

Pensions at a Glance 2011

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www.oecd.org/els/social/pensions/PAG

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What's new?

- More countries
 - four new OECD members
 - other G20 economies (Argentina, Brazil, China, India, Indonesia, Russia, Saudi Arabia, South Africa, EU27)
- More indicators
- Five special chapters
 - pensionable age and life expectancy, 1950-2050
 - trends in retirement and in working at older ages
 - pension incentives to retire
 - helping older workers find and retain jobs
 - linking pensions to life expectancy

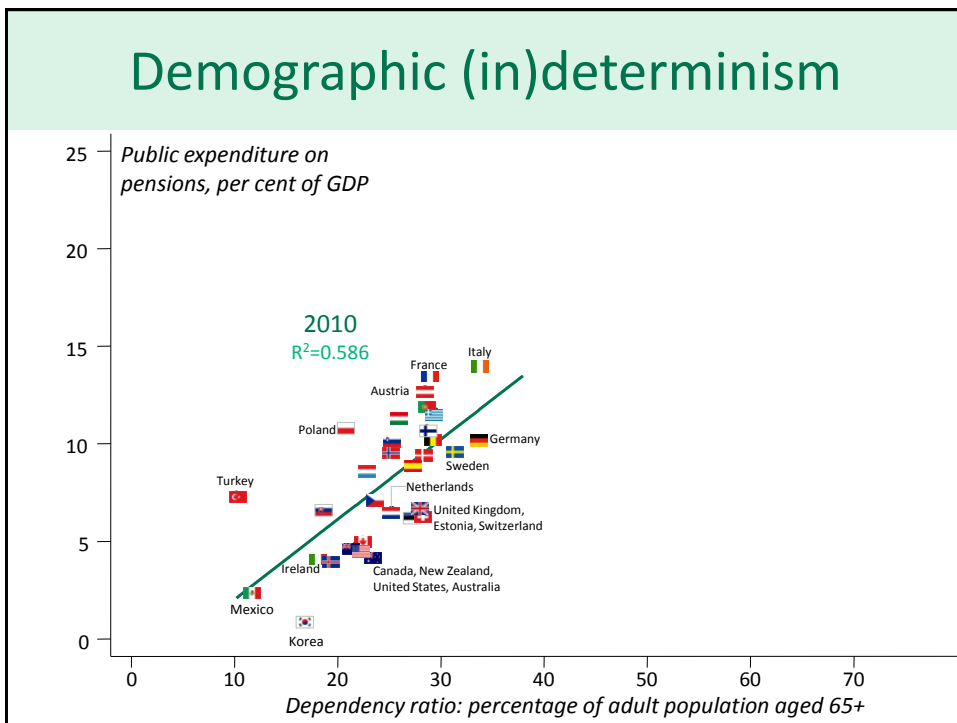
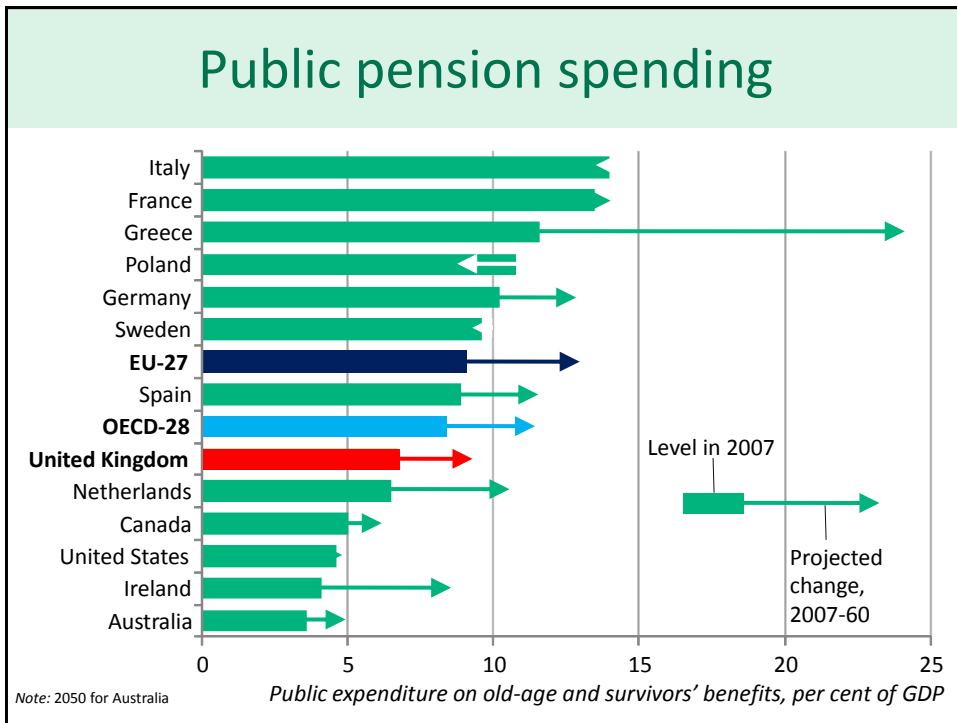
Agenda: four key objectives and principles

- Financial sustainability
- Work incentives
- Security in the face of risk and uncertainty
- Benefit adequacy and coverage

