Improving the pension income prospects of EU Member States: Lessons from the Pension Reviews

KEY PENSION POLICY RECOMMENDATIONS FROM THE PENSION REVIEWS

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BETTER POLICIES FOR BETTER LIVES

OECD pension reviews in Europe

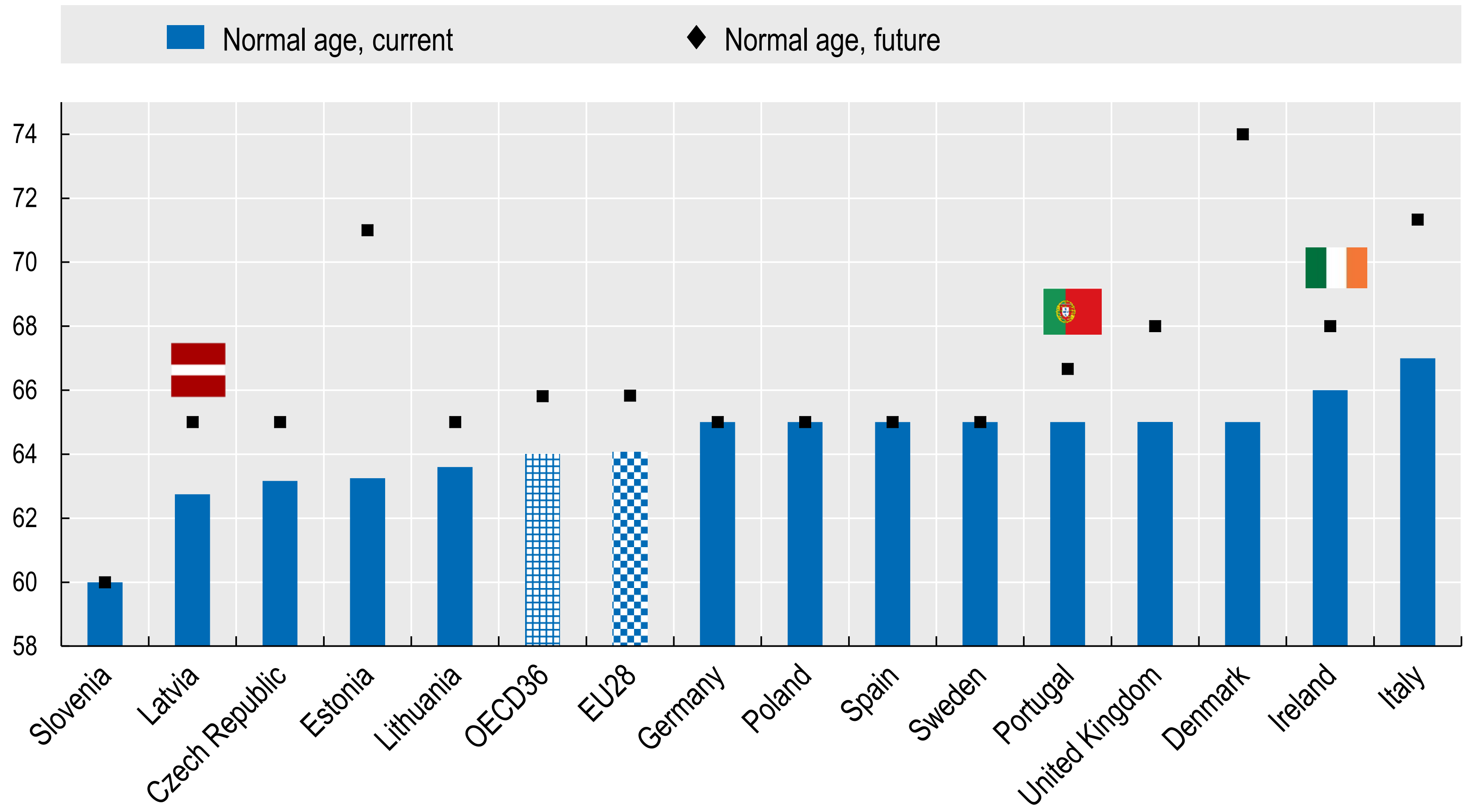
- Ireland (2014)
- Latvia (2018)
- Portugal (2019)

