KEY PENSION POLICY RECOMMENDATIONS FROM THE PENSION REVIEWS

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OECD pension reviews in Europe

- Ireland (2014)
- Latvia (2018)
- Portugal (2019)
Key policy recommendations

- **Public pensions:**
  - Normal and early retirement ages
  - Special pension schemes
  - First-tier pensions
  - Coordination non-contributory and contributory components
  - Survivor pensions
- **Funded pensions:**
  - Participation
  - Investment regime
  - Fees and competition
  - Pay-out phase
  - Security of DB benefits
PUBLIC PENSIONS
Normal retirement ages

Source: OECD based on information provided by countries.
Denmark, Estonia, Finland, (Greece), Italy, the Netherlands and Portugal have such links.

Some countries have backtracked or slowed the pace of the increase: Czech Republic, Denmark?, Italy, Netherlands and Slovak Republic.

Ireland - 68 in 2028 is already relatively high.

Latvia - Link the official retirement age to life expectancy gains.

Portugal - Duly implement the link, and extend it to the minimum age of early retirement.
Early and normal retirement ages

Source: OECD based on information provided by countries.
Preventing individuals from retiring too early with too low pensions

- Portugal:
  - Modify the way the sustainability factor is applied as its current use overly penalises early retirement
  - Eliminate the option for long-term unemployed to enter retirement very early and without the full penalties applied to other early-retirement entries
  - Provide effective active labour market programmes to strengthen job-search efforts and employability of older workers in particular

- Latvia - Ensure effective support for older workers with reduced work capacity
# Pensions schemes for public-sector vs private-sector workers

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<tr>
<th>Fully integrated</th>
<th>Separate but similar benefits</th>
<th>Fully integrated with top-up</th>
<th>Entirely separate</th>
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*Source: OECD (2016) – Pension Outlook, Table 6.1.*
• Portugal - *Merge the administration of the CGA with the general scheme covering private-sector workers*

• Latvia - *Incorporate service pensions back to the main pension scheme; maintain the commitment to eliminate special pension rights for arduous and hazardous occupations*

• Ireland – *Include civil servants in any new private pension scheme for private-sector workers*

Self-employed: Harmonise the rules applying to self-employment, new forms of work with those applying to private-sector workers
Level of first-tier benefits

% of gross average earnings, 2018

Source: OECD.
Minimum contribution periods to get some pension entitlement should be low

- Latvia – *Lower the minimum contribution period of 15 years required for the minimum pension*

- Portugal – *Lower the minimum contribution periods of 15 years and ensure that each additional year of contribution results in a higher minimum pension benefit*

- Ireland – *Reform the basic pension to account for all periods of contribution equally*
Improve the coordination of non-contributory and contributory components

Serious enhancements needed in all three countries in order to:

- simplify current schemes

- rationalise and smooth entitlement patterns

- provide incentives to contribute such that contributions generate entitlements (even with first-tier pensions)
Reform survivor pensions

- Latvia – *Introduce survivor pensions for spouses within the mandatory earnings-related schemes*

- Portugal – *Raise the eligibility age to a permanent survivor pension to the retirement age*

- OECD Pensions Outlook (2018), Chapter 7

- Ireland – No eligibility age, but survivor pensions play a limited role
FUNDED PRIVATE PENSIONS

Social sustainability of earnings

- related schemes

Automatic stabilisers
Assessment of the funded pension systems based on 2 OECD instruments


Increase the role of the funded private pension system

• Ireland – 2 options to increase coverage
  – Compulsion: less costly and most effective
  – Automatic enrolment: success depends on design

• Portugal
  – Improve incentives by simplifying the tax treatment of retirement savings and introduce non-tax financial incentives
  – Support the growth of occupational pension plans by promoting multi-employer plans and employer matching contributions
Introduce life-cycle investment strategies as default options in DC schemes

• Provide choice between investment options
• Establish appropriate default investment strategies for people unwilling or unable to make choices
• Establish life-cycle strategies as a default to protect those close to retirement against extreme negative outcomes
• Latvia - Gradually relax quantitative investment limits and increase the skills of professionals in the investment teams of asset managers to allow for appropriate portfolio diversification
**Address high fees and lack of competition**

- **Disclosure-based initiatives**
  - Latvia: Disclose fees in nominal amounts in pension statement
  - Latvia and Portugal: Increase transparency requirements

- **Pricing regulations – Latvia**
  - The new fee structure (regressive scale, lower caps and a tighter definition of the benchmark for the performance fee) goes in the right direction
  - The performance fee could include risk-sharing features
  - Harmonise the fee structure for voluntary plans

- **Structural solutions**
  - Ireland: Consider the establishment of an autonomous public fund competing with private providers
  - Latvia: Balance market opportunities
**Improve the design of the pay-out phase**

- **Withdrawal rules**
  - Portugal: Tighten rules for PPRs and align retirement age with statutory ages
  - Ireland: Consider allowing financial hardship withdrawals

- **Payment options**
  - Portugal and Ireland: Encourage at least partial annuitisation (e.g. combination of programmed withdrawals and deferred life annuity)
  - Latvia: Eliminate the option to transfer assets to the NDC scheme and clearly separate annuities from drawdown products
**Enhance benefit security in DB schemes**

- **Ireland**
  - Increase the protection of members when plans wind up
  - Revise funding standards as they may create risks by offering strong incentive for pension funds to invest in government bonds, in particular sovereign annuities
  - Consider introducing more flexible DB plans to allow risk-sharing
  - Establish a clear framework to facilitate domestic investment in infrastructure projects without distorting capital allocation

- **Portugal**
  - Develop and keep up-to-date mortality tables based on Portuguese population data
  - Revise the rules for the calculation of the minimum funding ratio
Thank you for your attention

Further information:

https://www.oecd.org/els/public-pensions/

http://www.oecd.org/finance/private-pensions/
Portugal: Only the highest minimum pension exceeds the CSI

Minimum pension, social pension and CSI as a % of the average wage

Figure 2.20
Latvia: Working longer results in benefit increases only at specific ages

Source: OECD calculations