

*OECD project on the role of funded pensions in providing  
retirement income to people in non-standard forms of work  
Project outline 2018-2020*

## **Background and motivation**

Changing labour market patterns are likely to have important implications for the role and design of funded private pensions. The proportion of workers engaged in non-standard forms of work is growing in many OECD countries. In addition, the range of non-standard forms of work is expanding, such that the term covers an increasingly diverse population with different requirements in terms of pension provision.

There is no official definition of non-standard forms of work. Typically, it covers work that falls outside the scope of a standard employment relationship, which itself is understood as being work that is full-time, indefinite employment in a subordinate employment relationship. Under this definition, one can distinguish between self-employment and non-standard forms of employment (i.e. part-time and/or temporary salaried employment).

The OECD Working Party on Private Pensions has already addressed a number of topics relevant to improving the inclusiveness of funded pensions. Workers engaged in non-standard forms of work tend to have more limited access to both public and private pensions than workers on “standard” contracts and less financial capacity to build up adequate savings for retirement. Hu and Stewart (2009<sup>[1]</sup>) reviewed country experiences in increasing coverage for informal workers. Chapter 1 of the *OECD Pensions Outlook 2018* examines how public pay-as-you-go (PAYG) and funded private pension provision can be combined to meet different objectives, while Chapter 5 considered pension design needs for less well-informed workers. Chapter 3 of the *OECD Pensions Outlook 2016* illustrated the potential for financial technology to reshape pension design and delivery.

The project aims to build on this work to analyse whether the various different types of worker, either self-employed or employed under non-standard contracts, require different forms of funded pension provision, through either occupational or personal arrangements, and different incentives to participate in the pension system. It will examine funded pension coverage and contributions for different segments of the “non-standard” labour force within the OECD and the EU and consider whether policies introduced in a number of jurisdictions to increase coverage and contributions of certain categories of workers in non-standard forms of work could be applied across other segments and countries.

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## Project content and structure

The project aims to address the following questions in order to make policy suggestions for improving funded pension provision for workers in self-employment and non-standard forms of employment.

- How can the workforce engaged in non-standard forms of work be divided into smaller categories to properly assess the role of pensions in providing retirement income
- What is the formal access to funded pensions, through either occupational or personal arrangements, of each category across the OECD and the EU
- What are the requirements and constraints of each category in terms of funded pension access, design and affordability
- What approaches can be suggested to increase coverage and contribution levels
- What are the implications of the growth in non-standard forms of work for the balance between public and private pension provision

The project will cover all OECD countries, as well as EU Member States. It will cover all funded pension arrangements, either mandatory or voluntary, occupational or personal.

### *Different categories of “non-standard” work*

The workforce engaged in non-standard forms of work is broad and diverse. Workers in non-standard forms of employment (i.e. part-time and/or temporary salaried employees) are more likely to be female, younger and less well paid than employees on “traditional” contracts (ILO, 2015<sup>[2]</sup>). The self-employed may have different characteristics. For example, the average self-employed worker in the United Kingdom is male, aged between 40 and 69 and a homeowner (PPI, 2017<sup>[3]</sup>). In the United States, the biggest growth in contingent workers (i.e. those without regular hours and associated regular salary/wage rate plus benefits) is among Americans over the age of 65 (Gale, Holmes and John, 2016<sup>[4]</sup>).

Different profiles within the overall workforce are likely to require a different approach to funded pension provision. We therefore propose creating different categories of worker for the purposes of this analysis, to enable us to look at the broad population while taking into account the different circumstances of each category. Potential categories could include temporary employees; part-time employees; temporary agency workers; employers; own-account workers; dependent contractors (including platform workers). Previous research conducted by the European Commission and other organisations will be used as inputs to build the categories for this project (e.g. the Impact Assessment for the proposed EU Council Recommendation on access to social protection, the European Social Policy Network report on access to social protection, and various OECD and ILO reports on non-standard forms of employment).

### *Current access to funded pensions*

In order to understand how each category of worker interacts with the pension system, a stocktaking of current legal or formal access to funded pensions, through either occupational or personal arrangements, will be conducted. This work will cover vesting periods that may be required before being able to accrue pension rights. This will help to identify gaps in access to pensions. This stocktaking will draw on previous research,

including the one commissioned by the European Commission on “Access to social protection for people working on non-standard contracts and as self-employed in Europe: A study of national policies”.

### *Requirements and constraints of each category*

The project will also analyse what are the requirements and constraints of each category of workers in terms of funded pension access, design and affordability. The different categories of worker are expected to have a number of similar requirements and constraints in terms of their interaction with the pension system and with funded pensions in particular. They are likely to want considerable flexibility in terms of contribution schedules and access to funds. They are also likely to need extra incentives to contribute, in the absence of payroll deductions or employer contributions (where applicable). Workers with short-term contracts or who move between the formal and informal sectors are likely to want pension portability.

There will also be differences between the different workers, depending on factors such as their income level, awareness and prior access to pension savings vehicles (for example, if a self-employed worker was previously enrolled in a workplace scheme).

### *Approaches to increase coverage and contribution levels*

Given differences in the legal access to funded pensions for the different categories of workers engaged in non-standard forms of work, as well as different requirements and constraints in terms of funded pension access, design and affordability, the effective access to funded pension schemes may vary across the different categories of worker. This suggests that different approaches may be required to encourage them to participate in, and to contribute (or contribute more) to, funded pensions.

The stocktaking will therefore also examine policy initiatives under way and planned reforms to improve access and contributions to funded pensions for workers engaged in non-standard forms of work. For example, the NEST’s Sidecar in the United Kingdom aims to provide a more flexible form of pension saving that addresses the unwillingness of some individuals to lock up their savings until retirement age. The Canadian Pooled Registered Retirement Plan can help to allow self-employed workers and those on non-standard contracts to benefit from economies of scale and risk pooling typically available to traditional occupational pension plans. Some approaches may use specific arrangements for different categories of worker, as for example in Belgium and France, where self-employed workers have access to dedicated funded private pension plans (VAPZ, IPT and POZ plans in Belgium, Madelin contracts in France). Alternatively, they may involve common arrangements, such as personal plans, that suits all types of worker, are portable, and allow for employer contributions (e.g. participant funds in the Czech Republic, individual plans in Denmark). Finally, there may be a role for Fintech and distributed ledger technology (e.g. blockchain) to play.

### *Improving the complementarity between public and private provisions*

Workers engaged in non-standard forms of work face a number of challenges in terms of accessing funded pensions and contributing to them. This could imply that extending funded pension coverage to this workforce requires the state to play a bigger role, through

ensuring a safety net, creating incentives and providing financial education to encourage participation, and providing the infrastructure to enrol members and collect contributions.

At the same time, the growth in the number of non-standard contracts relative to standard contracts could increase pressures on PAYG systems, if it meant that fewer workers were contributing to public, PAYG pensions.

The project will take as a given the role of the public pension system to assess the role that funded pensions can play in providing retirement savings schemes for people in non-standard forms of work. It will build on previous analysis on how to design funded private pensions to complement PAYG public pensions, to analyse whether the self-employed and employees on non-standard contracts have greater exposure to certain risks to retirement income and how these risks might be offset (OECD, 2018<sup>[5]</sup>).

### *Policy guidelines*

The project will conclude with policy guidelines on how to better increase funded pension coverage and contributions of workers engaged in non-standard forms of work, including recommended approaches for different categories of worker and the various combinations of public and private pension provision.

## *References*

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