OECD Pensions Outlook 2014
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Chapter 2

Post-crisis pension reforms*

The 2012 edition of Pensions Outlook examined pension reforms from September 2007 to February 2012. During that period, in the aftermath of a major economic crisis, the main policy initiatives included increasing both the financial sustainability of public pensions and the security of private pensions. This chapter sets out the main pension reforms in the 34 OECD countries between February 2012 and September 2014. More than five years after the onset of the crisis, the world economy is still weak. 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.

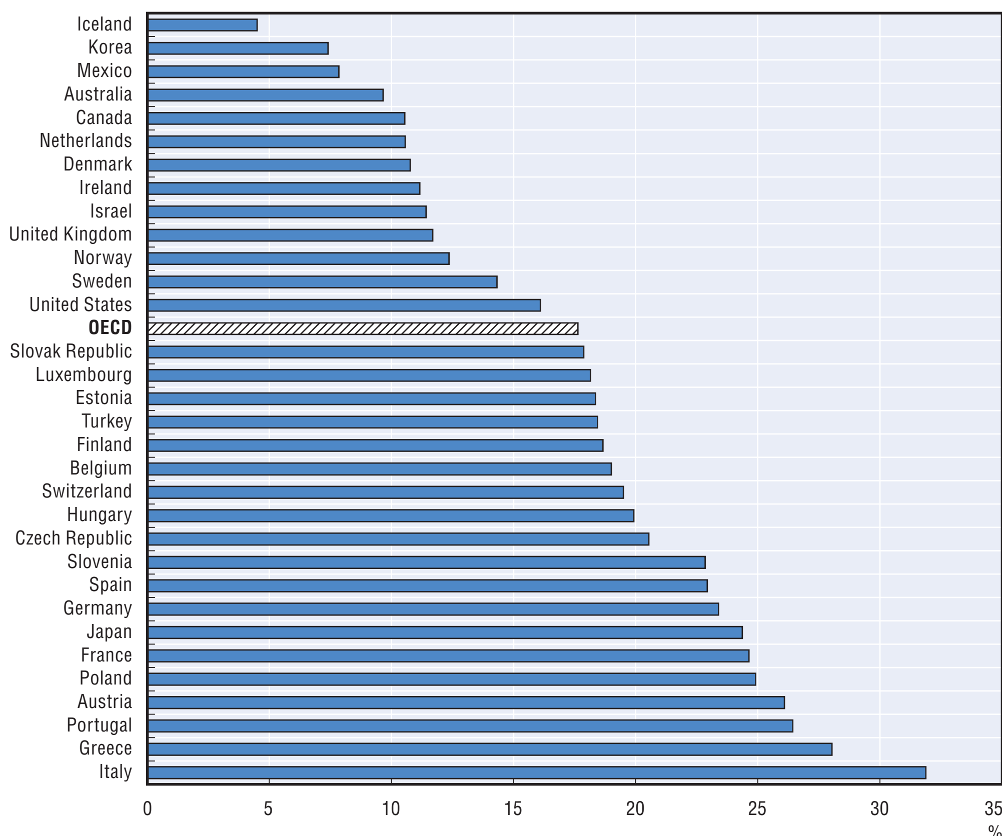
* The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

2.1. Introduction

Pension systems differ substantially across OECD countries, but face the same main difficulty: remaining financially sustainable while delivering adequate pension income. Population ageing, driven by increasing longevity and low fertility, poses a persistent long-term challenge. Indeed, pension expenditure is forecast to increase in most OECD countries due to the rising share of older people in the total population, and annual retirement income could be negatively affected by greater longevity. In 2011, public pension expenditure as a share of total government expenditure averaged 18%, ranging from just below 5% in Iceland to almost 32% in Italy (Figure 2.1). The current need to reduce government debt to more sustainable levels and the already high level of public pension expenditure, including survivors' schemes, in many OECD countries imply that additional pension reforms are likely to figure prominently on the policy agenda.

Figure 2.1. **Public expenditure on old-age and survivors pensions, 2011**

Percentage of total government expenditure



Source: *OECD Social Expenditures Database (SOCX).*

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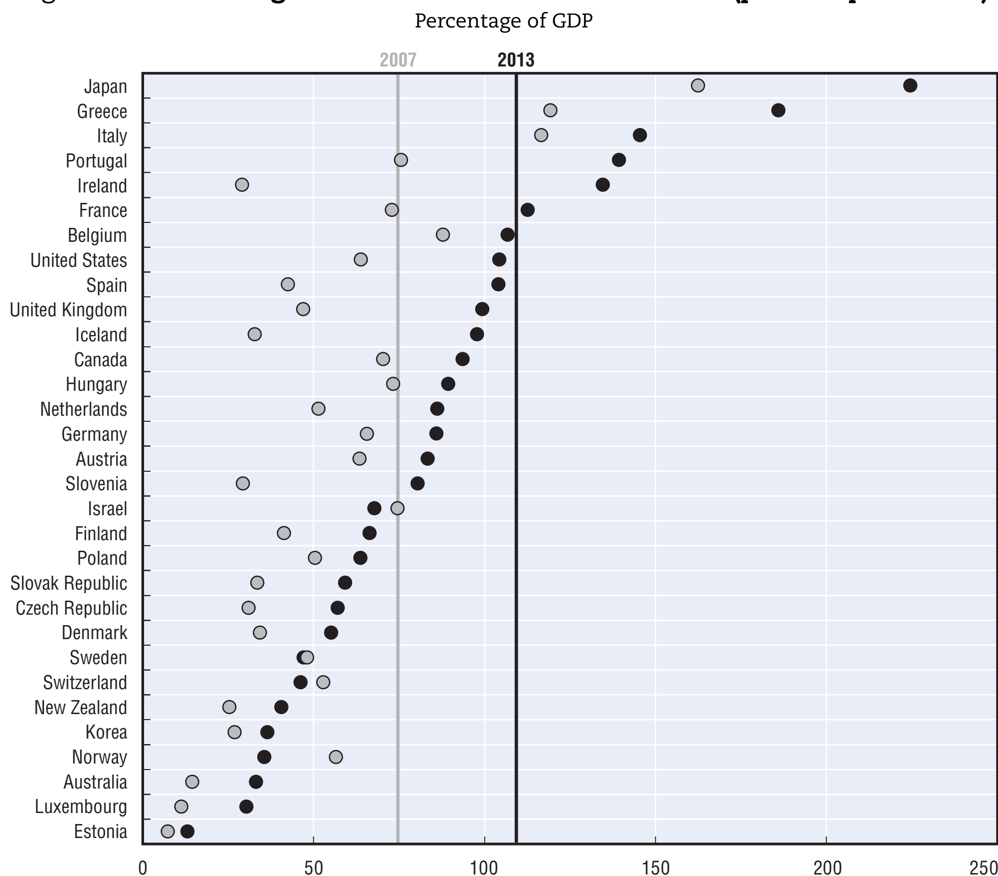
The economic crisis developed into a fiscal crisis in many OECD countries. In 2006 and 2007, budget deficits were 1.5% of GDP on average in the OECD (OECD 2014a). Since then public deficits have increased substantially and at times reached double digits in some countries, such as Greece, Iceland, Ireland, Portugal, Spain, the United Kingdom and the United States. In 2013, the OECD average general government deficit was 4.6% of GDP (OECD 2014a). Government debt levels increased from 73% of GDP in 2007 on average to almost 110% in 2013, as a result of reduced tax revenues due to unemployment and inactivity, the cost of interventions to support the financial system and other increases in public spending (Figure 2.2).

The severe macroeconomic difficulties have accelerated pension reforms and led to substantial changes in the pension landscape (see below). In some cases, however, these reforms were driven by the short-term need for fiscal consolidation rather than by a long-term prospect for the design of pension systems. This applies in particular to recent cases where assets in funded pension systems were transferred to general public accounts.

Figure 2.2. **General government debt in 2007 and 2013 (pre and post crisis)**

Percentage of GDP



Note: Gross debt data are not always comparable across countries due to different definitions or treatment of debt components.

Source: OECD (2014), *OECD Economic Outlook, Vol. 2014/1,* OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_outlook-v2014-1-en.*

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This chapter reviews and analyses the pension measures taken between February 2012 and September 2014. Its key findings are summarised below. The chapter is structured as

follows. Section 2.2 presents the main objectives of recent pension reforms along with a short overview of their possible effect on financial sustainability and retirement-income adequacy. Section 2.3 analyses the measures taken to improve adequacy through interventions in different areas: coverage; diversification and security; taxation; pension benefits; indexation; and administrative efficiency. Section 2.4 discusses pension reforms improving financial sustainability through policy actions affecting: diversification and security; taxation and contributions; pension benefits; indexation; work incentives; and administrative efficiency. Section 2.5 briefly describes other reforms covering a mix of policy measures that may be too specific to fit into those previously discussed. Finally, Section 2.6 concludes by discussing the key remaining challenges facing pension systems.

Key findings

Most OECD countries have been very active in changing their pension system over the last two and a half years. Given widespread fiscal consolidation needs, a majority of countries implemented reforms to improve the financial sustainability of their pension systems. Some countries have done so while maintaining or improving the retirement-income adequacy for vulnerable groups.