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



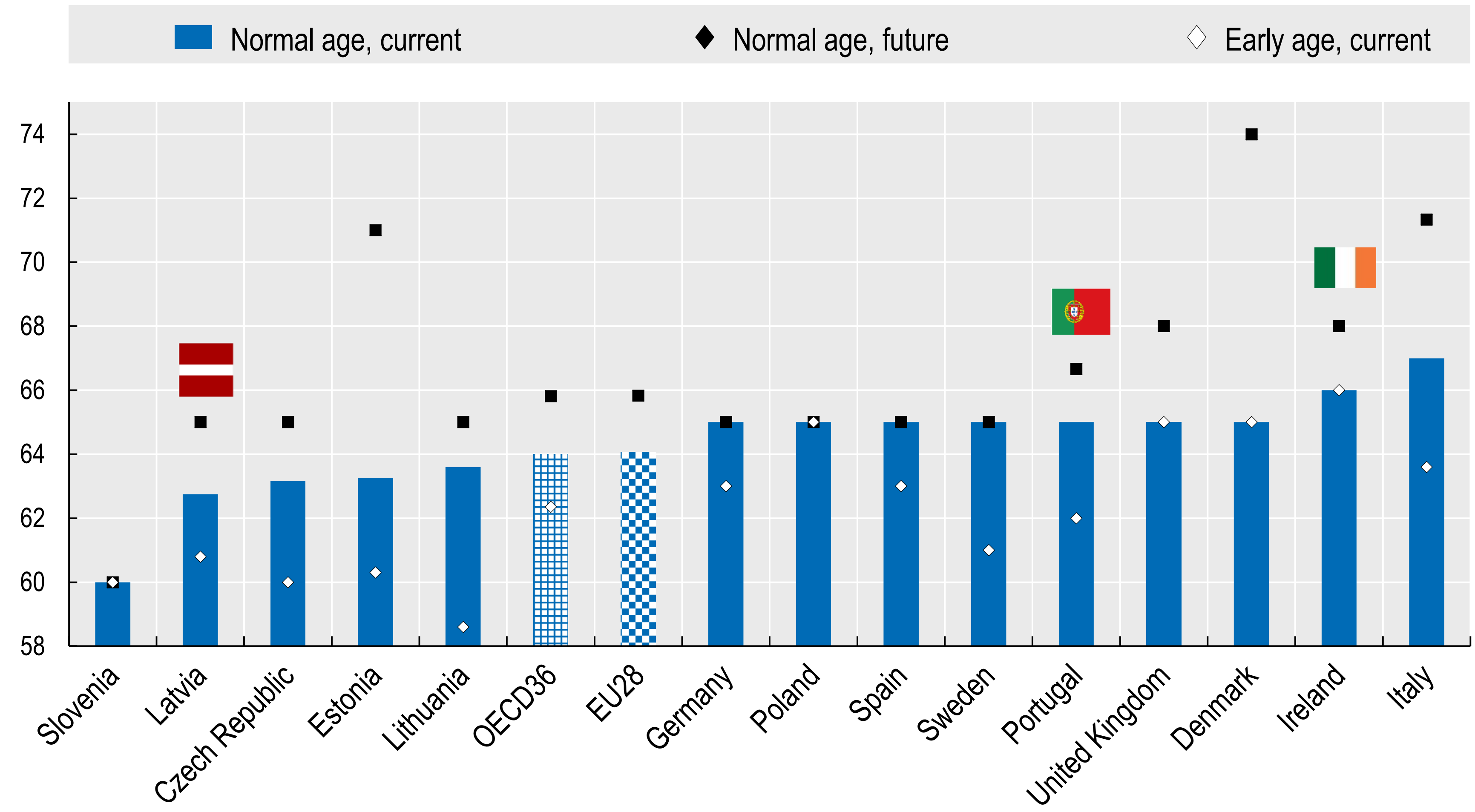
Source: OECD based on information provided by countries.

