Key messages

• Limited impact of COVID-19 on pensioners’ income and workers’ pension entitlements
• Substantial pension reforms over the last two years in many countries
• In-depth analysis of automatic adjustment mechanism (AAMs):
  – AAMs are crucial to help deal with the impact of population ageing
RECENT DEVELOPMENTS IN PENSIONS
Limited impact of COVID-19 on pensions

• Safeguarded pension benefits; introduced temporary and targeted income support measures for current pensioners

• Extraordinary measures protected pension entitlements:
  – expanded use of job retention schemes, in which generally pension entitlements accrued;
  – subsidised pension contributions;
  – extension of unemployment protection;
  – specific measures benefiting the self-employed;
  – strong financial markets performance.

• Exceptional withdrawals of pension assets in a few countries, with largest effect on future pensions in Chile

• Pension finances deteriorated due to lost contributions. Shortfalls have been mainly covered by state budgets

• Due to excess mortality, the number of people older than 65 has declined by about 0.8% in the OECD on average, which has slightly lowered pension spending.
Main reforms over the past two years

- **Substantial increase of mandatory FDC contributions** in Mexico, boosting future pensions; Greece replaced NDC by FDC for auxiliary pensions; Estonia made private pension contributions voluntary and allowed to withdraw assets.

- **Substantial improvements of low pensions** in Chile, Germany, Latvia, Mexico, the Slovak Republic and Slovenia.

- **Limited action on retirement ages**: Sweden (increase), the Netherlands (postponed) and Ireland (postponed).

- **Extended early retirement**: Denmark, Ireland, Italy and Lithuania.
Retirement age to increase by about 2 years by 2060

Normal retirement age after a full career from age 22 based on current legislation

Source: OECD, 2021, Pensions at a Glance, Figure 1.11
Pensions to replace 62% of earnings on average

Future net replacement rates for full-career average-wage workers

Source: OECD, 2021, Pensions at a Glance; Figure 1.12
Pension expenditure increased and strong labour markets offset about 40% of the direct impact of ageing.

Source: OECD, 2021, Pensions at a Glance; Table 1.1.

Change in pension expenditure in GDP between 2000 and 2017 and contribution from different factors, in percentage points.
AUTOMATIC ADJUSTMENT MECHANISMS
What are Automatic Adjustment Mechanisms?

- AAMs are **predefined rules** that
  - automatically change pension parameters or benefits
  - based on the evolution of an indicator

- AAMs **protect** pension systems
  - against demographic, economic and financial uncertainties

- AAMs can help **uphold** financial sustainability
Why use AAMs?

- Compared to discretionary reforms, AAMs are
  - less erratic: reduce the risk of under- or overshooting the mark
  - more transparent
  - more equitable across generations

- AAMs reduce
  - political cost of maintaining or improving financial sustainability
  - need for subsequent reforms

- AAMs can only provide financial sustainability if they are politically sustainable
  - need for wide political agreement on their introduction and design that avoids harsh adjustments

- Policy-makers retain full control over pension system
AAMs exist in about two-thirds of OECD countries

- Multiple mechanisms: 11
  - 7 of which link the retirement age to life expectancy
- 14 No AAMs
- Only balancing mechanism: 4
- Only benefit adjustment: 2
- 7 Funded defined contribution
### AAMs adjusting benefits and/or retirement ages

<table>
<thead>
<tr>
<th>Type</th>
<th>Adjusts to life expectancy</th>
<th>Adjusts to size of the working population</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Funded defined contribution</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Annuities: benefits adjusted</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>• Lump sums: people manage own longevity risk</td>
<td>●</td>
<td></td>
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<tr>
<td><strong>Notional defined contribution</strong></td>
<td></td>
<td></td>
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<tr>
<td>• Italy, Latvia, Poland</td>
<td>●</td>
<td>●</td>
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<tr>
<td>• Norway, Sweden</td>
<td>●</td>
<td></td>
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<tr>
<td><strong>Benefit adjustments</strong></td>
<td></td>
<td></td>
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<tr>
<td>• Finland</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>• Estonia, Greece, Japan, Lithuania</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td><strong>Retirement age adjustments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Full: Denmark, Estonia, Greece, Italy</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>• 2/3: Finland, the Netherlands, Portugal</td>
<td>●</td>
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</tbody>
</table>
Automatic balancing mechanisms

• Adjustments to life expectancy and size of the working population insufficient to ensure financial balance ⇒ Need to be complemented by a balancing mechanism

• Balancing mechanisms aim to balance pension budget
  – Finland, Germany, the Netherlands, Sweden, the United States
  – Canada: backstop
    • Default adjustment if no political agreement on alternative way to restore balance
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