Financial sustainability

- Only a few countries, those worst hit by the economic crisis, resorted to nominal benefit cuts.
- A much larger proportion of OECD countries increased taxes on pension income or contributions to public defined benefit schemes.
- Reducing or deferring the indexation of pension benefits was widely used to mitigate spending.
- Many countries increased the statutory retirement age, thereby enlarging the contribution base while preserving adequacy for those effectively working longer.
- Work incentives were strengthened by tighter access to early-retirement and/or increased financial incentives to work. In contrast, some countries have instead lowered the retirement age for workers with long careers, encouraging labour market exit at an early age.
- Measures to curb pension administration costs and to increase value for money were also quite common.

Income adequacy

- Increasing the coverage of pension benefits, including by the mandatory extension of the system to previously excluded group (such as self-employed workers) has been a significant policy measure in a number of countries. Some countries have also introduced new benefits. Many countries extended working lives as a way to build higher pension entitlements and address adequacy concerns.
- Policies to increase diversification and secure private pensions savings have also been common in the aftermath of the financial crisis.
- A number of countries increased mandatory contributions to funded defined contribution schemes.

2.2. Objectives and overview of reforms

Nearly all OECD countries were active in changing their retirement-income provision systems between February 2012 and September 2014. In this chapter, the reforms are mostly related to the objectives of increasing retirement-income adequacy and improving financial sustainability. An overview of the expected effect of reforms on adequacy and on financial sustainability, and of their assessed impact and scope is presented in Table 2.1. All reforms are graded from negative (-), unclear (blank) to positive (+). The assessed scope ranges from narrow, medium to broad. A narrow reform affects only a small number of people while a broad reform affects a large proportion of the population. The impact assessment ranges from minor, moderate to major, depending on the expected quantitative impact on targeted people.

This framework illustrates the key trade-off of ensuring adequate benefits within a financially sustainable pension system. For example, changes in adequacy in a system in which there is a weak link between contributions and benefits, such as ad-hoc cuts or increases in benefits, will affect financial balances. If public pensions are at risk of being inadequate, there will be pressure to raise benefits to prevent old-age poverty. Similarly, too generous pension benefits could make the system financially unsustainable.

In other cases, there are synergies between increasing adequacy and improving sustainability. For example, working more and longer can increase adequacy as individuals can earn higher annual pension benefits and at the same time strengthen financial sustainability by collecting more contributions to the system. This is appealing when effective retirement age is low, especially given increasing longevity prospects, and requires that both employees and employers adapt their behaviour in order to effectively lengthen working lives and maintain adequate incomes over retirement. Otherwise this might negatively impact retirement income adequacy (see for example OECD, 2006). However, the countries that achieve a double plus in the Table below took a combination of measures, such as increasing contributions in defined contribution schemes and raising retirement ages or cutting pathways to early retirement.

During the period analysed, nearly all OECD countries made some adjustments to their retirement-income systems. The only country which did not make any change is Iceland. In 21 OECD countries the focus has been on changes related to increasing the financial sustainability of their pension system often through a longer working life. Improving income adequacy was also common as 17 OECD countries introduced measures that could be regarded as improving adequacy. In 20 countries the scope of the reforms is expected to be broad, i.e. to affect a large proportion of people. The overall impact assessment is more balanced. In 6 OECD countries it is regarded as major whereas it is assessed as moderate in 15 countries and minor in 12.

The overview of the pension reforms builds on measures described in greater detail in Table 2.A1.1 shown in Annex 2.A1. All reforms are classified in eight different categories: coverage, diversification and security, pension benefits, taxes, indexation, work incentives, administrative efficiency and a residual group of other reforms. The grouping corresponds to the main objectives and principles of retirement-income systems.

Table 2.1. **Overview of pension measures, February 2012-September 2014**

Countries:	Income adequacy	Financial sustainability	Impact	Scope
Australia	+	+	*major*	*broad*
Austria	+	+	*moderate*	*medium*
Belgium		+	*minor*	*medium*
Canada	+	+	*moderate*	*broad*
Chile	+		*minor*	*narrow*
Czech Republic	-/+	+	*minor*	*broad*
Denmark		+	*minor*	*narrow*
Estonia	+	-	*minor*	*narrow*
Finland	-	+	*moderate*	*broad*
France	+/-	+	*moderate*	*broad*
Germany	+	-	*moderate*	*medium*
Greece	-	+	*major*	*broad*
Hungary		+	*major*	*broad*
Iceland				
Ireland		+	*moderate*	*broad*
Israel	+		*major*	*broad*
Italy	-	+	*major*	*broad*
Japan	+/-	-/+	*moderate*	*medium*
Korea	+	-	*major*	*broad*
Luxembourg	+/-	+	*moderate*	*broad*
Mexico			*minor*	*narrow*
Netherlands		+	*moderate*	*broad*
New Zealand	+		*minor*	*broad*
Norway			*minor*	*medium*
Poland		+	*moderate*	*broad*
Portugal	-	+	*major*	*broad*
Slovak Republic	-	+	*moderate*	*broad*
Slovenia		+	*moderate*	*broad*
Spain	-	+	*moderate*	*broad*
Sweden	+		*minor*	*medium*
Switzerland	+		*minor*	*narrow*
Turkey			*minor*	*narrow*
United Kingdom	+	+/-	*moderate*	*broad*
United States	+		*minor*	*medium*

Note: See Annex 2.A1 for the details of pension reforms.

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2.3. Increasing retirement-income adequacy

Adequacy may have deteriorated in some countries due to the tightening of benefits as part of fiscal consolidation programs. Reforms which strengthen the financial sustainability of the pension system are considered in the next section. They can have serious consequences for the living standards of the elderly, and could be especially painful if the cuts of retirement benefits are made from an already low level.

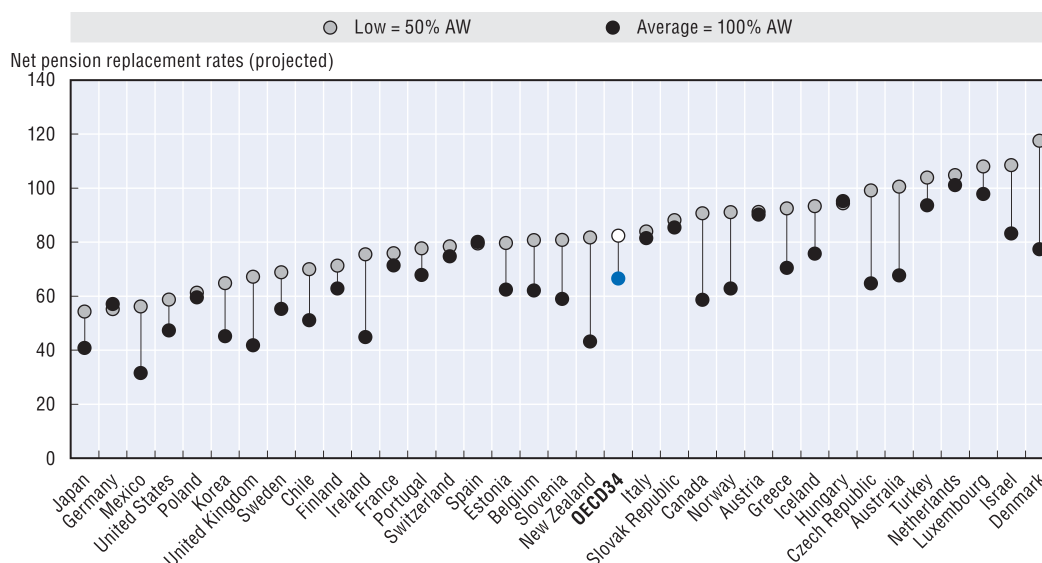
Reforms to improve the adequacy of retirement incomes include increasing coverage or benefit levels or both. However, defining adequacy is a difficult task. What constitutes an adequate pension might depend on citizens' political preferences and social ambitions. The assessment of a policy action in terms of adequacy can therefore depend on the definition and the indicators used. Most legislated or implemented changes entail redistributing resources from one socio-economic group to another (or from one generation to another): it can increase the adequacy of the latter at the expense of the

former. Generally speaking, retirement-income adequacy tends to increase when higher contributions are paid into the system or when contributions are paid for a longer duration. This is especially true in defined-contribution-type schemes where there is a direct link between contributions paid and benefits received.

The so-called replacement rate is one measure of adequacy (for a comprehensive overview of all OECD pension entitlement indicators and the assumptions underlying their estimation, see OECD, 2013a). Figure 2.3 shows theoretical net pension replacement rates for a full-career worker entering the labour market at age 20 in 2012 either at low or average earnings. The net replacement rate is equal to the ratio of the net pension entitlement to pre-retirement earnings after taxes and social contributions. Theoretical replacement rates are forward-looking and assume that legislated pension rules apply throughout an individual's career until reaching the normal pensionable age in each country. Pensionable age is defined here as the age at which individuals can first withdraw their full pension benefits, i.e. without actuarial reductions or penalties.

Countries with the highest net pension replacement rates for low-income earners are Denmark, Israel, Luxembourg, the Netherlands, Turkey, Australia and the Czech Republic (Figure 2.3). In Japan, Germany, Mexico, the United States and Poland, net replacement rates for low-income earners, at about 55-60%, are well below the OECD average, which is equal to 82%. Average income earners generally have lower net replacement rates than low-income earners due to the progressivity of the tax-pension benefit systems that is in place in most OECD countries. The OECD average for net replacement rates for average-income earners is equal to 67%.

Figure 2.3. **Theoretical long-term net replacement rates**



Note: The net replacement rate is calculated assuming labour market entry at age 20 in 2012 and a working life equal to the pensionable age in each country The net replacement rates shown are calculated for an individual with 100% and 50% of average worker earnings (AW).