Links between retirement ages and gains in life expectancy

- 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

Fully integrated	Separate but similar benefits	Fully integrated with top-up	Entirely separate
Chile (1981)	Finland (1995)	Australia	Belgium
Czech Republic	Luxembourg (1999)	Austria (2004, 2009)	France
Estonia	Netherlands	Canada	Germany
Greece (2011)	Sweden	Denmark	Korea
Hungary		Iceland	
Israel (2002)		Ireland (1995)	
Italy (1995/2008)		Mexico (2007)	
Japan (2015)		Norway	
Latvia		United Kingdom	
New Zealand (2007)		United States (1984)	
Poland			
Portugal (2006)			
Slovak Republic			
Slovenia			
Spain (2011)			
Switzerland			
Turkey (2006)			

Source: OECD (2016) – Pension Outlook, Table 6.1.

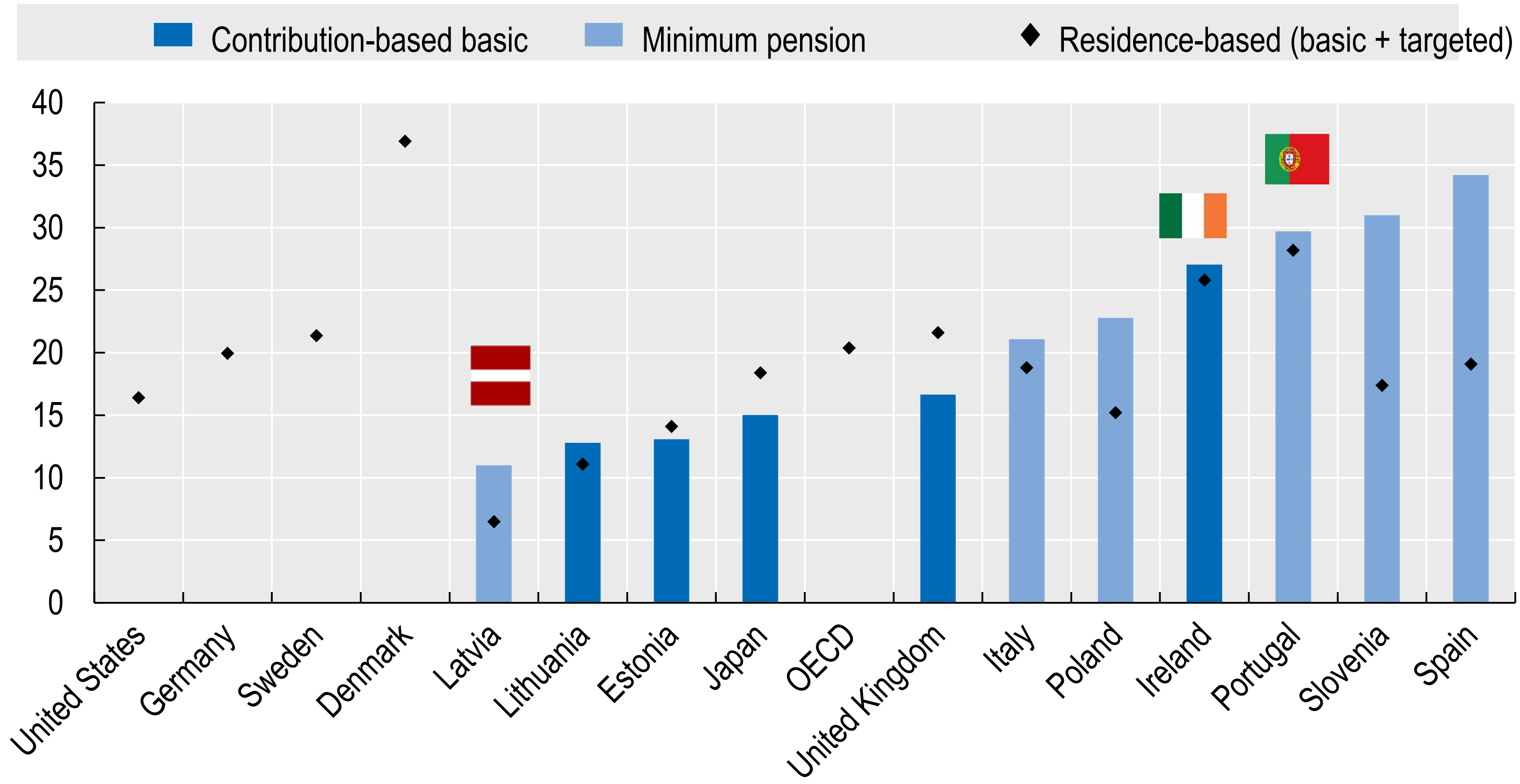
Special retirement schemes

- 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.

Contribution-based basic or minimum pensions in earnings-related schemes

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

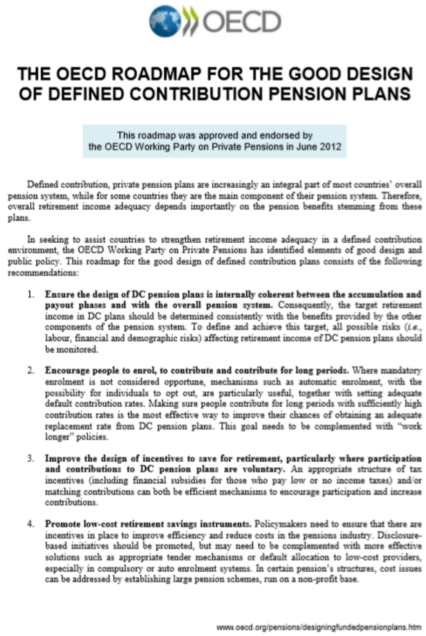
- provide incentives to contribute such that contributions generate entitlements (even with first-tier pensions)

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

Assessment of the funded pension systems based on 2 OECD instruments



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THE OECD ROADMAP FOR THE GOOD DESIGN OF DEFINED CONTRIBUTION PENSION PLANS

This roadmap was approved and endorsed by the OECD Working Party on Private Pensions in June 2012

Defined contribution, private pension plans are increasingly an integral part of most countries' overall pension system, while for some countries they are the main component of their pension system. Therefore, overall retirement income adequacy depends importantly on the pension benefits stemming from these plans.

In seeking to assist countries to strengthen retirement income adequacy in a defined contribution environment, the OECD Working Party on Private Pensions has identified elements of good design and public policy. This roadmap for the good design of defined contribution plans consists of the following recommendations:

1. **Ensure the design of DC pension plans is internally coherent between the accumulation and payout phases and with the overall pension system.** Consequently, the target retirement income in DC plans should be determined consistently with the benefits provided by the other components of the pension system. To define and achieve this target, all possible risks (*i.e.*, labour, financial and demographic risks) affecting retirement income of DC pension plans should be monitored.

2. **Encourage people to enrol, to contribute and contribute for long periods.** Where mandatory enrolment is not considered opportune, mechanisms such as automatic enrolment, with the possibility for individuals to opt out, are particularly useful, together with setting adequate default contribution rates. Making sure people contribute for long periods with sufficiently high contribution rates is the most effective way to improve their chances of obtaining an adequate replacement rate from DC pension plans. This goal needs to be complemented with "work longer" policies.

3. **Improve the design of incentives to save for retirement, particularly where participation and contributions to DC pension plans are voluntary.** An appropriate structure of tax incentives (including financial subsidies for those who pay low or no income taxes) and/or matching contributions can both be efficient mechanisms to encourage participation and increase contributions.