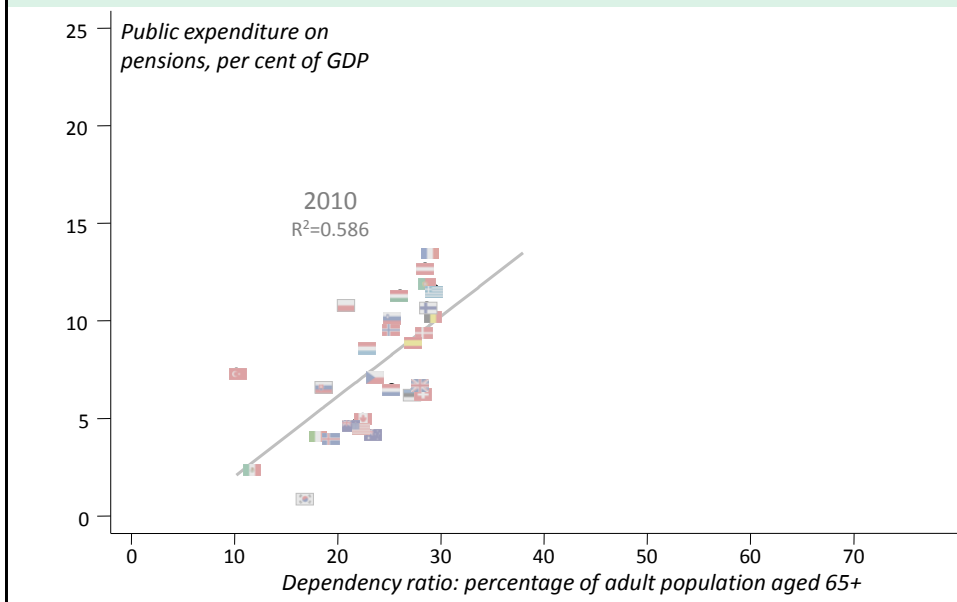


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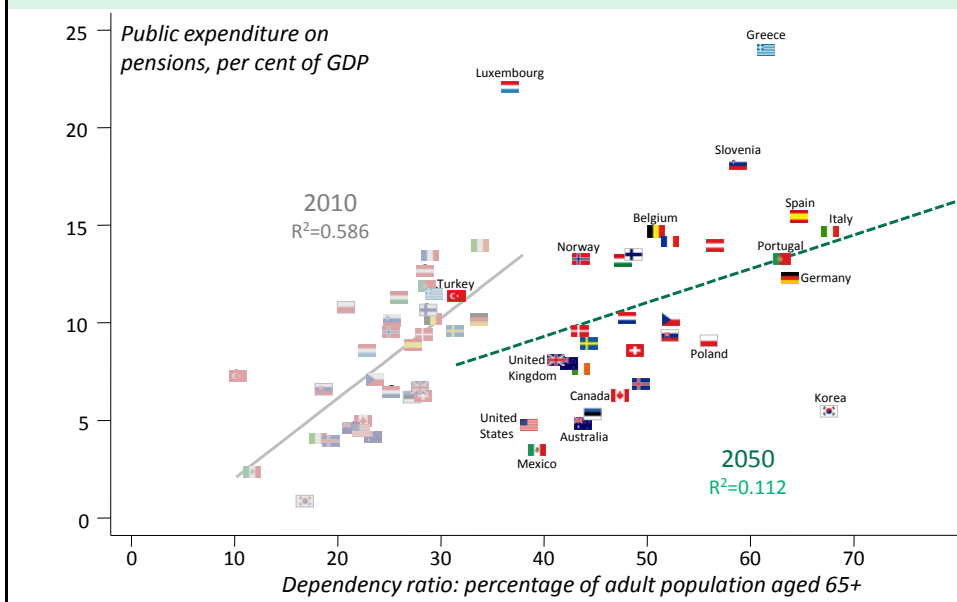
Financial sustainability



Demographic (in)determinism



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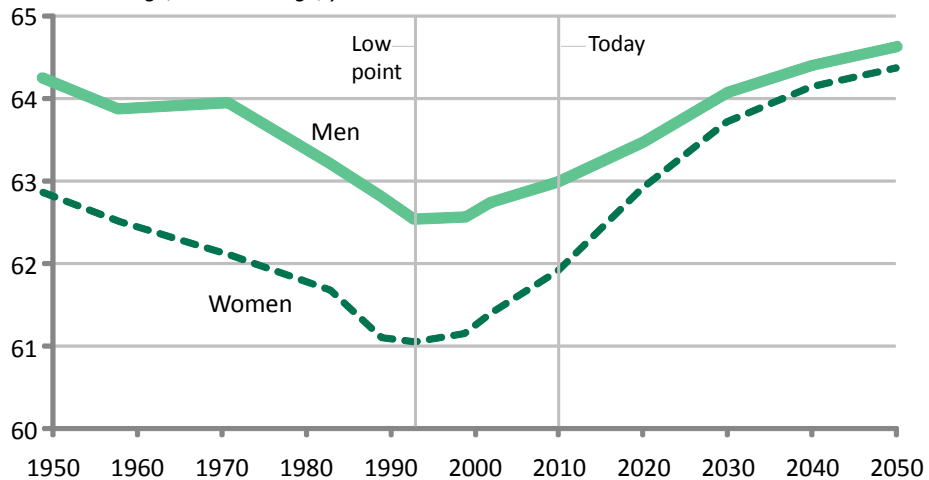