Source: OECD Pension Models; OECD (2013), *Pensions at a Glance 2013: OECD and G20 indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/pension_glance-2013-en*.

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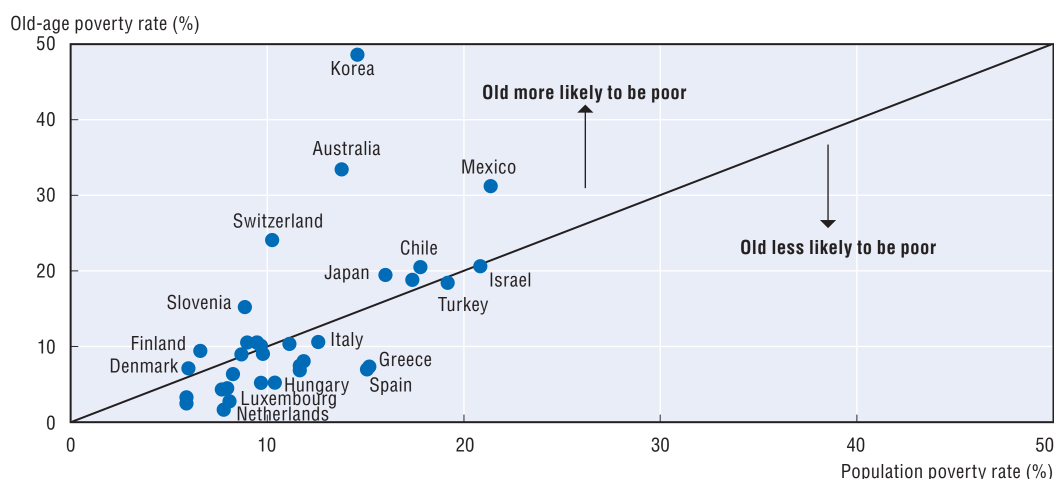
Adequacy may also be assessed by looking at the relative old-age income poverty rate. It is defined as the share of people with income below 50% of the median equivalised household income.[1] On average 12.3% of the population aged over 65 lived in relative income poverty in OECD countries in 2011, which is slightly above the 11.5% observed for the entire population (Figure 2.4). In countries such as Australia, Korea, Mexico, Slovenia and Switzerland, elderly people seem to be at a much higher risk of poverty than the rest of the population, whereas in Hungary, Greece, Luxembourg, the Netherlands and Spain older people seem to be much less likely to be poor.[2] The risk of poverty has over time generally shifted away from the elderly, and currently the young tend to face higher income poverty rates (OECD 2014b). Indeed, since the onset of the crisis, the youngest age group (18 to 25) has suffered the most severe income losses, while elderly people (over 65) have been largely shielded. In countries such as Greece and Spain this has translated into falling relative income old-age poverty rates.

Figure 2.4. **Relative income poverty among people over 65 and for the total population, 2011**



Note: See the Annex 2.A2 for numbers and names for all countries.
Source: *OECD Income Distribution Database;* OECD (2014), "Income Inequality Update – June 2014", OECD Publishing, Paris, *www.oecd.org/els/soc/OECD2014-Income-Inequality-Update.pdf*.

StatLink http://dx.doi.org/10.1787/888933156805

Coverage

Ensuring adequate population coverage by retirement schemes is a significant policy concern in a number of OECD countries, as it is perceived as an important way to fight income-poverty in old age. All OECD countries have set up mandatory or quasi-mandatory pension systems in order to achieve high coverage in public and/or private pension schemes. Countries with a large informal sector (such as Mexico) may have lower coverage levels even in mandatory schemes (see OECD, 2014d).

Following reforms over the last two decades in many OECD countries, voluntary private pensions are increasingly becoming an important complement to public pensions as replacement rates from the latter are often expected to decrease. As a result, obtaining adequate coverage levels in private schemes is a policy objective which is attracting more and more attention. Canada, Ireland, the United Kingdom and the United States have had the longest tradition of complementing public pensions with voluntary private pensions.

Since 2012, a number of OECD countries have introduced reforms to extend the coverage of pension benefits to groups previously not covered by mandatory or quasi-mandatory pension entitlements. Others have introduced new benefits. For all these groups, such measures will lead to higher retirement incomes. In France, the accrual of pension entitlements during periods of maternity, professional training, students' education and unemployment will become more generous, hence increasing coverage and pension benefits. Similarly, in Estonia a new supplement for child caring up to the age of three will increase future pension benefits. In Germany, the introduction of credits for child caring before 1992 (i.e. the mothers' pension) will increase current and future pension benefits retroactively. In Japan, from October 2015 the qualifying period for the national pension will decrease from 25 years to 10 years hence benefiting short–career workers. In addition, the employees' pension insurance will be extended to cover more part-time workers from October 2016. A new basic pension was introduced in Korea in July 2014. The measure benefits around 4 million. i.e. two thirds of all pensioners in a move to create a more universal pension benefit structure. In Mexico, the coverage of the Pension para adultos mayores, a targeted scheme for individuals with no or low pension income, was extended to cover all people aged 65 and above and non-Mexicans who have resided in Mexico for at least 25 years.

In the past two and a half years, some countries offered saving incentives (matched contributions, subsidies, tax deductions or credits) to increase coverage in voluntary private pensions, even though current budget pressures limit the room for manoeuver in this area. Other countries focused on non-financial incentives, including auto-enrolment and mandatory pension savings. Chile introduced in 2012 an auto-enrolment scheme for the self-employed which will become mandatory in 2015. In the United Kingdom, auto-enrolment in a workplace pension scheme is being introduced gradually depending on the size of the employer. A similar reform introducing an occupational pension scheme (MySaver) for uncovered workers is planned in Ireland and will be implemented once the economic conditions become more favourable. In Turkey, as of 2013, the government introduced matched contributions. In Luxembourg, access to voluntary private insurance will be easier for low-income earners as the minimal monthly contribution for voluntary insurance dropped from EUR 300 to EUR 100 starting in 2013.

Some countries also introduced new schemes in order to encourage participation and savings in voluntary private pension plans. Austria introduced two new types of benefits for defined contribution plans having supplemented the public pension system since 2013. A new retirement savings plan (the Pooled Registered Pension Plan) is also being introduced in sectors governed by federal legislation in Canada and in some provinces, and others provinces are expected to follow. This new plan, which is voluntary for employers except in Quebec and based on auto-enrolment of employees, is meant to address low workplace pension coverage, increase portability, reduce fees and lower employers' investment risks. In the Czech Republic, a second pillar of voluntary individual accounts is effective since 2013.

In countries like Australia and Switzerland, coverage of private pension plans amongst the elderly will rise, as the age limits for the payments of pension contributions were increased. These measures will also encourage workers to prolong their working lives. More specifically, in Australia, coverage and pension benefits will increase for workers aged 70 and above with the abolition of the age limit on compulsory contributions made to

private insurance. In Switzerland, coverage will be extended, as workers are allowed to pay contributions until the age of 70 against 65 before the reform.

Diversification and security

Policies to diversify and secure private savings have taken two main forms: i) improving investment options for funded schemes and increasing competition amongst funds; and ii) improving the governance of pension funds and the security of investments.

Some countries have focused their effort on increasing investor's choice. In Norway, the occupation pension plans are allowed more flexibility in their system design to better complement the new public notional accounts system, hence resulting in greater choice for individuals. In the Slovak Republic, three fund types were introduced to enable matching investment with risk preferences. In the United Kingdom, new rules for defined contribution pension withdrawals were legislated in May 2014 and will enable large lump-sum withdrawals. While this measure might increase pensioners' control over their accumulated funds, it could be detrimental to both retirement-income adequacy and incentives to work, due to individuals' myopic behaviour and insufficient financial literacy. The overall outcome depends on how successful individuals are in assessing their needs over their remaining life expectancy. In any case, such withdrawals bear risk that retirees outlive their savings, especially those with low wealth.

Other countries chose to improve the security of investment in funded pension schemes. These measures can consist in improving the governance and risk management of pension plans or in reducing individuals' investment risks. In Finland, the solvency regulations of the mandatory earnings-related pension schemes were modernised to rationalise risk-control. In Ireland, major changes were implemented to increase the overall security of private pensions. They involve a new benefit security in case of company bankruptcy, the re-establishing of a defined-benefit funding standard to protect benefits against volatility in the financial markets, increased risk reserves and stricter reporting of actuarial reserves. A law to improve the governance of occupational pension plans was also passed in the Netherlands. In Mexico, the pension funds (SIEFOREs) within the individual accounts system have introduced age-dependent limits on fund investments in equities. In the Slovak Republic, a rate-of-return guarantee was introduced for the low-risk investment option.

Pension benefits

Increasing the pension benefit of current retirees is the most direct way to address adequacy concerns. Existing benefits can be increased or new ones can be introduced.[3] During the crisis and the ongoing recovery, a number of countries have introduced ad-hoc increases in pension benefits targeting vulnerable groups. There were upgrades in targeted household benefits in Ireland. Low-income old-age pensioners will be provided with welfare benefits in Japan from October 2015. The basic pension will begin to increase in Luxembourg as of October 2012.

Over the course of a working life, individuals might experience voluntary or involuntary career breaks. Such breaks can affect the accrual of pension benefits and therefore be detrimental to pension benefit levels, and, in some cases, to incentives to work longer. In order to mitigate the effects of career breaks some countries have chosen to ease the rules on how past contributions on low income are accounted for in the pension benefit formula. In Canada, past earnings are ranked in descending order and the lowest

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earnings months are dropped from the pension benefit calculation. The number of months which can be disregarded was also increased. In Japan, workers will be able to make up gaps in their contribution record by paying additional voluntary contributions. In both countries, these measures will increase benefits.

