

Opening statement for Deputy Secretary-General de Geus for the launch of *Pensions at a Glance*, June 7, 2007

Good morning, ladies and gentlemen,

I am very pleased to present to you today the second edition of one of OECD's flagship publications: *Pensions at a Glance*. The first issue, published in 2005, attracted great interest from policymakers and the media alike because of its unique comparisons of the key features of the pension systems of OECD countries.

I think you will find this second edition still more interesting than the first, particularly because of the two special chapters of great political relevance. One looks at the importance of saving for retirement. It is very sobering reading to see just how big personal savings have to be in some OECD countries if future retirees want to maintain their living standards. And the effort necessary becomes much bigger, of course, if workers save for less than their full working life.

The other special chapter investigates the effects of pension reforms in OECD countries. This topic is particularly close to my heart, since I was Minister in charge of pensions during a period of important reforms in the Netherlands. Let me spend a few moments on the issue of pension reform before I give the floor to my colleagues here who will talk about the report in more detail.

Pensions are very difficult to reform, perhaps more so than any other social policy. As healthcare, pensions affect everybody. It involves making very long-term decisions while governments are faced with many short-term pressures. And while many of the measures involved are rather technical and not easy for the public to understand, the subject is highly emotional. People will take to the streets if they feel that the well-being of today's pensioners or future retirees is endangered. People are not interested in pensions, even their own pensions. They don't know what they can expect. But if somehow they get the impression that pension rights are at stake they are furious. More than one government has been defeated in its attempt to enact pension reform.

Given this difficulty it is encouraging to see how many countries have in fact succeeded in making major reforms happen. Also, *Pensions at a Glance* shows that these will have often very large effects on future retirement benefits. How did they do it? There are essentially two different approaches. The first approach is one of transparency and consensus: some countries chose to negotiate reform with all political parties, the social partners and civil society in order to build consensus on the most important measures and explain the reform to the general public. This was the case, in my own country, the Netherlands and in Germany and Sweden, where there was a wide public debate about the future level of pensions and early retirement. In Germany, this helped convince workers of the need to take up tax-favoured private pensions to compensate for the cuts.

The second approach is what I would call “reform by stealth”. By this I mean that reforms are introduced without providing a full explanation of their consequences to the general public. Changes in the way that pensions are calculated or linking future pension increases to life expectancy are not easy to grasp, certainly less so than directly increasing the retirement age. The French pension reforms in the early 1990s are a good example for this type of approach as is the recent series of changes in Finland. OECD does not consider either of these approaches to be the best. Both can be successful. But politically there is a risk that reform by stealth turns out to be less sustainable.

On the other hand, consensus-building can take a very long time – time that many governments do not have any more given the speed of population ageing. The Swedish reform, for example, took seven years to negotiate. Very lengthy discussions can delay and water down much-needed reforms. In most countries, reform has been made possible by exempting current pensioners and people close to retirement from the changes and by designing a gradual transition from the old to the new pension system. This makes the bitter pill of pension reform easier to swallow, but postpones the cure until far into the future. In this future we will expect communications and labour market issues to be very much linked to the pension-reform agenda. At present we see 58 year-old men driving around in convertible cars. We also see 80 year-old women with hardly enough to live on. Both pictures will change. People will have to work longer and pensions will not be taken for granted. Women will also have better pensions, due to their increasing participation in the labour market. As you see on the cover of our publication, the hand is a woman’s hand.