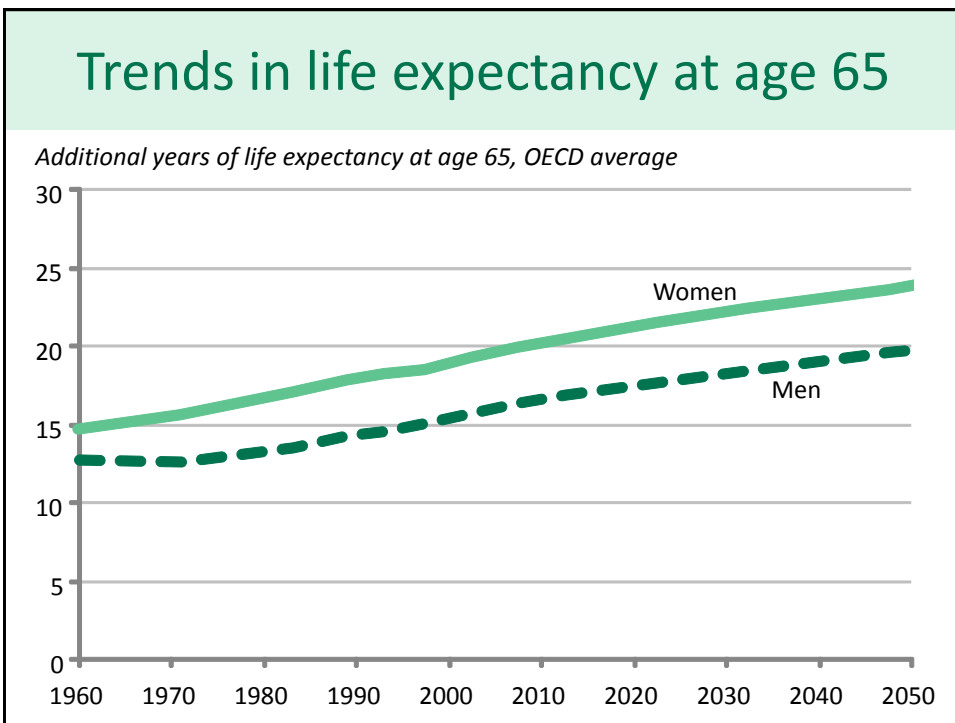
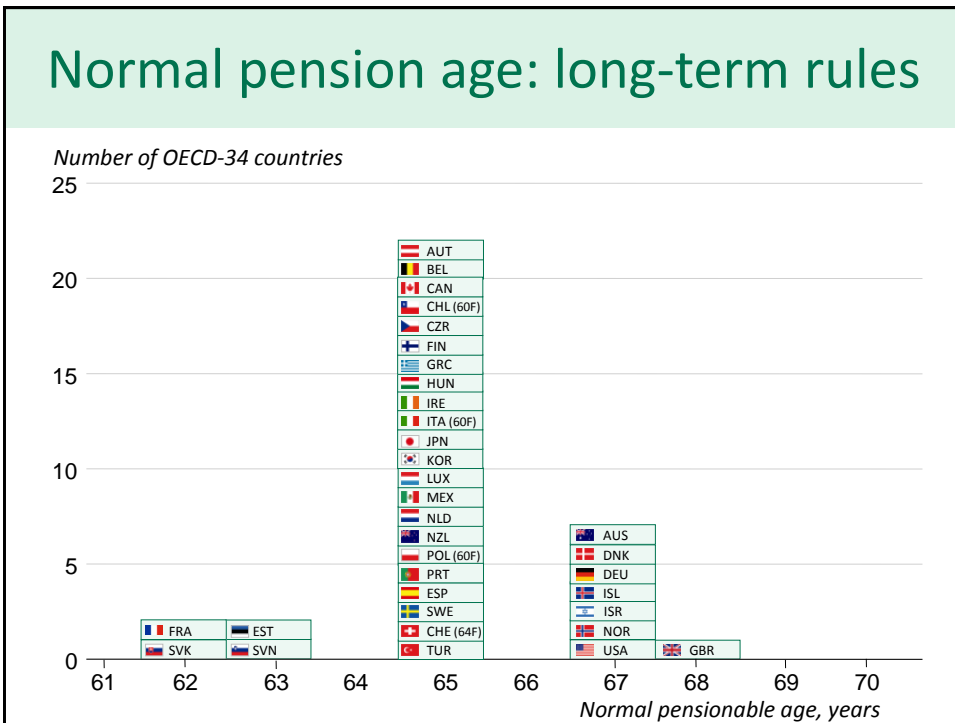
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Work incentives

