of retirees' funds returns.	Users' committee for DC system with representatives of workers, pensioners and plan managers to evaluate and propose improvements to the system. Creation of fund for pension education. Creation of pension advisors to offer independent advice on individuals' options, funded out of individual's fund with maximum lifetime limit. Pension subsidy for women for each live birth: govt will pay into DC account or increase the value of public pension.
Czech Republic		Basic pension increase from 8.8% to 9.0% of average earnings; revision of benefit formula in response to Constitutional-Court ruling: extension of 100% replacement rate earnings below 42.8↗44.0% of average.	Ceiling on pensionable earnings introduced in response to Constitutional Court at 400% of average earnings.	Pension age 63↗65 for men, 59-63↗62-65 for women depending on number of children from 2028; requirement for full benefit 20↗35 yrs by 2019.		Option to divert 3% of contributions to a DC plan conditional on individuals making an extra 2% contribution, subject to a reduction in public-pension benefits.	Higher pensions for higher earners in reaction to Constitutional-Court ruling: replacement rates of 30% and 10% over particular slices of earnings to become a rate of 26% between the lower threshold (44% of average earnings) and the ceiling.

Table 1.A1.1. **Details of pension-reform measures, September 2007-February 2012, by primary objective** *(cont.)*

	Coverage	Adequacy	Financial and fiscal sustainability	Work incentives	Administrative efficiency	Diversification/security	Other
Denmark				Voluntary early retirement scheme (eferlon) scaled back: increase in eligibility age 60↗64during 2014-23 reducing pay-out period 5↘3 yrs; during 2012, choice between early-retirement benefits and a tax-free lump sum at eligibility age of DKK 143 300.			Early access to special pension savings with average balance of DKK 14 600 or USD 2 600 as part of economic stimulus.
Estonia				Pension age 63↗65 for men, 60.5↗65 for women 2017-2026.	Since 2011, pension fund managers can no longer charge a unit-issue fee. Since 2011 annual management fees are also subject to a ceiling set in relation to the amount of assets under management.	Stricter investment limits on the conservative (least risky) of 3 funds in DC plans; members able to switch funds three times (rather than once) a year from Aug. 2011.	Cut in contns to DC accounts to 0% in 2010, 2% in 2011, returning to 4% in 2012.
Finland	Coverage of earnings-related scheme extended to recipients of research grants (Jan. 2009).	Variation in value of targeted national pension scheme by municipality removed: pensions in lower/second municipality group increased (Jan. 2008). New minimum pension from March 2011, 17% higher than existing benefit for single people and 32% higher for couples. Indexation rule for targeted pensions temporarily changed in 2010 so as not to go below zero. Cuts in taxes on pensions of EUR 15-30 000 to bring pensioner tax into line with worker tax from Jan. 2008.	New earnings-related pensions were reduced according to increases in life expectancy (part of 2005 pension reform, applied for the first time in 2010).	Possibility of putting pension on hold while working (max. 2 years) extended to earnings-related pensions from private sector. Currently, temporary legislation covering 2010- 2014 (Jan. 2010). Eligibility age for part-time pensions increased to 60 for cohort 1953+ and the old-age pension after part-time pension slightly decreased. Eligibility age for unemployment pathway to pensions increased for cohort 1955+ to 60.		Temporary relaxation of solvency rules until 2012 to let DB plans hold on to riskier, higher-return assets. (first time Jan. 2009, validity extended April 2010)	Information on accrued pension rights sent every year to private-sector employees and self-employed from 2008.

Table 1.A1.1. **Details of pension-reform measures, September 2007-February 2012, by primary objective** *(cont.)*

	Coverage	Adequacy	Financial and fiscal sustainability	Work incentives	Administrative efficiency	Diversification/security	Other
France	Cash maternity benefits count as earnings for pension purposes. (Nov. 2010).	Pension age stays at 60 for hazardous and arduous jobs leading to 10% + disability, affecting 4% of retirees (Nov. 2010). Increases in minimum pensions beyond standard indexation.		Minimum pension age (subject to contn conditions) 60↗62 by 2017; age for full rate pension 65↗67 (Nov. 2011); increment for late retirement 3-4%↗5% from 2009; employers must have an action plan for employing workers aged 50+ by Jan. 2010 or face penalty social security contns. Actuarial reduction for early retirement from July 2008.			
Germany	Extension of tax incentive for private pensions due to expire at end of 2008.	Pension increases: 1.10% in 2008 (rather than 0.46% under 2005 rules), 2.41% in 2009 (rather than 1.76%), 0 in 2010 (–2.1%).		Increase in normal pension age 65↗67 for cohort 1964+.			
Greece		New means-tested benefit at higher level (July 2010).	Pensions frozen 2011-13; full-career earnings measure from best 5 of last 10 yrs; accrual rate 2.0%↘1.2%; replace seasonal bonuses with annual, flat-rate payment; tax of 5-10% on largest 10% of pensions. (July 2010) Introduce assets in addition to income test for solidarity benefits; 10% cut in lump-sum retirement payments for public-sector workers; extend freeze on pension values 2013-15 (June 2011).	Pension age linked to life expectancy from 2020; minimum age 60 for early retirement from 2011; contn yrs for full benefit 37↗40 yrs by 2015. Actuarial reduction of 6% per year of early retirement (July 2010).	Merger of 133 public schemes into 13 by October 2008 and subsequent plan to reduce these to 3 (July 2010).		One-off payment of EUR 100-200 to pensioners as part of economic stimulus.

