Pressure on pension systems in the aftermath of the crisis – OECD launch of Pensions at a Glance 2015

Stefano Scarpetta
Director, Directorate of Employment, Labour and Social Affairs, OECD
What’s new?

• Updated rules and parameters to 2014

• 33 Indicators for OECD and G20 countries

• 4 Special chapters
  – Pension reforms over the last two years
  – Role of first-tier pensions
  – Impact of short and interrupted careers on pension entitlements
  – Sensitivity analysis of the replacement rates to changes in the parameters of the OECD model
Recent reforms

• Three out of four OECD countries implemented pension measures over the last 2 years, half of which undertook broad reforms.

• Improving financial sustainability of pensions was the priority, given widespread fiscal consolidation needs, and the increasing impact of population ageing.

• Main focus was on increasing working lives: higher statutory retirement ages, tighter early retirement rules, financial incentives and greater possibility to combine work and pensions.
What about the US?
Financial pressure will persist

Pre- and post-crisis government gross financial liabilities, 2007 and 2014 (or latest year available) - % GDP

And populations will continue to age although more slowly in the US than in the OECD on average.

67 is becoming the new 65
(retirement age in OECD countries, today and in the future)

Source: Chapter 11, OECD Pensions at a Glance 2015
full career workers will have above average replacement rates...

Net pension replacement rates for average earners, as % of individual earnings

Source: OECD pension models
…and it will look similar for low earners

Net pension replacement rates for average earners, as % of individual earnings

Source: OECD pension models
But what if everything doesn’t go according to plan?
Many workers are not employed, particularly at older ages

Employment rates of workers aged 55-69, 2014

Source: OECD Employment Outlook 2015
Employment rates for the 55-64 have increased in the OECD...

...especially for women, but not really in the USA

Change over 2004-2014, percentage points

Source: OECD Employment Outlook 2015
And with no voluntary pension it doesn’t look so good, both for average earners...

Source: OECD pension models

Net pension replacement rate for average earners, as % of individual earnings
...and for low earners

Net pension replacement rate for 50% average earners, as % of individual earnings

Source: OECD pension models
With voluntary pension at 47% low income at old age may become a reality

Coverage of private pension schemes as a percentage of those aged 15-64, 2013

Source: Estimates from OECD Global Pension Statistics and OECD calculations using survey data
In the US, (not overly long) career breaks have no impact on public pensions, but the private component is hit fully.

Gross entitlements from mandatory pensions of average-wage workers with five-year career breaks versus workers with unbroken careers.

Source: OECD pension models
Pension spending, % of GDP

Source: OECD Social expenditure database
Safety nets may not be able to help much

% of average earnings

Source: Chapter 11, OECD Pensions at a Glance 2015
Safety-net benefits vs GDP per capita

Source: Figure 2.9, OECD Pensions at a Glance 2015
Elderly poverty issues are prominent

Elderly poverty issues are prominent

Poverty rates fell for the elderly, but remain high (in both relative and absolute terms) for the 75+ in the USA.

Poverty rates for each age group relative to the whole population.

OECD average (left panel) versus USA (right panel).

Relative poverty rate of the population in each year = 100.
Conclusions

• Potentially high replacement rates
  – If voluntary pension coverage is increased
  – Private pension plays an important role but coverage is far below the best standard

• Without additional savings, entitlement to only social security might leave individuals in poverty

• Higher benefits should be made financially sustainable through higher contribution rates

• Safety-net benefit levels are low and associated public spending very low. The price uprating of these benefits substantially increases poverty risks
Contact

Pensions at a Glance 2015
OECD and G20 Indicators

stefano.scarpetta@oecd.org

Webpage: [http://oe.cd/pag](http://oe.cd/pag)

Twitter: [@OECD_Social](https://twitter.com/OECD_Social)