Trends in pensionable ages

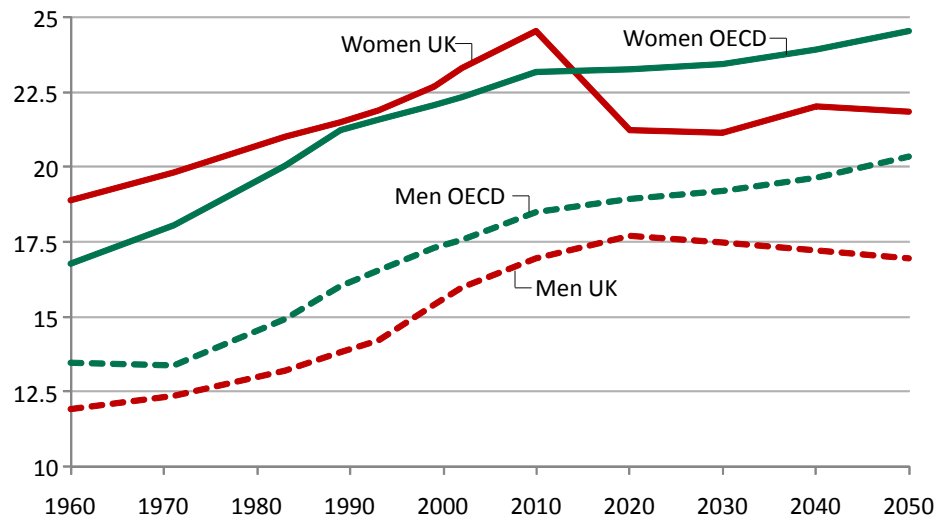
Pensionable age, OECD average, years





Life expectancy at pensionable age

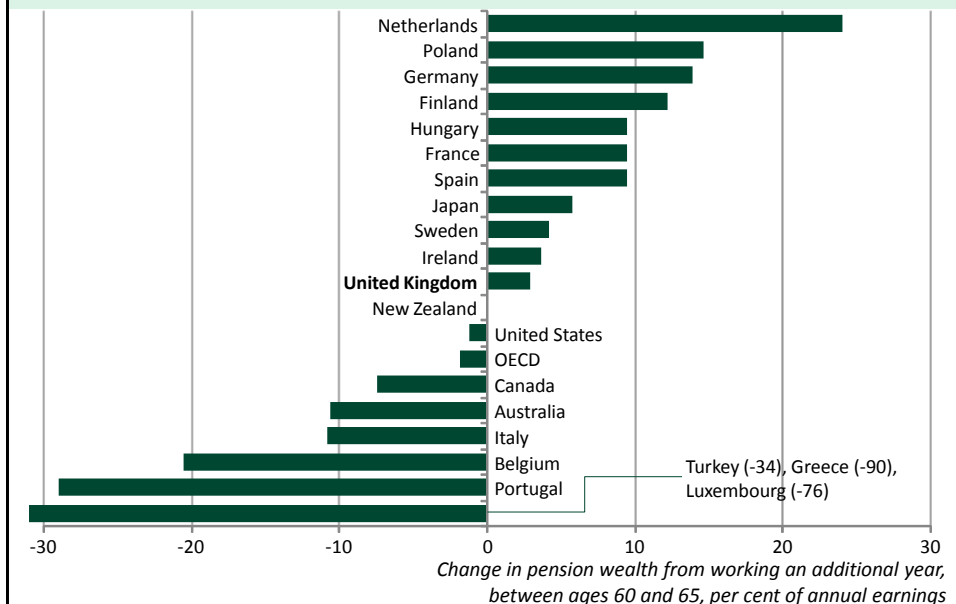
Additional years of life expectancy at normal pension age



Pension incentives to work/retire

- **Change** in pension wealth from working an additional year
 - age 60-65: main retirement window
 - express as proportion of individual earnings: implicit tax or subsidy

Pension incentives to work/retire





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- **Change** in pension wealth from working an additional year
 - age 60-65: main retirement window
 - express as proportion of individual earnings: implicit tax or subsidy
- **Level** of pension wealth already accrued
 - at age 60: beginning of retirement window
 - express as a multiple of individual earnings

Retirement incentives summary

		Change in pension wealth from age 60 to 65		
		Low	Middle	High
Level of pension wealth at age 60	Low	Mexico	Germany, Ireland, Sweden, UK , US	Chile, Czech R., Japan, Korea, Poland
	Middle	Australia, Belgium, Canada, Estonia	Denmark, Finland, New Zealand	Austria, Israel, Norway, Switzerland
	High	Greece, Italy, Luxembourg, Portugal, Slovenia, Turkey	France, Hungary, Spain	Iceland, Netherlands, Slovak R.

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Security

Diversification

- ‘It is the part of a wise man to keep himself today for tomorrow, and not venture all his eggs in one basket’ (Miguel de Cervantes, 1605, *Don Quixote*)
- Pay-as-you-go public pensions:
 - sustainable rate of return = earnings growth + employment growth
- Funded pensions
 - rate of return in capital market directly or indirectly affects pension value
- Think of pension package as a ‘portfolio’ of different ‘assets’

Diversification

- Benefits of diversification depend on correlation between returns

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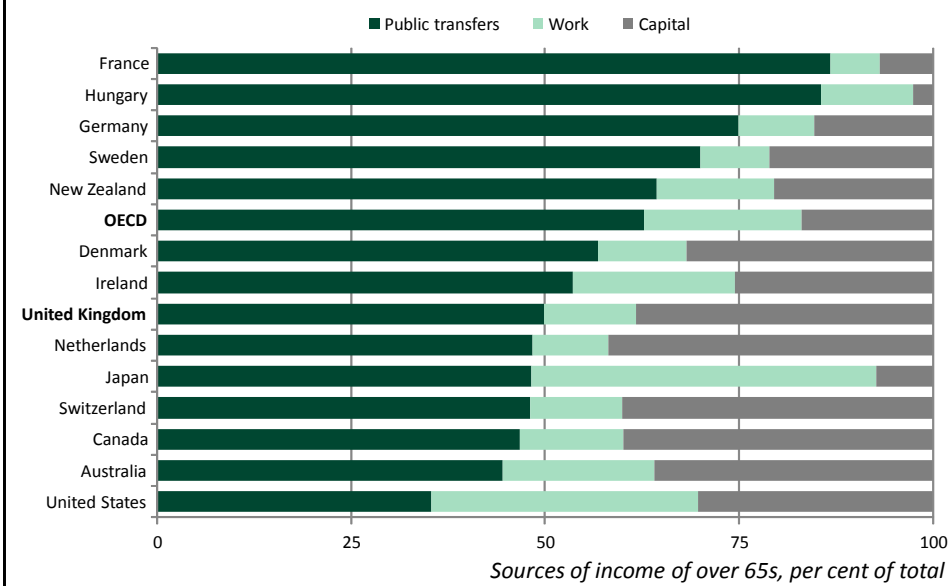
Correlation between real earnings growth and real return on 'balanced'* portfolio

