



Pensions Report

Pension Policy

Sustainable Governance
Indicators 2017

Indicator

Pension Policy

Question

To what extent does pension policy realize goals of poverty prevention, intergenerational equity and fiscal sustainability?

41 OECD and EU countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels.

- 10-9 = Pension policy achieves the objectives fully.
- 8-6 = Pension policy achieves the objectives largely.
- 5-3 = Pension policy achieves the objectives partly.
- 2-1 = Pension policy does not achieve the objectives at all.

Switzerland

Score 10

The Swiss pension system is based on three pillars, each with its own logic of financing and redistribution. The underlying concept is that pension income should not fall below the subsistence level, and should provide 60% of average pre-retirement income. The first pillar guarantees a basic income. The minimum benefit level for a couple as of 2015 was CHF 28,200 (about €25,600) per year, while the maximum benefit was CHF 42,300 (about €38,500). Employers and employees finance this through contributions. It is a pay-as-you-go system, and is highly redistributive, since the maximum benefit level for couples (provided to high-income earners) is just 1.5 times that of the minimum benefit level, while contributions are proportional to income.

The second pillar is a funded system financed through contributions by employers and employees. Contributions and benefits are proportional to income. Employees whose income from the first pillar already covers about 60% of their wage income are not entitled to this system. Many pension programs, particularly in the public sector, are very generous, and provide pension incomes (first and second pillars combined) that exceed 60% of previous income.

The third pillar takes the form of personal tax-deductible savings of up to CHF 6,768 (about €6,200) per year. This system benefits high-income groups, since they can afford to put aside these sums and have the highest returns on these savings given the tax advantages.

Demographic changes will present major challenges to the first pillar over time. Provided there is no major change in GDP or productivity growth rates, the ability to sustain this pillar will be strained unless the average age of retirement (currently 65

for men and 64 for women) is increased or benefit levels fall. However, given the solid basis of the pension system overall, Switzerland faces less pressure than many other European countries to adapt to demographic change. Switzerland has tried to modernize its system at a relatively early stage. After several previous reform failures, the Social Democratic minister for social policy embarked in 2013 on a strategy for achieving compromise that has previously proved successful in other areas. This consists of compensating those who are going to lose as a result of policy changes with gains in other areas. This implies that the reform is necessarily a package of policies. At the time of writing, politicians are attempting to hammer out a compromise between the various political parties. It could include an increase in the retirement age of women to 65, a flexibilization of the general retirement age, a decrease of pension payments from the second pillar, and an improvement for low-income or part-time workers with regard to pension payments from the second pillar and a minor increase of pensions from the first pillar. These reforms are projected to be finalized by parliament in spring 2017. In all likelihood, the reform package will require approval from voters via a popular referendum. In this regard, some lessons can be learned from previous referenda on pensions (the last one took place in September 2016): there are no majorities for substantial retrenchment, in particular with regard to an increase in the age of retirement. Likewise, there are no majorities to increase the generosity of the system if this endangers its financial sustainability. Consequently, any successful reform must consist of various components which compensate losers in order to win a majority of voters.

With regard to poverty prevention, the pension system is highly efficient. Every citizen can claim additional payments if he or she is not entitled to the first pillar's minimum pension. The system as a whole has a high degree of intergenerational equity, as it rests on three different pillars, and only the first pillar is based on intergenerational payments.

Financial sustainability will be a potential problem over time, but remains stronger than in comparable countries such as Germany.

Denmark

Score 9

The pension policy in Denmark is well-diversified in accordance with the World Bank's three-pillar conceptual framework. Concerning the first pillar, Denmark has public pensions in the form of a universal base pension with means tested supplements. For the second pillar, labor market pensions are negotiated in the labor market but mandatory for the individual. The contribution rate has been increased over the years and is now 12% or more for most employees. As for the third pillar, it is comprised of both tax-subsidized pension arrangements (tied until retirement) offered by insurance companies, pension funds and banks as well as other forms of savings (for most households in the form of housing wealth).

The combination of the different pillars of the pension scheme creates a pension system that both protects against low income for the elderly (distributional objective) and ensures that most have a pension which is reasonable in relation to the income earned when the pensioner was active in the labor market (high replacement rates). The Danish pension scheme ranks first in the Melbourne Mercer Global Pension Index. The division of work between the public and private pension systems, however, has its problems. The means testing of public pension supplements implies that the net gain from additional pension savings or later retirements can be rather low (high effective marginal tax rates) for a broad segment of income earners. Moreover, the system is very complicated. In addition, there is the problem of citizens outside the mandatory labor market pensions (the “residual” pension group).

Statutory ages in the pension system (in public pensions for early retirement and age limits for payment of funds from pension schemes) are established by legislation. Recent reforms – the 2006 welfare reform and the 2011 retirement reform – will increase these ages considerably to cope with the aging population. The first elements of these reforms include a discrete increase in the early retirement age from 60 to 62 years over the period 2014-2017, shortening the early retirement period from five to three years over the years 2018-2019 and 2022-2023 (implying an early retirement age of 64 in 2023), and increasing the pension age from 65 to 67 years over the period 2019-2022. The second element is an indexation of the early retirement age and pension age to the development in life expectancy at the age of 60, in order to limit the expected pension period to 14.5 years (17.5 including early retirement) over the long term (currently between 18.5 and 23.5 years).

Citation:

Pensionskommissionen, 2015, The Danish Pension System – Internationally Praised but not without Problems (Det danske pensionssystem – internationalt anerkendt, men ikke problemfrit), Copenhagen.