Table 1.A1.1. **Details of pension-reform measures, September 2007-February 2012, by primary objective** *(cont.)*

	Coverage	Adequacy	Financial and fiscal sustainability	Work incentives	Administrative efficiency	Diversification/security	Other
Hungary			Replacing 13th month pension with bonus paid if GDP growth > 3.5%; index pensions to prices if GDP growth < 3%. In 2010-11, indexation to average of wages and prices, inflation from 2012.	Pension age 62↗65 in 2012-17; tighter conditions for early retirement.		Since 2007, private pension funds can establish voluntarily a life-cycle portfolio system (from 2009 this amendment became mandatory). This system offers to pension fund members the option to choose between 3 different portfolios (conventional, balanced and growth). However, nationalisation of pension funds makes this largely irrelevant.	Diversion of contributions from mandatory DC plans to public scheme from Nov. 2010 to Dec. 2011 worth USD 2bn. Closure of mandatory DC schemes in Dec 2011, transfer of assets (USD 14.6 bn) to govt; 100 000 of *circa* 3 m workers with DC accounts chose to retain DC schemes.
Iceland						Pension funds allowed to invest up to 20% of portfolio in unlisted securities rather than 10% (Oct. 2008). Pension funds can make no new foreign investments (Oct. 2008).	Large DB pension funds (34% of total assets) establish Iceland Investment Fund to stabilise domestic economy. Early access to private pensions above mandatory replacement rate (worth about 5% of GDP) as part of economic stimulus.
Ireland	Proposal for automatic-enrolment in DC plan. (Mar. 2010) Exemption from contns to public pension scheme for people earning < EUR 352 per week abolished. (Dec. 2010).		Tax levy of 0.6% on assets in private pension funds (each year 2011-14). Tax relief on private-pension contns for high earners from 41%↘20% from 2014; employer contns no longer tax deductible and treated as taxable benefit-in-kind for employees; earnings ceiling on tax deductible contns EUR 150 000 ↘115 000; lifetime limit on tax privileges EUR 5.4 m↘2.3 m; end of exemption from public pension contns with earnings < EUR 18 300 (from Dec. 2010). Pension levy on public-sector wages averaging 7.5% from March 2009.	Pension age 65↗66 from 2014 and ↗67 from 2021 and ↗68 from 2028. Pension decrement for early retirement of public-sector workers.		Pension insolvency payment scheme (PIPS) to help insolvent DB plans with insolvent sponsoring employers (Feb. 2010).	EUR 24 bn National Pension Reserve Fund, started in 2001, transferred to Ministry of Finance, largely used to recapitalise banks; contns (1.5% of GDP) suspended (Dec. 2010).

Table 1.A1.1. **Details of pension-reform measures, September 2007-February 2012, by primary objective** *(cont.)*

	Coverage	Adequacy	Financial and fiscal sustainability	Work incentives	Administrative efficiency	Diversification/security	Other
Israel	Mandatory DC occupational plans from Jan. 2009 with extension of coverage from Jan. 2010; employee contn rate 2.5%↗5% and employer, 2.5%↗10% from 2013.					Compensation of 50% of crisis-related losses in voluntary private plans to a limit: potential coverage of 15% of over 55s (Jan. 2009).	
Italy		Public pension contribution rates have been increased for the self-employed in the NDC system which will imply higher benefits.	More rapid transition to NDC system from 2012 onwards through pro-rating of benefits under NDC and the former DB scheme.	Pension age for women 60↗65 to match that of men; pension age for both sexes 65↗67 by 2021; pension age for women working in the public sector 61↗65 in 2012. Early retirement through seniority pensions (based on contribution yrs) limited. .	Merger of three agencies managing public pensions.		
Japan	Employees aged 60-65 can join employer-provided DC plans. Voluntary (e.g. self-employed) participants in earnings-related scheme aged 60-64 can also be covered by basic pension. Temporary period for self-employed etc. to make up gaps in contribution records 2-10 yrs ago.				New Japan Pension Service, a quasi-non-governmental agency under the Ministry of Health, Labour and Welfare, to run public schemes from Jan 2010.	New rules on wind-up of occupational plans require employers to set up a "feasible" plan through a clearance fund to buy-back pension rights of employees in the earnings-related, public scheme. Payment by instalments and reduction in total repayment permitted.	
Korea	Extend mandatory occupational/ severance-pay plans to firms with < 5 workers from Dec. 2010 (about 1.5 m people).	Means-tested pension 5↗10% of average earnings; coverage 60%↗70% of over 65s.	Target replacement rate of public scheme 60↘40% by 2028.				
Luxembourg							