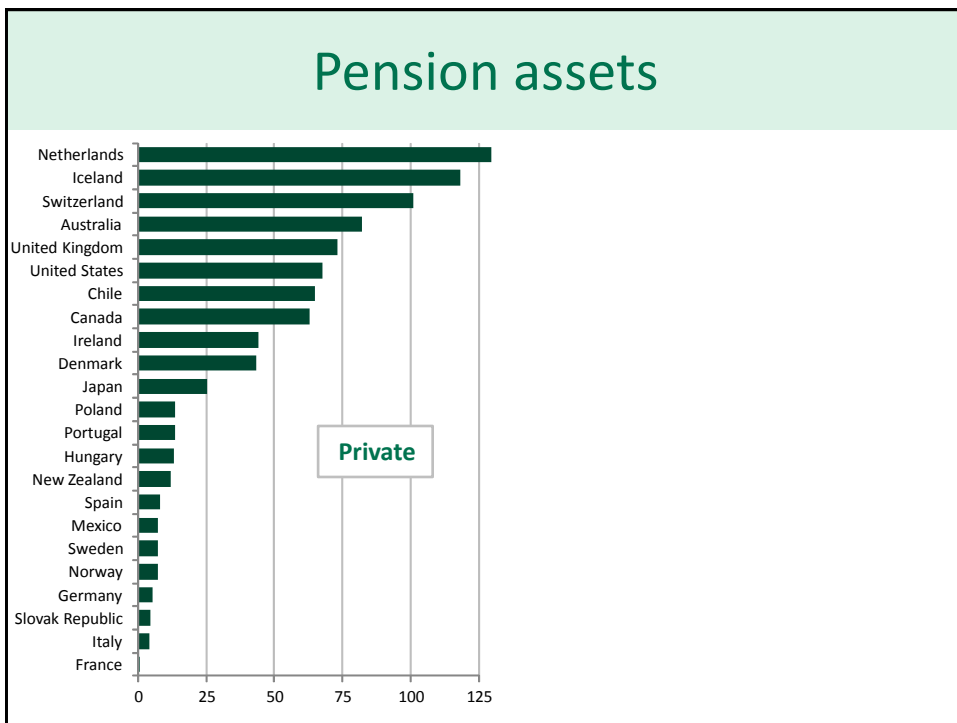
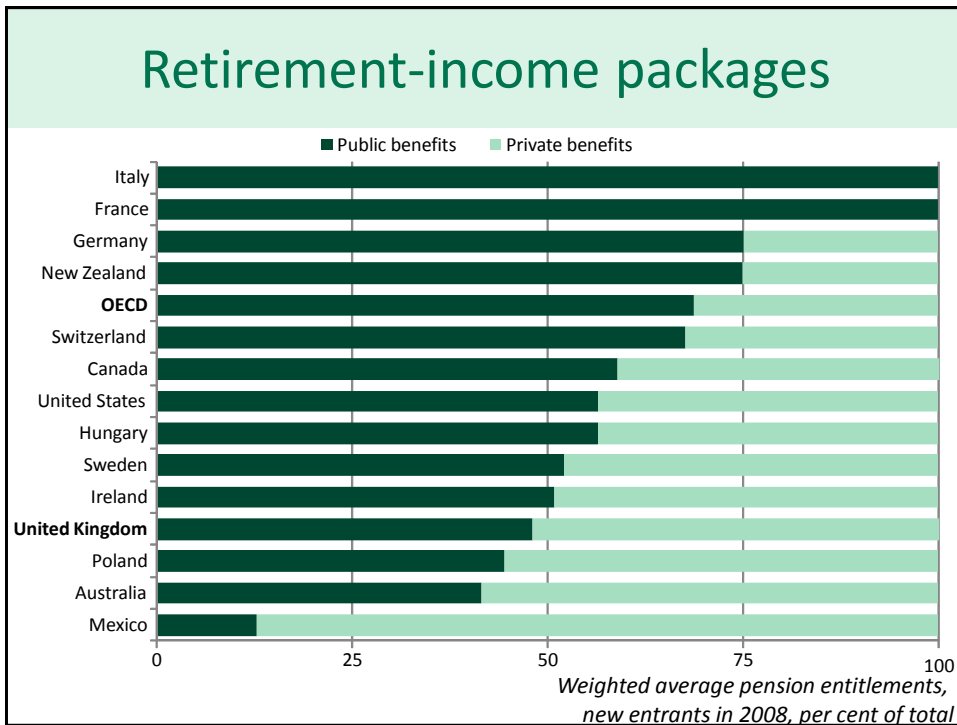
Investment portfolio	Canada	France	Germany	Italy	Japan	Sweden	United Kingdom	United States
Domestic	21.2 (34.4)	-9.7 (66.9)	-8.6 (76.1)	-22.0 (38.1)	8.3 (69.2)	12.4 (58.2)	-28.2 (15.3)	3.5 (86.1)
OECD-8	16.3 (47.0)	-26.0 (24.2)	-14.6 (60.3)	1.9 (93.4)	-15.2 (50.0)	8.8 (69.7)	-11.6 (60.8)	4.8 (83.3)