4. **Promote low-cost retirement savings instruments.** Policymakers need to ensure that there are incentives in place to improve efficiency and reduce costs in the pensions industry. Disclosure-based initiatives should be promoted, but may need to be complemented with more effective solutions such as appropriate tender mechanisms or default allocation to low-cost providers, especially in compulsory or auto enrolment systems. In certain pension's structures, cost issues can be addressed by establishing large pension schemes, run on a non-profit base.

www.oecd.org/pensions/designingfundedpensionplans.htm

https://www.oecd.org/daf/fin/private-pensions/Core-Principles-Private-Pension-Regulation.pdf

https://www.oecd.org/daf/fin/private-pensions/50582753.pdf

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/

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ADDITIONAL SLIDES

Portugal: Only the highest minimum pension exceeds the CSI

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

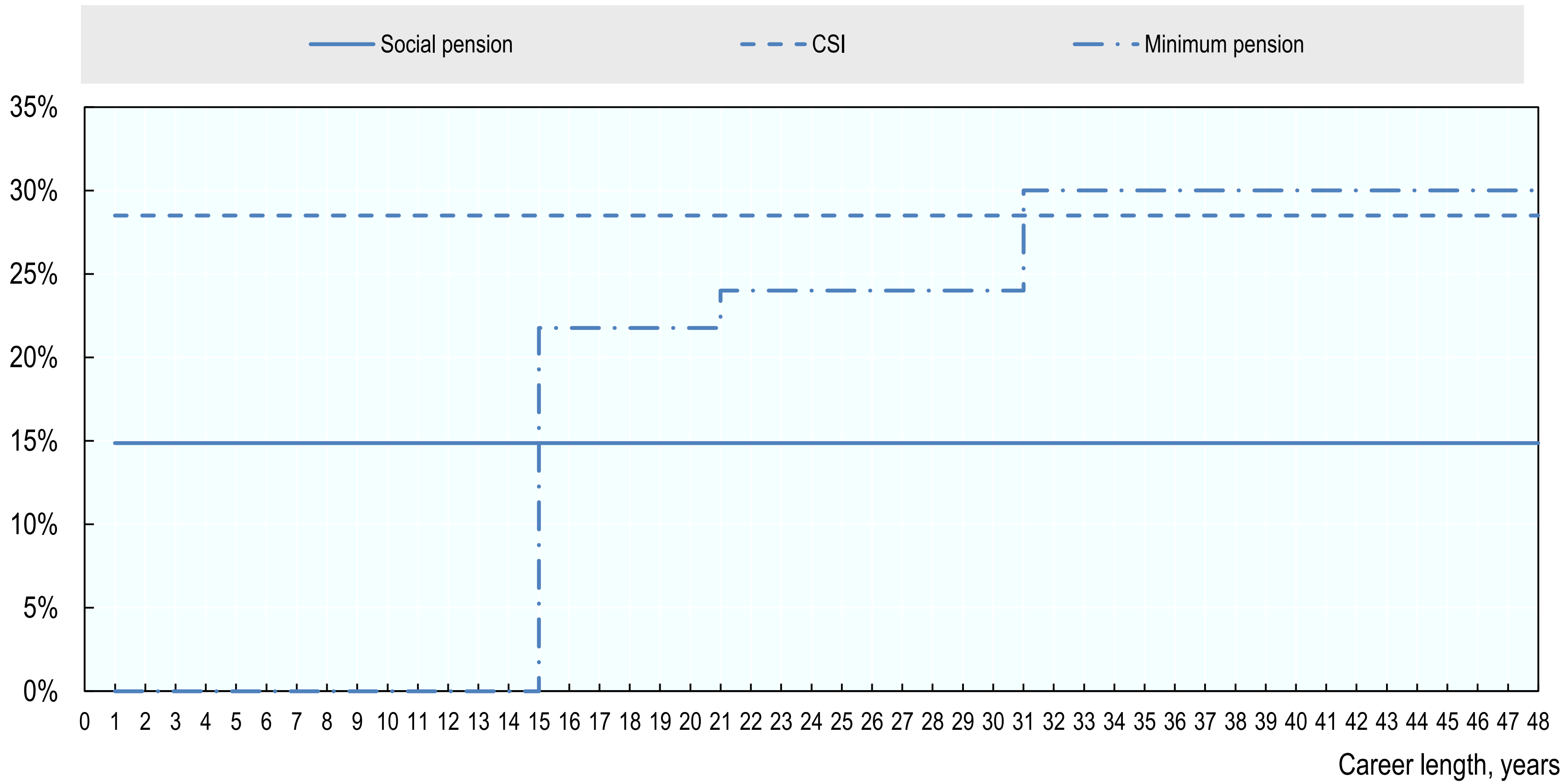
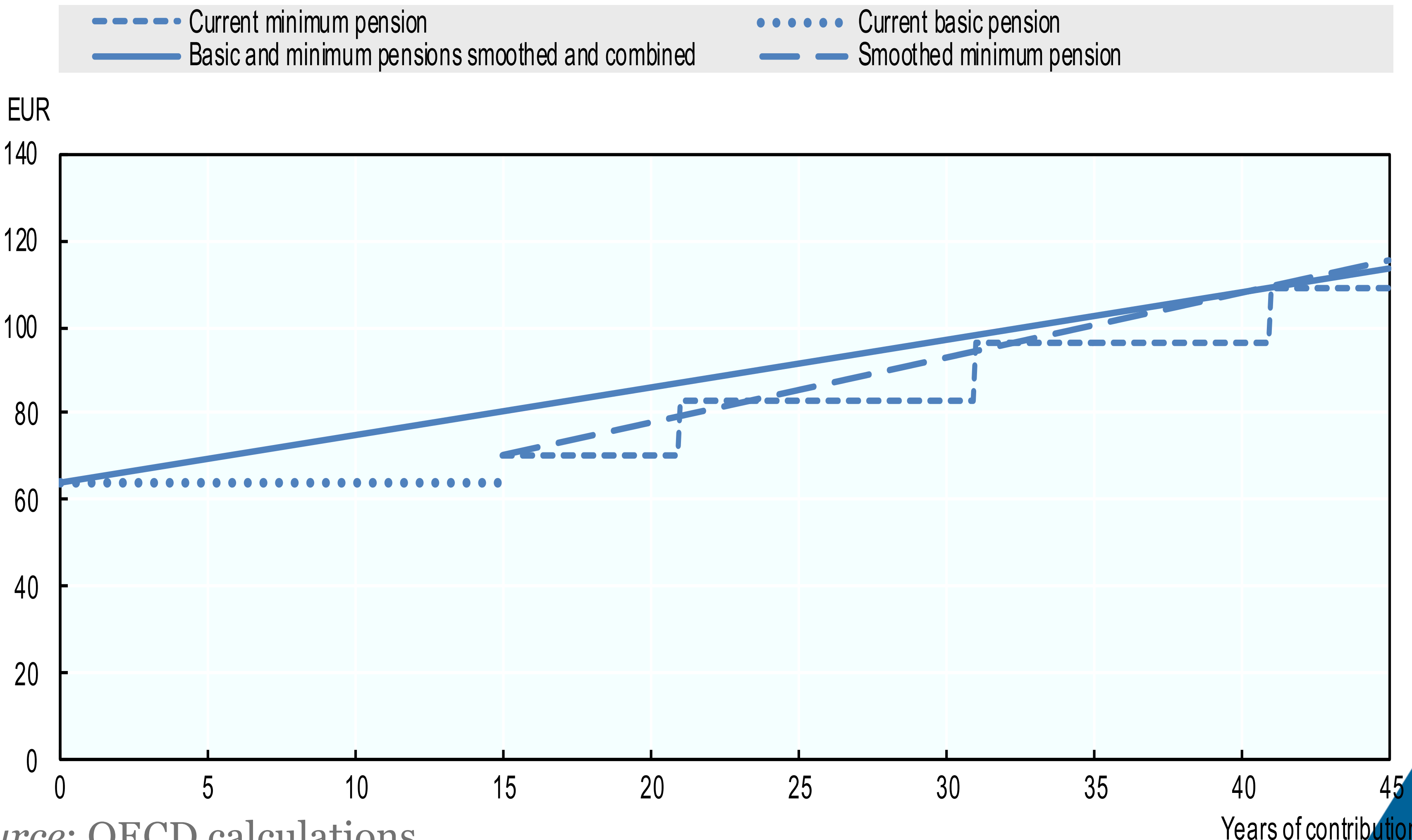


Figure 2.20

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



Source: OECD calculations