Table 1.A1.1. **Details of pension-reform measures, September 2007-February 2012, by primary objective** *(cont.)*

	Coverage	Adequacy	Financial and fiscal sustainability	Work incentives	Administrative efficiency	Diversification/security	Other
Mexico					Abolition of fees on contns: only fees on assets can be levied; new entrants by default in lowest charging DC plan (March 2008); Pension ISSSTE, public scheme that manages account for public-sector workers, able to compete with private fund management companies (AFOREs): its admin. charges are about a third lower than the AFORE average.	DC plan for public-sector workers hired from Apr. 2007; existing workers aged < 46 to choose DC or remain in earnings-related scheme by Aug. 2008. Pension fund managers to offer 5 different plans with different risk-return characteristics from 2008. Limits for AA and A bonds from issuer other than Federal Government in 2008 from 35↗50% 5↗20%, respectively. New instruments were included under the alternative investments asset class in 2009.	
Netherlands				Pension age 65↗66 from 2020 and 67 from 2025 before parliament.		Recovery period for underfunded DB plans temporarily 3↗5 yrs (Feb. 2009).	
New Zealand		Default contribution rate for Kiwisaver cut 4%↘2% of wages, but increase to 3% from April 2013.	Retirement commission recommends *i)* pension age 65↗67 by 2023 with new means-tested benefit at age 65-66; *ii)* shift from wage indexation to 50:50 wages and prices; *iii)* concern over cost of KiwiSaver tax incentives, about 40% of contns so far. Treasury review recommends *i)* pension age 65↗69; or *ii)* shift from wage to price indexation; or *iii)* means-testing basic pension (Oct. 2009). Smaller tax incentives for KiwiSaver (automatic-enrolment DC scheme introduced in July 2007) and lower default contn rates for employees and employers from April 2009.				Suspension of contns to public reserve fund (New Zealand Superannuation Fund) until 2020; the fund will be drawn down from 2021.

Table 1.A1.1. **Details of pension-reform measures, September 2007-February 2012, by primary objective** *(cont.)*

	Coverage	Adequacy	Financial and fiscal sustainability	Work incentives	Administrative efficiency	Diversification/security	Other
Norway			Notional accounts scheme from Jan. 2011: fully for cohort 1963+ and partly for cohorts 1954-62; pensions linked to life expectancy, based on full-career earnings not 20 best yrs; indexation of pensions in payment to wages –0.75% rather than wages.	Flexible retirement age 62-75 with adjustments to benefit levels.			Use of reserves for stimulus.
Poland	New voluntary private pension plan with tax incentives to complement existing schemes.			Restrictions on occupations that can retire early, cutting eligible numbers by 80%, and then eliminating the scheme (Jan. 2009).		Fewer investment restrictions on DC accounts, including permitted equity share 40↗62% from 2020.	Contn rate for DC accounts 7.3%↘2.3% from 2011; gradual increase to 3.5% from 2017. Residual (5%↘3.8%) goes to second NDC scheme, with notional interest rate linked to GDP growth (rather than wage-bill growth as in current NDC scheme).
Portugal	New centrally managed voluntary DC plan from March 2008.			Lower social security contn rate for workers aged 65+. (Sept. 2009).			
Slovak Republic					Cut fees as % of assets and link them to investment returns from July 2009.	Introduction of three funds types – conservative, mixed and growth – supplemented by a new equity-index fund from April 2012. Principal guarantee on investment performance introduced, but will be restricted to the least risky (bond) fund from Apr. 2012. Reduction of ceiling on foreign mutual fund investment from 50% to 25% in 2009.	During two periods (first 6 months of 2008, Nov. 2008-June 2009), workers could switch contns back from DC accounts to public scheme. DC scheme made optional for new labour-market entrant, but compulsory again from April 2012.