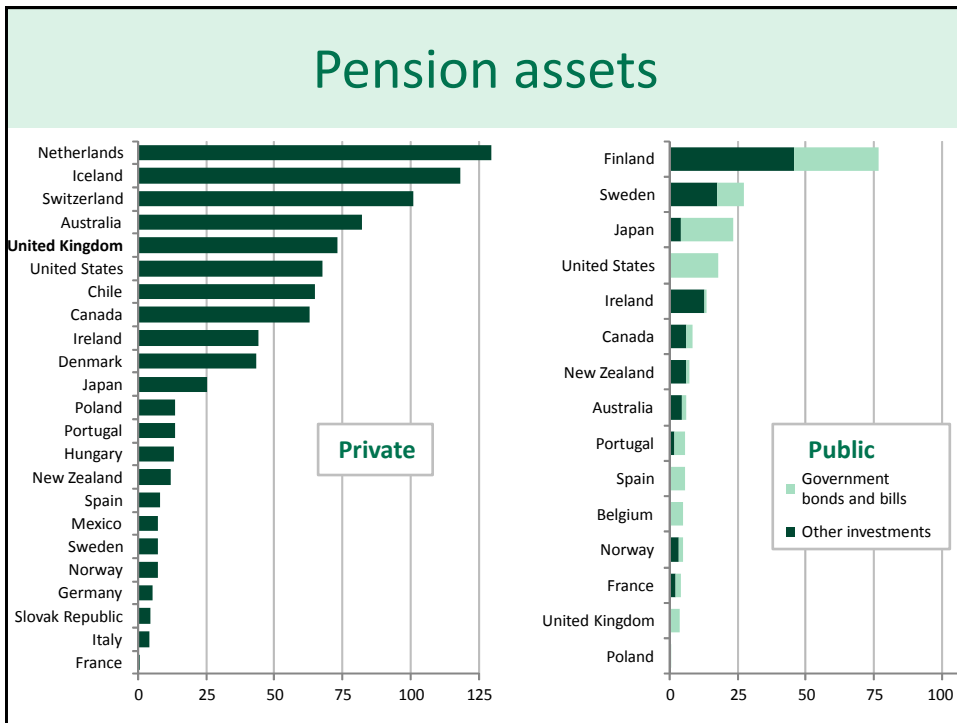
Note: 'Balanced' portfolio comprises 50% equities, 50% government bonds. 'Domestic' includes only home capital markets, OECD-8 diversifies investments between all countries shown.

Correlation coefficient and p-value in per cent

Incomes in old age







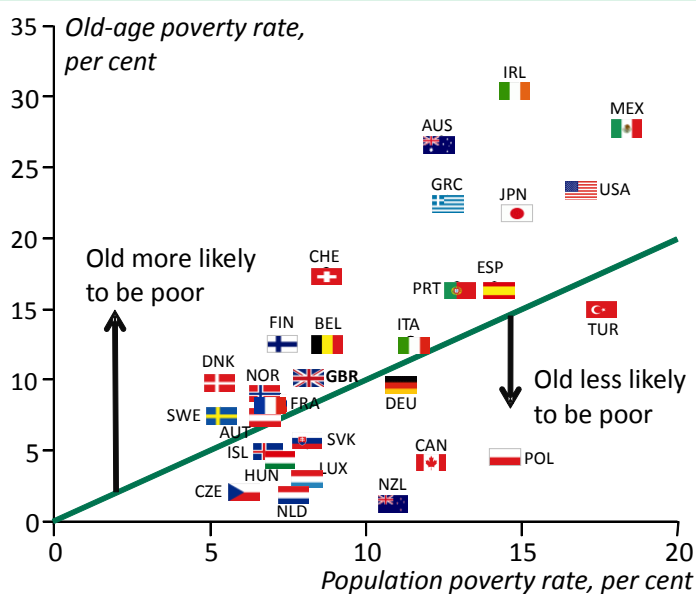
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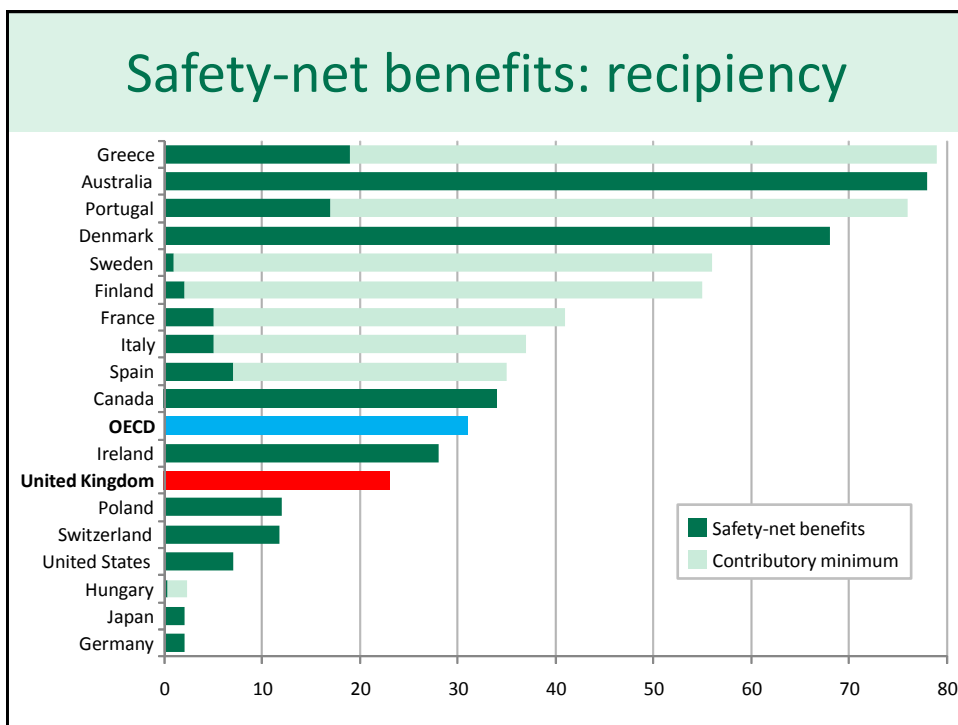
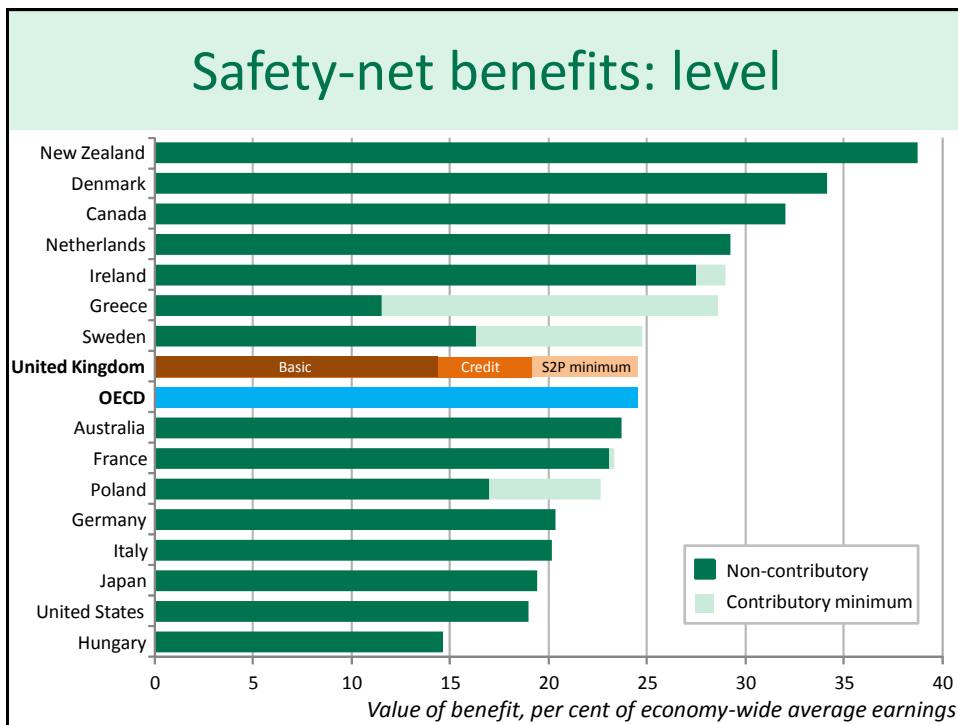
Adequacy and coverage