It is also possible to increase future benefits adequacy through increases in current contribution rates in defined contribution schemes. In New Zealand, the minimum contribution rate increased from 2% to 3% in April 2013. In Israel, the employees' contribution in mandatory defined contribution occupational pension plan was doubled to 5% and the employers' contribution was quadrupled to 10% in 2013, hence increasing future pensions considerably. In the United Kingdom, the contribution rate will increase between 2017 and 2018 from 1% to 3% for employers and from 1% to 5% for employees (including 0.2% to 1% of tax relief). Also, from 2016, a new state pension (single-tier pension, STP) will replace, although at a higher level, both the basic pension and the minimum income guarantee (Pension Credit).

Taxation

The tax and social contribution system plays an important role for net retirement income. Given the progressivity of income tax systems and the fact that pension income is generally lower than income from work, effective tax rates on retirement income tend to be lower. Moreover, most tax systems give preferred treatment to either pension income or pensioners, thereby addressing adequacy concerns, however at the cost of creating tax distortions. This sub-section addresses the income tax reforms undertaken to improve adequacy (rather than those aiming at increasing government revenues), including through tax incentives to contribute more.

A number of OECD countries have improved net retirement incomes by reducing total taxes and social contributions paid by pensioners. Tax relief was given to older people in Sweden and the United States. In Japan, women on maternity leave are exempt from employees' pension contributions since April 2014. In Mexico, pension income up to 25 times the minimum wage is now tax exempt. New tax incentives for private voluntary pension have been very rare and only Poland introduced a new tax incentive for voluntary personal plans.

Indexation

Most OECD countries adjust pension levels to protect pensioners against changes in the cost of living or in relative income by indexing benefits to prices, wages or a combination of both (see e.g. Whitehouse 2009). The longer retirement lasts the more important indexation becomes for adequacy. While a number of OECD countries had increased pension indexation in previous years, few countries have taken such measures since February 2012. Pension benefits will increase in Japan as the ad-hoc nominal freeze in the value of pension benefits will be eliminated in 2015. Since the last OECD Pensions Outlook many countries changed the indexation of pension benefits mainly in order to improve financial sustainability rather than to address adequacy concerns (see in Section 2.4).

Administrative efficiency

There is a clear trade-off between increasing flexibility and choice in these plans to meet the needs of different workers at differing stages, and minimising both fees and risk.

In any case, high fees discourage workers from joining voluntary plans and make mandatory plans too costly. Cost inefficiencies could threaten not only sustainability and adequacy, but also the legitimacy of pension plans. In private defined-contribution schemes higher administration costs lead to lower pension benefits, thus reducing adequacy. In public pay-as-you-go defined benefit schemes, the connection is not as clear as the administration costs tend to be borne by taxpayers. In these cases, reforms to mitigate administration costs are discussed within the financial sustainability part. This section follows up on reforms that aim to reduce costs directly or to increase competition through the disclosure of costs, fees and performance.

Reducing fees in defined contributions schemes has been a key objective for many regulators. In Chile, Planvital, one of the six private pension fund administrators, won the tender to manage defined contribution accounts for new entrants; the new fee will be 0.47% on account holder's monthly earnings, compared to 0.77% previously. In Australia, a new simple defined contribution scheme (MySuper) will cover new employer-nominated pension funds (default contributions) from 1 January 2014, and will offer a more uniform, easier to compare set of products. All pre-existing employer-nominated default fund balances will be transferred into a MySuper account by 1 July 2017. In the United Kingdom, the new National Employment Savings Trust (NEST) scheme will create economies of scale and hopefully lower administration costs. The NEST currently runs with charges amounting to 0.3% of assets and 1.8% of contributions.

Better information disclosure and data collection can improve the efficiency of a pension system. Standardised pensions accounts in Austria will increase both transparency and the understanding by pensioners of their entitlements. In an attempt to increase competition and public awareness in New Zealand, providers of the government-subsidised voluntary retirement saving scheme (the so-called "Kiwisaver") are required to post on their websites information regarding fund performance, fees, returns, portfolio and key staff information on a quarterly basis.

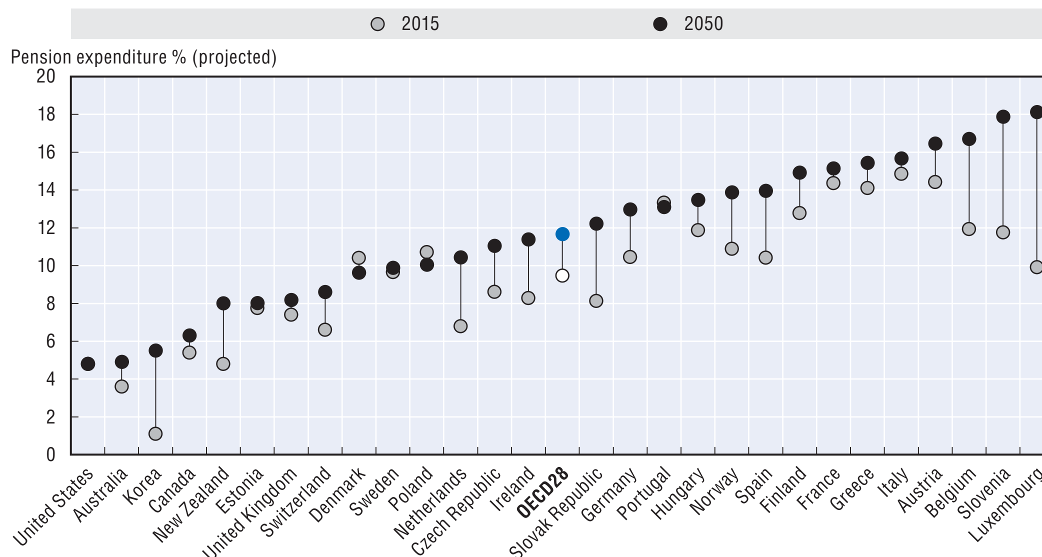
2.4. Improving financial sustainability

On top of the debt burden resulting from the economic crisis, public pension spending as a share of GDP is expected to increase in most OECD countries in the next 35 years, mostly due to population ageing (Figure 2.5). On average across OECD countries public pension expenditure is projected to grow from 9.5% of GDP in 2015 to 11.7% in 2050. This will continue to put pressure on the financing of pension entitlements.

This section deals with policy measures that, temporarily or permanently, boost financial sustainability. They include: increases in pension age, contribution rates in defined benefit schemes, taxes or social security contributions on pension income, and minimum contributory periods; reductions in the valorisation of past and present pension contributions; introduction of automatic adjustment mechanisms; and improvements in administrative efficiency. Policy measures to increase adequacy might add pressures on the financial sustainability of the pension system, and therefore operate in the opposite direction.

Measures to improve financial stability can have effects in the short-term. This is, for example, the case when current pension benefits are frozen (or even lowered in nominal terms) or when taxes on pension income are raised. Stricter rules for early retirement or stronger penalties for early pension benefit withdrawal also produce effects quickly. In

Figure 2.5. **Projections of public pension expenditure as a share of GDP from 2015 to 2050**



Source: Based on national sources and the European Commission. For complete lists of sources see OECD (2013), *Pensions at a Glance 2013: OECD and G20 indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/pension_glance-2013-en*.

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contrast, increasing both minimum contributory periods and retirement ages for future cohorts of retirees tend to improve financial sustainability in the long-term only.

Diversification and security

Some pension policy changes providing a fiscal boost in the short-to-medium term took place in Poland in 2014. These came at the expense of reduced diversification. The measures partially reversed the 1999 reform, as pension contributions to the mandatory second pillar were by default redirected to the public pension scheme, even though workers can choose to keep contributing to pension funds instead. Part of the accumulated assets in the private funds was also transferred from privately managed funds to the social security fund. Moreover, assets of those who choose to stay in privately managed pension funds will gradually be transferred to the public system 10 years prior to retirement. These measures will reduce both the public debt and the government deficit in the short term, but will increase the implicit debt of the public pension system and possibly reduce future retirement income in the long term (OECD 2014c).

Pension benefits

A few OECD countries have carried out extensive reforms to improve the financial sustainability through benefit cuts. While this is a less of a social issue in countries where replacement rates are high, such reforms often need to be partly compensated by measures protecting at least the most vulnerable. Among the countries worst hit by the crisis, Greece and Portugal, have continued to cut benefits. In Greece, bonuses for lower income pensioners have been reduced since 2013. In Portugal, bonus allowances for pensioners, the so-called holidays and Christmas subsidies, were abolished in part or fully in 2012-13. However, the Constitutional court has since then ruled out this measure and

the government will implement longevity adjustments to the retirement age rather than reducing the pension benefits.

Taxation and contributions

Most of the improvements in public finances generated by measures affecting the pension systems during the last two years and a half were achieved through higher taxation. Increasing income taxes on pension income is usually a politically difficult reform to carry out, especially in countries where net replacement rates are already low. Tax measures to increase financial sustainability include higher effective taxation of current pension income, higher pension contributions in defined benefit schemes (not generating higher pension entitlements) and lower tax deductions on pension contributions or on assets. The latter can lead to lower coverage or savings rates in the schemes affected by the reform.