Table 1.A1.1. **Details of pension-reform measures, September 2007-February 2012, by primary objective** *(cont.)*

	Coverage	Adequacy	Financial and fiscal sustainability	Work incentives	Administrative efficiency	Diversification/security	Other
Slovenia			Pensions frozen in 2011 (and 2012 if inflation < 2%) (Sept. 2010).	Proposal to increase normal pension age 63➚65 men, 61➚63 women 2021-2024; eligibility for early retirement on full pension 40➚43 yrs men, 37.25➚41 yrs women was rejected by referendum in June 2011.			
Spain		Increase in minimum pension 6.4% above standard indexation. Increase in survivors' benefits for those retired and aged over 65 with no public pension entitlement of their own 52➚60% of deceased's pensionable earnings (subject to income limits).	Automatic link between pension parameters and life expectancy from 2027, although details not specified.	Normal pension age 65➚67 between 2013 and 2027 but full benefit at 65 with 38.5 yrs contns; sustainability adjustment after 2027; early pension age 61➚63 (but 61 in times of economic crisis); contns for full benefit 35➚37 yrs; contn for early retirement 30➚33 yrs.			Hardship withdrawals of private pension savings allowed.
Sweden		New basic tax reliefs for over 65s introduced in 2009 and increased in 2010 and 2011.	Change to "balancing mechanism" underlying the NDC scheme: from 2009, calculation of balance based on average value of the buffer fund at the end of the past 3 yrs rather than the past yr. New rules meant cut in pensions of 3.0% in 2010 instead of about 4.5%.	In-work tax credit introduced in 2007: higher level for over 65s. Credit for older workers enhanced in 2008 and 2009. In 2011, maximum credit for under 65s of SEK 21 249 (at average municipal tax rate) compared with SEK 30 000 for over 65s. Employee payroll taxes and abolished for over 65s in 2008-9; employer taxes (except for 10.21% pension contn for cohorts 1938+) also abolished. Note that full social security contribution is 31.42 % for cohorts 1938+.	Swedish Pension Agency took over work of two separate agencies managing public and mandatory DC plans in Jan. 2010.	Review of investment rules and governance of buffer funds (collectively worth USD 132 bn at end of 2010) to report in August 2012.	Shift from DB to DC among some occupational plans.

Table 1.A1.1. **Details of pension-reform measures, September 2007-February 2012, by primary objective** *(cont.)*

	Coverage	Adequacy	Financial and fiscal sustainability	Work incentives	Administrative efficiency	Diversification/security	Other
Switzerland			Minimum rate of return on mandatory private pensions 2.75%↘2% from Jan. 2009. It will be cut further to 1.5% from 2012.			Ceiling on real-estate investments reduced from 50↘30%; ceiling on mortgage loans reduced 75↘50% from 2009.	
Turkey		Move from monthly price indexation to annual changes to a mix of inflation and GDP growth from Oct. 2008.		Pension age 60↗65 for men and 58↗65 for women by 2048.		Use of derivatives by pension funds for investment purposes permitted for the first time in 2010.	
United Kingdom	Large employers (250 plus employees) must automatically enrol workers into company scheme or the state-run National Employment Savings Trust (NEST) from Oct. 2012; medium sized employers (50 plus) from April 2014; employers with 30 to 49 employees from August 2015 and small employers (fewer than 30 employees) from April 2016. Phasing-in of contns from total of 2% of earnings in 2012 to 5% in 2016 and 8% in 2017.	Increase basic pension by higher of retail prices index (RPI), earnings growth or 2.5% from April 2011.	Indexation of pensions in payment and deferred pensions moved from retail prices index (RPI) to CPI for public-sector schemes and private schemes also permitted to change: CPI is typically 0.5%-1% per year below the RPI. Restriction of tax relief on pension contributions of GBP 50 000 from 2011-12, compared with GBP 255 000 in 2010-11.	Bring forward pension age increase 65↗66 to 2020, 6 yrs earlier than planned (Oct. 2010) and 66↗67 to 2026-28, 10 yrs earlier than planned (Nov. 2011).	New NEST scheme aims to reduce investment-management charges significantly compared with current DC plans.	Extension of financial-assistance scheme (FAS) to 140 000 employees, mainly in insolvent private DB plans at cost of GBP 900 m (USD 1.4 bn).	One-off payment of GBP 110 to pensioners (2009).
United States							One-off payment of USD 250 to all public-pension recipients (May 2009).

Notes: DB = defined benefit; DC = defined contribution; NDC = notional accounts; GDP = gross domestic product; CPI = consumer price index; ave. = average; admin. = administrative; contn = contribution; govt = government; yr(s) = year(s); cohort = date-of-birth groups.

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