What is adequacy?

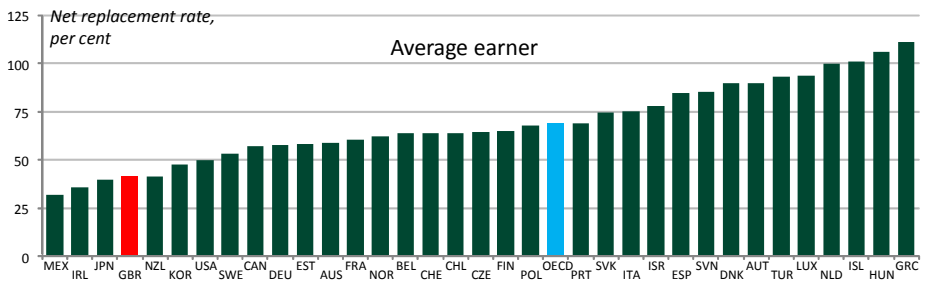
- Narrow definition: **absolute** standard of living
- Broad definition: **relative** standard of living
- Analytical tools:
 - income-distribution data
 - simulation of pension entitlements

Income poverty

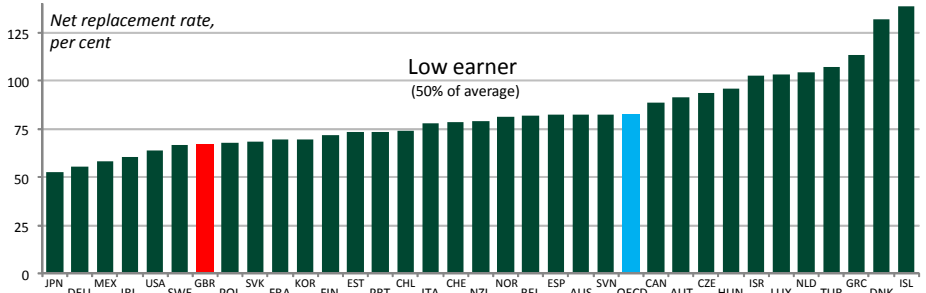
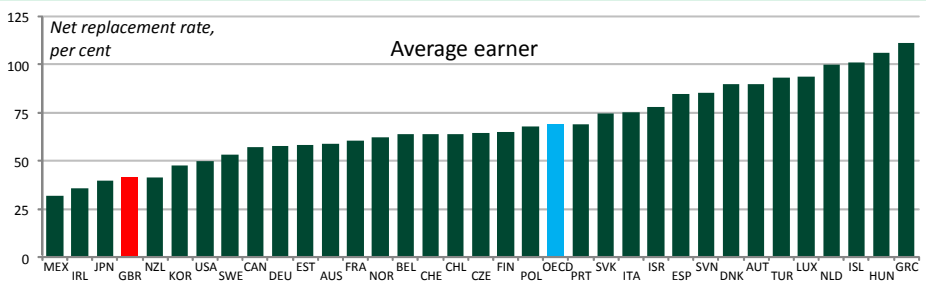