In Australia, superannuation taxes for higher income earners were increased in 2012. In Finland, pensioners with pension income above EUR 45 000 have paid an extra tax of 6% on income exceeding the threshold since 2013. In France, the 10% pension bonus for having three children will be subject to taxation. In Portugal, pension taxation was increased by lowering the pension income threshold, while higher taxes rates for the higher income were introduced in 2013-14.

Some OECD countries increased the contribution rates paid into their defined benefit schemes while maintaining benefits levels. In Canada, the contribution rate for the Quebec Pension Plan is increasing from 9.9% in 2011 to 10.8% in 2017. In France, the contribution rate will increase by 0.3 percentage points by 2017 for both employees and employers. In Finland, the social partners decided to increase the contribution rate of mandatory earnings-related systems for private sector workers (TyEL) by 0.4 percentage points annually between 2011 and 2016. In Hungary, the wage ceiling for employees' contributions was abolished since 2013, thereby increasing the amounts paid into the system by individuals with higher earnings. In Luxembourg, the combined contribution rate (employee, state and employer) will begin to increase from 24% to 30% in 2052. In contrast in Ireland, the employer contribution rate was lowered from 8.5% to 4.25% between July 2011 and 2013.

Some countries tightened their tax incentives on contributions to voluntary schemes. In Ireland, temporary levies on private pension assets were extended and increased in 2014. At the same time, tax reliefs on private-pension contributions were reduced for high-income earners. In the Netherlands, the full tax allowance for pension contributions was capped. In addition, the work continuation credit given to all older workers was changed from a general bonus to a targeted credit towards individuals in unemployment or incapacity or with low income. This measure will consequently increase taxes for the groups that are not eligible to the new credit. The employment credit was also targeted towards workers aged 60-64 earning between EUR 17 139 and EUR 33 326 per year since 2013. In New Zealand, employer contributions to voluntary occupational pension schemes were taxed as of April 2012. In Sweden, tax deductions for individual contributions to private personal pensions will be phased out by 2016.

Indexation

In order to contain public pension expenditure, some countries froze benefit indexation temporarily and many countries are moving to less generous benefit-

indexation options. Other countries introduced automatic adjustment mechanisms to strengthen the link between benefit indexation and the financial standing of the pension system. In the Czech Republic, the government temporarily (until 2015) introduced a lower level of indexation. In Finland, the indexation of earnings-related pensions will be limited to 0.4% in 2015. In France, the indexation of pension benefits will now occur in October instead of April as of 2014, but this did not affect pensions below EUR 1 200. In Greece, pension indexation has been frozen between 2011 and 2015. Moreover, pension benefits are now indexed to prices rather than to changes in civil servants' salaries as previously. In Italy, the indexation was frozen in 2012 and 2013, although pensions below EUR 1 400 in 2012 and EUR 936 in 2013 were exempt from this freeze. In Poland, pension benefits were increased by a fixed amount as a temporary measure in 2012.

Other OECD countries will lower long-term indexation. In Hungary, pension benefits have been indexed to inflation instead of a mix of inflation and wages since 2012. In the Slovak Republic, pension benefits will be increasing by some fixed amounts between 2013 and 2017, and thereafter they will follow consumer prices instead of a mix of wages and consumer prices. In Luxembourg, a "reduction factor" which adjusts benefits to contributions was introduced in 2013. In Spain, the indexation will be adjusted within a range depending on the ratio of contributions to expenses, and every five years from 2019 pension benefits will be revised based on changes in life expectancy.

Work incentives

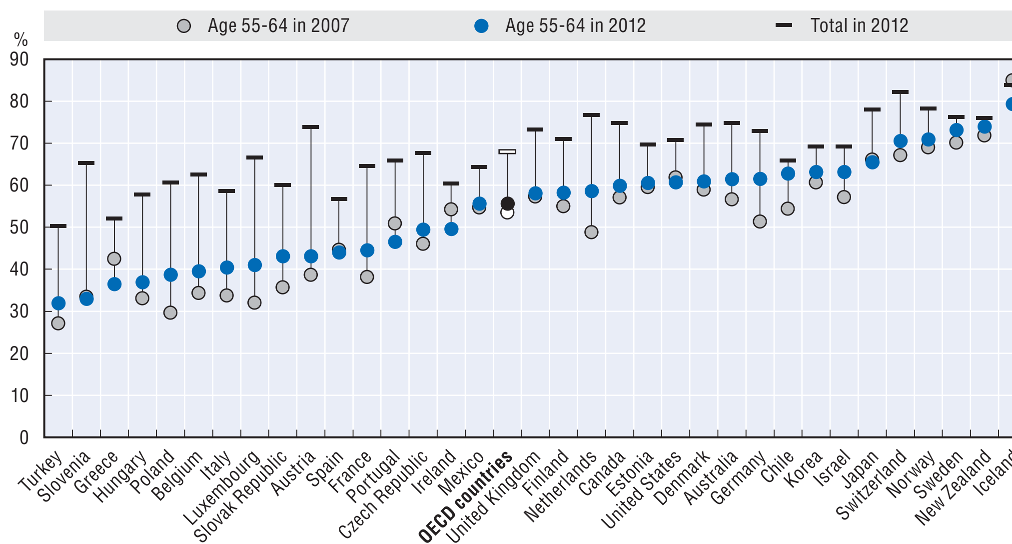
Many OECD countries reformed pension rules to lengthen working lives so that individuals contribute more to improve the sustainability of the system. Some countries implemented increases in minimum contributory periods while limiting the effect of career breaks and part-time work. Most pension reforms are, however, focused on prolonging working lives at the end of the career through: i) increases in the statutory retirement age; ii) tightening of early retirement provisions; and iii) higher financial incentives to work beyond the pensionable age and higher penalties to early pension benefit withdrawal.

Employment rates for individuals aged 55 to 64 remain well below those for other age groups in the vast majority of OECD countries, even though they are relatively high in Iceland, New Zealand, Norway, Sweden and Switzerland (Figure 2.6). The employment rate for workers aged 55 to 64 recovered in almost all OECD countries to levels equal to or above the pre-crisis levels observed in 2007. The exceptions to this are Iceland, the United States, Ireland, Portugal and Greece. Yet, there is significant room for improvement in basically all OECD countries.

The retirement age is probably the most contentious pension parameter. Increasing it is a politically sensitive issue in many countries and has generally been a difficult reform to carry out. At the same time raising the retirement age sends out a strong signal on how individuals are expected to behave when planning for retirement. The majority of the legislated increases in the retirement age often concern future cohorts of retirees and will thus take place in the more or less distant future.

In a few countries, the retirement age was increased to equalise the retirement age of men and women. In Greece, the female pension age was equalised to that of men, increasing from 60 to 65 between 2011 and 2013. In 2013, the retirement age was raised to 67 for men and women with less than fifteen years of contributions. In Italy, the retirement

Figure 2.6. **Employment rate of workers aged 55-64 in 2007 and 2012 and in comparison to that of the total working-age population in 2012**



Source: OECD (2013), *OECD Employment Outlook*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/empl_outlook-2013-en.*
StatLink http://dx.doi.org/10.1787/888933156826

age of private sector workers will be equalised to 67 for men and women by 2018. The pension age is also increasing for public sector workers from 61 years to 67 years. However, workers can still retire at any age if they have contributed a minimum period of 42.5 years for men and 41.5 years for women in 2014. The retirement age is also increasing in Slovenia, however from a very low level: the current retirement age is 58 years and 58 years and 4 months for women and men, respectively, and will reach 60 in 2019 for both. In Poland, the retirement age for men and women is increasing from 65 and 60, respectively, to 67 for both but in 2020 for men and 2040 for women.

In an increasing number of OECD countries, the overall retirement age is being increased, sometimes beyond 65 which has generally been the norm in most countries in the past decade. In Canada, the normal retirement age to be eligible to the basic pension (Old-age security) benefit will gradually increase from 65 to 67 years between 2023 and 2029. In Ireland, the pension age increased from 65 to 66 years in 2014, to 67 by 2021 and 68 after 2028. In Hungary, the pension age is increasing from 62 to 65. In Portugal, the retirement age was raised from 65 to 66 years. In the Netherlands, the retirement age will reach 66 by 2019 and 67 by 2023. The normal pension age has been increasing in Spain from 65 in 2013 to 67 in 2027. In the United Kingdom, the pension age will increase to 66 in 2020 and to 67 by 2026. In Australia, the pension age (which has been equal across genders since July 2013) will gradually increase from 65 in 2017 to 67 in 2022. A further gradual increase to 70 in 2035 is currently being discussed.

A few countries have increased minimum contribution periods since February 2012. In France, the minimum contributory periods will increase from 41.5 years currently to 43 in 2030. In Luxembourg, the contributions period for a full pension will increase from 33 years to 40 years by 2052. It will thus still be possible to retire at age 60 for people having started a full career at age 20. Moreover, the 2013 pension reform attempted to strengthen the connection between contributions and retirement income benefits.

Many OECD countries are also restricting access to early retirement. In Austria, the required insurance period for individuals to be eligible to early retirement (Korridorpension) is increasing from 38 years in 2013 to 40 years in 2017. The minimum early retirement age increased in 2014, from 60 to 62 years for men and from 55 to 57 years for women. In Belgium, the age for the early retirement benefit increased to 60.5 years in 2013, and the contribution period to 38 years. These parameters will increase further to age 62 and 40 years in 2016. In Denmark, the early retirement age is currently being increased from 60 to 64 in 2023 while a new senior disability benefit is being introduced. In Portugal, early retirement was suspended until June 2014. However, workers with 30 years of contributions and the unemployed aged at least 57 can still retire early. In Spain, the early retirement age is increasing from 61 to 63 in cases of registered unemployment. Partial retirement has been implemented and it is now possible to work and draw benefits at the same time.

In Finland, work incentives for disability pensioners are strengthened as the temporary rules that enable combining work and disability pension withdrawal were extended until the end of 2016. The part-time pension age is also increased to 61 and early retirement is abolished for private sector workers (TyEL scheme). For workers born after 1951 the national pension and guarantee pension age are increased from 62 to 63. The early retirement pension for the unemployed is being phased out, but unemployed individuals born before 1958 will still be able to retire at 62 without reductions. In Hungary, a new early retirement scheme with tighter access was introduced in 2012. In Poland, early retirement at 62 for women and 65 for men will be possible, but only with a reduced pension.

Financial incentives to prolong working lives have also been strengthened in a number of countries and are often accompanied by increasing flexibility in the opportunities to combine pensions benefit withdrawal and work. In Canada, the benefits of delaying retirement after age 65 were increased and it is now possible to combine work and pension benefit receipt from the mandatory public scheme (Canada pension plan). In the Netherlands, workers retiring before the age of 65 now receive a reduced pension benefit. In addition, early retirement options for workers in physical demanding occupations are being phased out. In Italy, the benefit penalty for early labour market withdrawal will be raised. In Portugal, pension deferral beyond the retirement age will be given an additional bonus. In Sweden, the financial incentives to work more and longer were strengthened in 2014 with the increase in the earned income tax credit for workers over 65.

In contrast, full pension benefits (without penalties) will be awarded below the legal retirement age to people who started their career early in France and Germany. These measures increase pension entitlements, but encourage the targeted people to exit the labour market at a relatively young age. In France, the minimum legal retirement age remains at 62, however, the age at which people may withdraw full pension benefit (without penalty) was lowered back from 62 to 60 for people who entered the labour market before 18 and have worked at least 41.5 years. In Germany, the pension age was decreased from 65 to 63 for individuals with 45 years of contributions.

Administrative efficiency

In pay-as-you-go public defined benefit schemes, improving administrative efficiency tends to reduce public costs. Indeed, the connexion between the pension benefit and the administration cost is often weaker than in a defined contribution scheme where the administration fees more directly reduce the value of accumulated pension savings. This

sub-section will consider reforms that aim to reduce costs and improve performances by merging administrations, implementing regulatory measures or using a new technology.

In Denmark a centralised institution managing several social security benefits was put in place in 2012 to generate economies of scale. In Greece, government-sponsored auxiliary pension funds have been merging since 2011 and will continue to do so until 2015. In Italy, three agencies managing public pensions were merged. In Japan, pension systems for public servants and private school employees are being merged into the employees' pension. In Canada, since 2013, an automatic enrolment regime for the minimum pension (Old-age security) benefits aims at lowering both the administrative burden on seniors and the pension administrative costs, and should also increase take-up.

2.5. Other reforms

The "other reforms" category covers a mixed of policy measures that may be too specific to fit into the previously discussed categories. These reforms may also have an uncertain outcome. In Hungary, insurance companies had to remove gender-specific tariffs as of December 2012 in agreement with the EU Gender directive. This measure will benefit the gender with higher risk (men) over the gender with lower risk (women). In Japan, financially unsound employees' pension funds (EPFs) have been under dissolution since April 2014. The others with assets above the minimum reserve level can continue, but must pass an annual asset test, and no new EPFs can be set up. Financially sound EPFs are encouraged to switch to other types of pension plans (June 2013, effective April 2014).

2.6. Remaining challenges

Pension systems face large economic and social challenges. Demographic, social, and economic developments have fuelled important reforms of pension systems which will likely make the public pension entitlements of future retirees very different from those of current retirees. The extent to which people will be willing and able to work longer and save more and the ability of the social protection system to cushion events that might reduce entitlements will determine whether pensioners can preserve or increase current benefit levels.

Low economic growth and high unemployment, declining tax revenues and deteriorated public finances combined with the long-term effects of rapid population aging make pension systems' objectives more difficult to achieve than in the past. The short and medium-term macroeconomic difficulties severely affect the financing of defined-benefit schemes. For defined-contribution schemes, persistently low interest rates would reduce the returns of asset portfolios and exert downward pressure on replacement rates. Thus, the twin goal of financial sustainability and retirement-income adequacy remains at the top of the pension policy agenda. To help meeting that goal, financial sustainability needs to be pursued together with a set of rules or principles ensuring that benefit levels remain adequate. Public savings obtained by cutting benefits to consolidate public finances might indeed lead to inadequate pension benefits, and thereby be offset down the road by larger spending on safety nets to protect the most vulnerable.

One of main challenges that many OECD countries face is to increase the effective retirement age. While the pension age can still be raised in many countries, this alone may be insufficient to ensure that people effectively work longer; there might be other barriers (on the labour demand side, for example) which prevent older workers from finding and

retaining jobs. Public policies to reduce age discrimination, to enhance working conditions, to increase training opportunities for older workers, while offering possibilities of career developments at older ages, are essential. To make this happen employers have to recognise the potential of the older workforce as a strategic resource.

Another challenge is how to share the financing burden more fairly across generations. Since the mid-1980s relative income poverty has shifted from the elderly to the young (OECD 2014b). It is hence not clear whether, given population-ageing related costs, younger generations will be willing to shoulder a growing level of contributions and taxes. The important policy questions are then about the affordability of such increases for future workers and how the burden can be best shared across generations. For example, some countries might shift part of the financing of pensions (e.g. that related to safety nets contained in the first pillars) from wage-based contributions to more general taxation, thereby reducing labour costs.

How to effectively shield workers from social and labour market risks affecting their pension entitlements will also be critical. A strong contributory principle in pension benefits implies a strong link between pension benefits and paid employment. And currently, in most OECD countries, the largest share of pension benefits are related to paid employment and to the earnings received while working. Periods spent out of employment (unemployment, caring for children and elderly relatives, etc.) and in low-earning employment may have important consequences for long-term pension entitlements and on retirement income adequacy.

Private pensions which are voluntary in many OECD countries raise specific challenges. The main concern is that some people are not contributing enough to secure a comfortable retirement income. Participation in and contributions to these plans are largely the result of decisions made by employers and individuals, which may lead to wide disparities and increasing income inequality in old age (see OECD, 2012).

Some countries have opted for the automatic adjustments of pension systems, based on demographic and economic developments, yet their correct design and the identification of potential problems which may derive from their implementation are important challenges to address. Automatic adjustment mechanisms are an important innovation reducing the political risk associated with pension reforms, but financial sustainability might be enhanced at the expense of lower social sustainability. For example, as discussed above, increasing the official retirement age does not ensure that people will actually work longer.

Rebuilding trust is also an important challenge that policy makers face. Better information and increased transparency about the pension entitlements would improve confidence in the pension system or at least would trigger more efficient governance. It may also help people make better savings and labour market decisions and adapt their behaviours to changing economic and social circumstances. Young people in particular need to trust the long-term stability of the pension system and the pension promise that is made to them.

Notes

1. The equivalisation of household income enables comparisons of households of different size. For a more comprehensive overview on adequate living standards in old age, please see Chapter 2 in OECD *Pensions at a Glance* 2013.

2. A drawback of the relative income poverty rate measure is that it is computed only with reference to incomes and does not take into account either assets or in-kind services which may substantially improve living standards in old-age.
3. Pension benefits increases linked to the adjustments of indices are treated in the section below on indexation.

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ANNEX 2.A1

Details of pension reforms, February 2012-September 2014

Table 2.A1.1. **Details of pension reforms, February 2012-September 2014**

By country and prime objective

Country	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Australia	Abolition of the 70-year age limit on compulsory contributions to private pension schemes (2013).		Mandatory DC contributions increased from 9% to 9.5% from July 2014.	Increased superannuation taxes for high earners from 2012. Temporary higher threshold for concessional contributions by older workers from 2013. Excess concessional contributions taxed at individuals own marginal tax rate from July 2013.	From 2017 Age Pension will be indexed only to Consumer Price Index (subject to passage of legislation). General concessional contributions cap indexes to AUS 30 000 from July 2014.	Gradual increase in the retirement age for both men and women to 70 in 2035, subject to passage of legislation.	Introduction of "MySuper" – MySuper products replaced default superannuation products for all new accounts from 1 Jan. 2014. All existing default balances have to be transferred into a MySuper account by 1 July 2017. The SuperStream project will establish mandatory, uniform e-commerce standards for contributions to superannuation funds and for transfers between funds ('rollovers'). Implementation will be complete by the end of 2015-16.	
Austria	Two new voluntary DC schemes to supplement the public pension system were introduced in 2012.					The early retirement age due to long insurance periods was increased from 60 to 62 for men and from 55 to 57 for women in 2014. Increasing to 62 until 2027. Conditions for early retirement have been tightened. The required insurance period will increase from 38 years in 2013 to 40 years in 2017. For cohorts born 1955 and later the early retirement penalty will increase from 4.2% to 5.1% (max. of 15.3%).		
Belgium						The early retirement age will increase to 60.5 and the contribution period will increase from 38 years in 2013 and reach 62 and 40 years in 2016.		