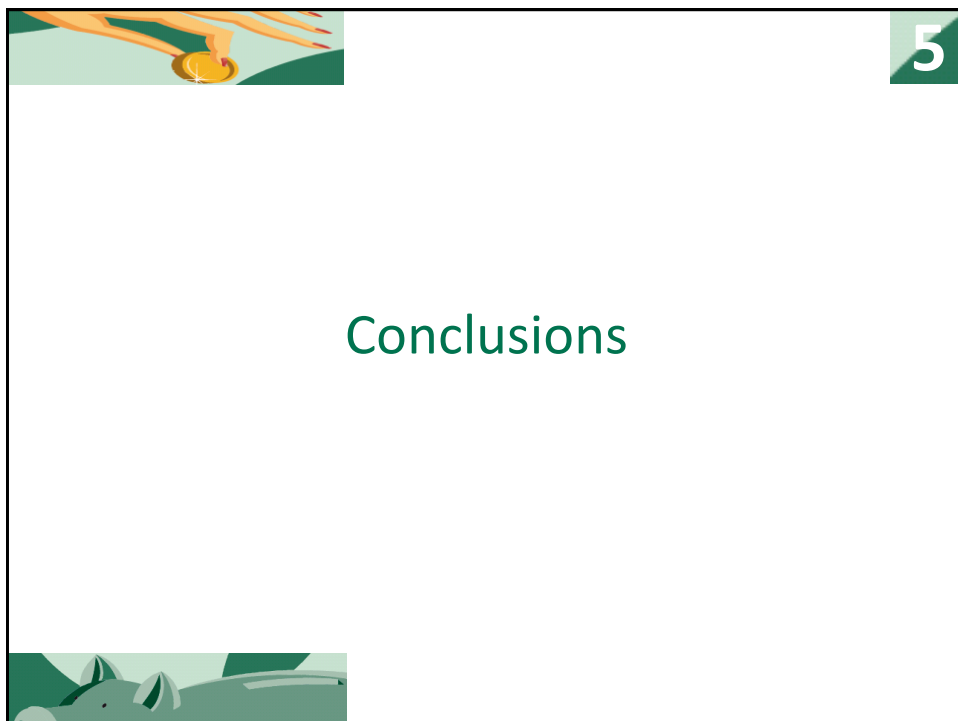
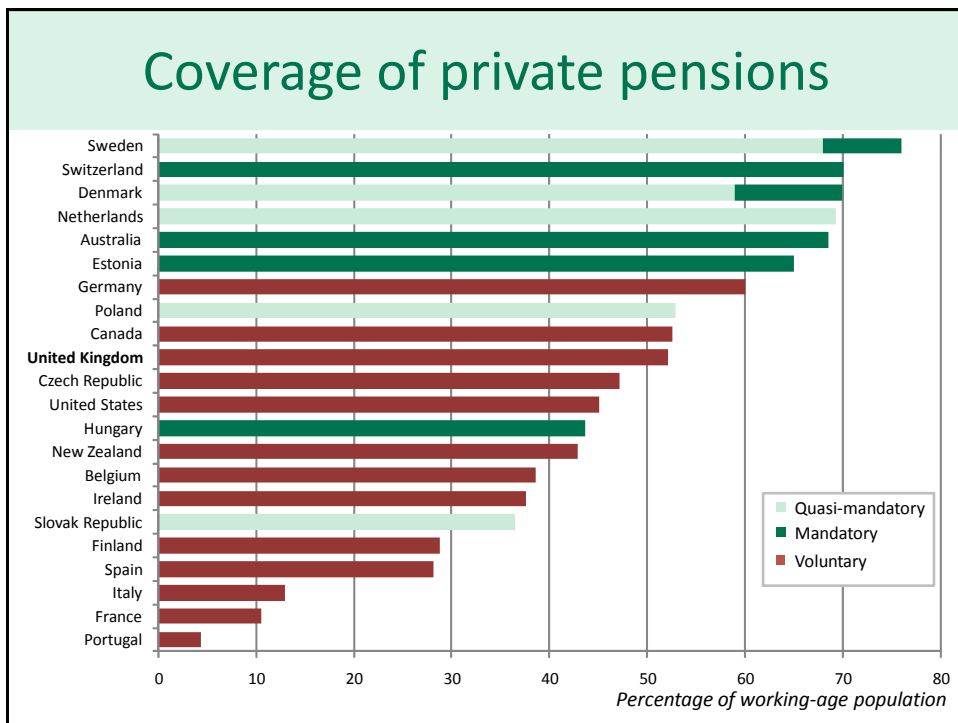


Future (mandatory) replacement rates



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General policy direction

- Balancing objectives of benefit adequacy and financial sustainability
 - challenges of crisis and ageing
 - need to achieve both
- Improving the terms of the trade off
 - working longer
 - private pensions
 - targeting

Implications for the United Kingdom

- Public scheme financially **sustainable**
- Retirement provision well **diversified** (public/private, PAYG/funding)
- Pension system provides strong **work incentives**
 - but continuing problem of other benefit pathways into early retirement, such as disability benefits
- **Adequacy** of benefits and degree of private-pension saving remain a challenge



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RETIREMENT-INCOME SYSTEMS IN
OECD AND G20 COUNTRIES

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