Table 2.A1.1. **Details of pension reforms, February 2012-September 2014** *(cont.)*

By country and prime objective

Country	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Canada	A new retirement savings plan (Pooled Registered Pension Plan), voluntary except in Quebec and based on auto-enrolment of employees working for an employer who chooses to opt in is likely to increase coverage in sectors under the federal jurisdiction (2012), in Alberta (2013), Saskatchewan (2013), Quebec (2013) and British Columbia (2014). Other provinces such as Ontario consider passing similar legislation.		Increase of the general drop-out provision for the Canadian Pension Plan to exclude 17% (from 15%) of the contributory periods of low earnings from the benefit calculation. Project to create a new mandatory public provincial pension plan in Ontario.	Increase in the contribution rates for the public contribution second-tier programs in Quebec.	From 2018 an automatic mechanism will be implemented for the Quebec Pension Plan to ensure stable plan funding.	The Old-Age-Security (OAS) and the Guaranteed Income Supplement benefit age will gradually increase from 65 to 67 between 2023 and 2029. OAS pensions for late retirement will increase. The age of allowance receipt will increase from 60 to 62. People over 60 will be able to collect CPP benefits and work. Post-retirement benefit was introduced for individuals to keep working while receiving CPP benefits. Contributions will be mandatory for people under 65 and optional from 65 to 70.	An automatic enrolment regime for OAS benefits is being phased in since 2013. This will, reduce the administrative burden on seniors administrative costs and might increase take-up.	
Chile	From 2012-2014 self-employed will be automatically enrolled with the option to opt-out. From 2015 all eligible self-employed workers will have to contribute to the system.	Minimum and maximum limits for foreign currency hedges have been established. Since 2012 investment thresholds per issuer were reduced to limit the potential exposure to a single issuer and encourage diversification. From mid-2013 fund E was allowed more flexibility in case of massive funds changes.					As an outcome of two auctions in 2012 and 2014, management fees decreased from 1.14% to 0.47% of an account holder's monthly earnings. Also, the fees for providing disability and survivor insurance decreased from 1.49% to 1.15%.	
Czech Republic	Creation of a second pillar of voluntary individual accounts, effective from 2013.	Option to divert 3% of contributions to a DC plan conditional on individuals making an extra 2% contribution and subject to a reduction in public-pension benefits from Jan. 2013.			Temporary change to indexation rules for old age, survivor and disability pensions between 2013 and 2015. This measure will lower pension increases (2012).			

Table 2.A1.1. **Details of pension reforms, February 2012-September 2014** *(cont.)*

By country and prime objective

Country	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Denmark					Increased early retirement age (2014). A new "senior disability benefit" for workers in physically demanding jobs with work-related health problems is being created (2014).		Creation of a centralised institution to handle the management and payment of several social security benefits (2012).	
Estonia			From 2013 a new pension supplement from public pillar is available to pensioners having cared for a child up to the age of three.					
Finland		The solvency regulations were modernised in 2013 in order to rationalise control of different risks.		Since 2013 pensioners pay an extra 6% tax for annual pension income exceeding EUR 45000. The social partners have agreed to increase the combined employer/ employee contributions to earnings-related plans (TyEL) by 0.4% annually between 2011 and 2016.	Planned cut in pension indexation planned for 2015 (earnings-related and KELA). Indexation will be limited to 0.4% instead of well over 1%.	The legislation enabling disability pensioners to have work for two years without losing right to a pension will be extended until the end of 2016. The part-time pension age will increase to 61 for those born after 1953 and cuts in pension accrual will be implemented. Early retirement is eliminated under TyEL for workers born after 1951. For KELA the early retirement age is increasing to 63. The unemployment pension program is phased out in 2014. Long-term unemployed born before 1958 can still retire at 62 with a full pension.	New rules on transparency for private sector providers have been submitted to Parliament. The new law will require employees able to influence the company's investment decisions to report their stock exchange holdings and business dealings (Jan. 2015).	

Table 2.A1.1. **Details of pension reforms, February 2012-September 2014** *(cont.)*

By country and prime objective

Country	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
France	The contribution period used for benefit computation will be more generous for maternity, training, unemployment, apprenticeships, students and part-time work.			The 10% pension bonus for having at least three children will be subject to taxes. The contribution rate will increase by 0.3 percentage points for both employees and employers by 2017.	From 2014, indexation will occur in Oct. against Apr. previously. Pensions below EUR 1200 were not frozen between April and Oct. 2014.	The contribution period for a full pension will increase by one quarter every three years and reach 43 years in 2035. While the retirement age remains at 62, a person having contributed a full period will be able to retire without any penalty from the age of 60. Individual accounts will be established to take into account arduous work; they will open rights to professional training and allow a shorter contribution period.		
Germany			Parents of children born before 1992 will now receive pension credits for the first two years of their child's life (July 2014).			The retirement age is lowered from 65 to 63 for people with 45 years of contributory years.		
Greece			Major changes were made to pensions provided to different sectors (industry, agriculture, self-employed) and guaranteed by the state 2011-2015. Bonuses for lower pensioners reduced from 2013.		No increase in mandatory public pensions 2011-2015. Less generous indexation; pensions indexed to CPI instead of changes in civil servants' pensions from 2014.	Increase in retirement age for women from 60 to 65 from 2011-2013. Increase in the pension age from 65 to 67 in order to receive a full pension (Nov. 2012).	Mergers of all remaining auxiliary pension funds 2011-2015.	
Hungary			The contribution ceiling was abolished in 2013.		Pensions indexed to inflation from 2012.	Gradual increase in pension age from 62 to 65 between 2012 and 2017.		According to the EU Gender directive insurance companies had to remove their gender specific tariffs, new unisex table were used from Dec. 2012.

Table 2.A1.1. **Details of pension reforms, February 2012-September 2014** *(cont.)*

By country and prime objective

Country	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Iceland								
Ireland	In Mar. 2014, a road-map for the introduction of an occupational pension scheme for those currently not covered is being implemented. Its implementation will depend on economic recovery and stability.	A new benefit priority was established from 25 Dec. 2013 ensuring a fairer distribution of DB plan assets in case of bankruptcy. Re-establishing the funding standard of DB plans over a three-year period, starting June 2012, to protect benefits against volatility in the financial markets. DB plans have to hold additional assets from 2016. DB plans will periodically have to submit an actuarial certificate to the Pension Board (2012). The Standard Fund Threshold is being reduced from EUR 2.3 million to EUR 2 million from 2014. The capitalisation factor used for DB pension amounts is age-dependent from 2014.	. New affordability measures to assist pensioners, persons with disabilities, and carers who receive the Household Benefits Package. The HBP will be also assist with water costs. The value of this additional benefit will be approximately EUR 100 a year to each recipient, beginning in 2015.	Lowered employer contribution rate from 8.5% to 4.25% from Jul. 2011 to 2013 A temporary tax levy of 0.15% of occupational pension assets was introduced in 2014 for two years in addition to the 0.6% levy that was introduced in 2011. Tax relief on private-pension contributions for high earners reduced from 41% to 20% between 2012 and 2014.		Pension age increasing from 65 to 66 in 2014; to 67 from 2021 and to 68 from 2028.		
Israel			Employees' contribution to mandatory DC occupational plans increased from 2.5% to 5% in 2013 and employers' contribution increased from 2.5% to 10%.					

Table 2.A1.1. **Details of pension reforms, February 2012-September 2014** *(cont.)*

By country and prime objective

Country	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Italy					In 2012 and 2013 indexation of pensions benefits were frozen. Exceptions to this were: pensions below EUR 1400 in 2012; and below EUR 936 in 2013.	From 2012 a new early-retirement scheme with tighter access requirements will replace the seniority pension. The pension age for women is increasing from 60 to 66, to match that of men by 2018. The pension age will thereafter increase with life expectancy. A number of safeguard clauses have been introduced for the Esodati as to protect this group from the increase in pension age.	Three agencies managing public pensions have been merged (INPDAD and EMPALS accounts transferred to INPS by Apr. 2012).	
Japan	The qualifying period for the national pension will be shortened from 25 to 10 years from Oct. 2015. Extend employees' pension insurance for part-time workers from Oct. 2016. The basic pension for survivors is being extended to motherless families from Apr. 2014.	The bill to terminate employees' pension funds (EPFs) was approved in June 2013 and became effective April 2014. Financially unsound EPFs are being contracted out or dissolved within five years. No new EPFs can be set up. EPFs with assets above the minimum reserve can continue subject to annual asset tests beginning in 2019. Financially sound EPFs are also encouraged to switch to other types of pension plans Tax Qualified Pension Plan (TQPP), which was one of the main defined benefit type plans ended in March 2012.	Provide low-income, old age pensioners with welfare benefits from Oct. 2015. Possibility for different categories of workers to make up gaps in contribution records of 2-10 years by paying between Oct. 2012 and Sep. 2015. The exceptional top-up level of 2.5% applied to pension income will be abolished from Oct. 2013 to Apr. 2015	. Women on maternity leave are exempt from pension contributions since Apr. 2014.	The ad hoc nominal freeze of pension benefits is being abolished by 2015.		Public servants and private school employee's pension systems are being unified into the employees' pension from Oct. 2015.	
Korea	New basic pension introduced in July 2014.							

Table 2.A1.1. **Details of pension reforms, February 2012-September 2014** *(cont.)*

By country and prime objective

Country	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Luxembourg	The minimal monthly contribution for voluntary insurance has been lowered from EUR 300 to EUR 100 (2013).		The basic pension is increasing slightly as a result of the new pension reform (on average by about 0.44% per year) from October 2012.	The contribution rate (employee, state and employer) will gradually increase from 24% to 30% of covered wages by 2052.	A new "reduction factor" will limit the adjustment of benefit levels to a portion of the increase in the wage level if benefits exceed contributions (2013).	Contribution requirements for a full pension at age 60 will increase from 33 to 40 years by 2052.		
Mexico	In 2013 the Pension para *Adultos Mayores* was extended to all people aged 65 and over residing in the country for at least 25 years without any pension or with a monthly pension income below MXP 1092.	The pension funds (SIEFOREs) have introduced age dependent limits on fund investments in equities (2013).		Income tax exempt for pensioners with income up to 25 minimum wages.				
Netherlands		A law improving the governance of occupational pension plans was adopted in July 2013.		Until 2013, it was possible to get a full tax allowance for pension contributions (accruing at 2.25%). Tax exemption will only be granted for accrual rates up to 2.15% and 1.75% annually from 2014 and 2015. The work continuation credit and the mobility credit were abolished for all except for older workers with unemployment insurance or work incapacity benefits, and for low-income groups. From 2013 the employment credit only applies to employers who employ workers aged 60-64 with an annual income between EUR 17139 and EUR 33326.		Workers retiring before age 65 will receive a reduced pension for each year before the normal retirement age (2012). The statutory retirement age will increase to 66 in 2019 and to 67 by 2023. Early retirement for physically demanding occupations conditions are being phasing out.		
New Zealand		KiwiSaver default providers will maintain a conservative investment strategy with 15%-25% of allocation in growth assets.	From Apr. 2013 the minimum contribution required contribution for employees and employers will rise from 2% to 3% of earnings.	Employer contributions no longer tax free as of Apr. 2012.			KiwiSavers providers will be required to post information on their websites regarding performance, fees, returns, portfolio and key staff information on quarterly basis (2013).	

Table 2.A1.1. **Details of pension reforms, February 2012-September 2014** *(cont.)*

By country and prime objective

Country	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Norway		New rules for occupational pension plans allow employers greater flexibility in designing and funding pension plans (2014).	New rules for calculating the public old age pension based on lifetime income will be gradually introduced for the cohorts 1954–1962.					
Poland	Mandatory contributions to the privately managed DC scheme (OFE) were turned optional: workers can opt-in to allocate 2.92% of their gross wages to OFEs while the default option is to contribute to the public NDC scheme.	OFEs are prohibited to invest in Polish treasury bonds or in debt instruments guaranteed by the Treasury. In 2014, pension funds have to hold a minimum threshold of 75% of their assets in equities. That threshold will gradually decrease to 15% in 2017.		New tax incentives for IKZE (a type of voluntary personal plan) – Exempt-Exempt-Tax scheme, with special, 10% flat tax rate (i.e., lower than standard income tax).	In 2012 pension benefits were increased by a fixed amount (temporary change), regardless of initial levels.	Retirement ages of 60 for women and 65 for men will gradually increase to 67 in 2040 and 2020, respectively. Partial retirement (at 62 for women and 65 for men) will be possible with pension benefit reduced by 50%.	On Feb. 2014, 51.5% of the net assets of privately managed pension funds were transferred to the Social Insurance Institution. Moreover, the assets of those who chose to stay in OFEs will be gradually transferred to the public system 10 years prior to the retirement age. Assets so far accumulated by those who decided to move to the public pension scheme will also be transferred.	
Portugal			Under the 2012 State Budget the 13th and 14th monthly allowances for pensioners were abolished fully or in part for the majority of pensioners. A mild version of these measures was also enacted in 2013. The Constitutional Court ruled these measures out. .	The pension-income threshold for the CES (extraordinary solidarity surcharge) was lowered from EUR 1300 to EUR 1000. The CES is levied at between 3.5% and 10%, depending on income. New rates of 15% and 40% were introduced in 2013-2014 for higher income bands. Pension contributions have been increased for public sector workers from 2.25% to at least 3% of salary (exclusively for funding the special health service for workers in the public sector (ADSE))	The determination of the sustainability factor, which links the level of pensions to increasing life expectancy, was changed. It will be computed as the ratio between life expectancy in 2000 (and no longer in 2006) and life expectancy in the year prior to retirement. The sustainability factor will be used to increase the retirement age rather than to reduce retirement pension.	In May 2012 early retirement was suspended and only long-term unemployed can currently have access to a special early retirement. The retirement age was raised from 65 to 66 as from 2014. Retirement age will be linked to life expectancy to reach 67 in 2029.		

Table 2.A1.1. **Details of pension reforms, February 2012-September 2014** *(cont.)*

By country and prime objective

Country	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Slovak Republic	DC scheme made voluntary and possibility to opt into the public earnings-related scheme.	Introduction of three funds types – conservative, mixed and growth – supplemented by a new equity-index fund from Apr. 2012. Principal guarantee on investment performance introduced, but will be restricted to the least risky (bond) fund from Apr. 2012.			From 2013 to 2017 pension benefits will be increased by fixed amounts and thereafter valorisation will follow consumer prices.			
Slovenia						Pension ages are increasing from 58.3 for men and 58 for women with 40 years and 38.3 years contribution records. In 2019 the pension age will be 60 with 40 years.		
Spain			Adjustment of relevant parameters of the pension system to change in life expectancy every five years from 2019.		Pension benefits will be adjusted according to the ratio of contributions to expenses with a maximum and minimum adjustment.	Normal pension age is set to increase from 65 to 67 between 2013 and 2027. Full benefits are available at age 65 with 38.5 years of contributions. The early retirement age is increasing from 61 to 63 for involuntary unemployed. The contribution period for early retirement is increasing from 31 to 33 years in case of involuntary early retirement. Partial retirement implemented to allow workers close to retirement to work part-time.		

Table 2.A1.1. **Details of pension reforms, February 2012-September 2014** *(cont.)*

By country and prime objective

Country	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Sweden				The basic pension income tax deduction for people over 65 was increased in 2014. Tax deductions for private personal plans are being phase-out and abolished by 2016.		Earned Income Tax Credit (EITC) was enhanced in 2014. The EITC is higher for workers over 65.		
Switzerland				In 2012, the maximum contribution for insured persons who are not gainfully employed increased to CHF 19600 (50 times the minimum contribution).		Greater flexibility is provided for deferring labour market exit since insured persons may carry on paying contributions to the pension fund until 70.		
Turkey				In 2013, tax advantages of voluntary private pensions were replaced with government matching 25% of individual contributions up to a threshold in order to boost private savings.				.
United Kingdom	Large employers (120 000 plus employees) must automatically enrol workers in a company scheme or state-run National Employment Savings Trust (NEST) from Oct. 2012; medium-sized employers (50 plus) from June 2013, and small employers (fewer than 50) from May 2015.	New rules for defined contribution pension withdrawals were legislated in May 2014 and will enable large lump-sum withdrawals.	Contribution rates will increase between 2017 and 2018 from 1% to 3% for employers and from 1% to 5% for employees (including 0.2% to 1% of tax relief). From 2016, a new state pension (single-tier pension, STP) will replace at a higher level both the basic pension and the minimum income guarantee (Pension Credit).			Equalise pension ages at 65 for both genders by 2018. Bring forward pension age to 66 by 2020 and to 67 by 2026.	NEST scheme will create economies of scale compared to current DC plans.	
United States				Taxes for Old-Age, Survivors, and Disability Insurance were cut during 2012 as a stimulus measure.				

Note: DB = defined benefit; DC = defined contribution; NDC = notional accounts; GDP = gross domestic product; CPI = consumer price index; admin. = administrative; cohort = date-of-birth group.

ANNEX 2.A2
Relative income poverty among people over 65 and for the total population in 2011

Table 2.A2.1. **Relative income poverty among people over 65 and for the total population in 2011**[1]

Countries	Population	Old age
Australia	13.8	33.4
Austria	9.0	10.5
Belgium	9.5	10.5
Canada	11.7	6.8
Chile	17.8	20.5
Czech Republic	5.9	2.4
Denmark	6.0	7.1
Estonia	11.7	7.4
Finland	6.6	9.4
France	8.0	4.5
Germany	8.7	8.9
Greece	15.2	7.3
Hungary	10.4	5.2
Iceland	5.9	3.3
Ireland	9.7	5.2
Israel	20.9	20.6
Italy	12.6	10.6
Japan	16.0	19.4
Korea	14.6	48.6
Luxembourg	8.1	2.7
Mexico	21.4	31.2
Netherlands	7.8	1.6
New Zealand	9.8	9.0
Norway	7.7	4.3
Poland	11.1	10.3
Portugal	11.9	8.0
Slovak Republic	8.3	6.3
Slovenia	8.9	15.2
Spain	15.1	7.0
Sweden	9.7	10.1
Switzerland	10.3	24.0
Turkey	19.2	18.4
United Kingdom	9.5	10.5
United States	17.4	18.8
OECD	**11.5**	**12.3**

Note: The poverty rate is computed only with reference to incomes and does not take into account either assets or in-kind services which may substantially improve living standards in old-age.

1. Data refer to 2009 for Japan; 2010 for Belgium; 2012 for Australia, Finland, Hungary, Korea, Mexico, the Netherlands and the United States. 2011 data for the United Kingdom and Ireland are provisional.

Source: OECD Income Distribution Database. OECD (2014b), "Income Inequality Update – June 2014", OECD Publishing, Paris, *www.oecd.org/els/soc/OECD2014-Income-Inequality-Update.pdf*.

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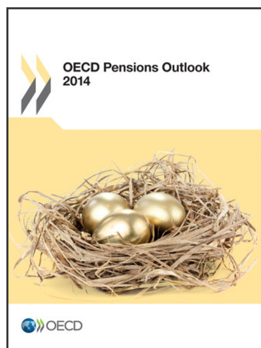

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