Finland

Score 9

The Finnish pension system has two pillars: a residence-based, national pension, and a mandatory employment-based, earnings-related pension. Voluntary occupational schemes and private pension savings are not well developed; still, about one-fifth of the citizens report saving for old-age either in specific private pension schemes, common saving accounts or other kinds of assets. Successfully managed by the social partners as well as by the government, the overall pension policy has been able to provide adequate pension provision, and Finland has by and large been able to avoid the classic problem of poverty in old age. However, among elderly women, old-age poverty rates are somewhat higher than for men due to short working careers in often low-paid jobs, and low earnings-related pensions as a consequence. The ongoing aging of Finland’s population creates problems in terms of labor-force maintenance and fiscal sustainability, and the economic crisis in Europe has added considerably to these problems. Present strategies aim at encouraging later retirement in order to ensure that the state pension provides sufficient funding.

A major reform of the pension system in 2005 aimed at increasing pension-policy flexibility and creating more incentives for workers to stay in employment later in life. In 2011, a national guarantee pension was introduced. While these reforms were successful, a further major reform will come into effect in 2017. In September 2014, the social partners agreed on a further gradual raise of the lowest retirement age to 65, with adjustments for future cohorts based on changes in life expectancy, flexible part-time retirement and amendments to the accumulation rate. Exceptions are valid for those pursuing long careers of strenuous work, who will be able to retire at 63. The reform ensures the financial sustainability of the pension systems and will provide incentives for longer working careers. At present, Finland ranks in the middle in the EU in terms of average exit age from the labor force, but the effective retirement age is expected to reach its target level of 62.4 years in 2025 as a result of the 2017 reforms.

Citation:

Nicholas Barr, “The Pension System in Finland: Adequacy, Sustainability and Systems Design”, Finnish Centre for Pensions, 2013.

“Earnings-related Pension System in Graphs and Figures”, Finnish Centre for Pensions, 2014.

“Vuoden 2017 työeläkeuudistus.”
http://www.etk.fi/fi/service/e1%C3%A44keuudistus_2017/1628/e1%C3%A44keuudistus_2017. Finnish Centre for Pensions 2014.

“The Finnish Pension System”, http://www.infopankki.fi/en/living-in-Finland/work_and_enterprise/pension
 Susan Kuivalainen, Juha Rantala, Kati Ahonen, Kati Kuitto and Liisa-Maria Palomäki (eds.) 2017. Eläkkeet ja eläkeläisten toimeentulo 1995–2015 [Pensions and livelihood of retirees 1995-2015]. Helsinki: Finnish Centre for Pensions.

Norway

Score 9

Norway’s pension system is well-positioned to sustain the aging of the population expected in coming decades. With birth rates that have been persistently high by European standards, the demographic burden is less than in most comparable countries. Future pensions are essentially guaranteed by the massive savings accumulated in the petroleum fund, now renamed the Government Pension Fund – Global (Statens pensjonsfond – Utland).

A pension reform passed in 2009 came into effect in 2011. This has further strengthened the sustainability of the system. The crux of the reform was to introduce more choice and flexibility into the system in terms of retirement, while adding new mechanisms of gradual demographic adjustment. One major goal, in addition to improving financial sustainability, was to redesign contribution and benefit rules so as to encourage employment and discourage early retirement. This reform was carefully prepared, starting with the appointment of a cross-party pension commission in 2001; this body reported its findings in 2004, leading to a five-year process of political implementation that culminated in the 2009 reform, which drew widespread approval. During the process, the proposed reform was criticized as being “too little, too late,” but that criticism has largely subsided today. The

government recently created incentives for older citizens to postpone their retirement age from 67 to 70 years.

Pensions are by international comparison generous and equitable, and are set to remain so. The universal basic minimum pension is large enough to essentially eliminate the risk of poverty in old age. The recent reform has strengthened the link between contributions and benefits for earnings-related pensions, while improving the system's intergenerational equity. The population has broad confidence in the sustainability of state-funded pensions, and there has been no significant push for private sector pension insurance. However, there are concerns that funding the scheme will prove increasingly costly in the long run.

Australia

Score 8

Australia has two explicit pension systems, the public age pension and private employment-related pensions. The age pension is funded from general taxation revenue, and because it is means-tested, it effectively acts as a social safety net. However, the means-testing is relatively rigorous, and includes an evaluation of assets including one's house. Pensioners also enjoy additional benefits such as access to universal health care, concessions on pharmaceutical and other government services, and tax concessions.

Currently, the age pension is still the dominant source of income for retirees. Nearly 80% of pensioners receive a means-tested pension from the government. About 41% of pensioners receive a reduced government pension due to the quantity of their own assets. The result is that Australian pensioners' income is the second-lowest in the OECD as compared to the income of the working population. One-quarter of Australian retirees live in relative poverty.

However, over time the balance will shift to the private pension system, which was only introduced on a wide scale in 1992, and reached a minimum contribution rate of 9% of earnings only in 2002. The minimum contribution rate increased to 9.25% on 1 July 2013 and to 9.5% on 1 July 2014. It was scheduled to increase by a further 0.5% per year until it reached 12% on 1 July 2019, but in 2014 the Abbott government deferred further increases until 1 July 2021.

Population aging has increased anticipated pressures on the pension system. In response, the government indicated in its 2009 – 2010 budget that it would progressively increase the age of eligibility for the age pension from 65 to 67 years by July 2023. In its 2014 budget, the Abbott government announced plans to further increase the age of eligibility to 70 years by 2035 and to index the pension to consumer price inflation rather than male average weekly earnings beginning 1 July 2017. However, the government was unable to pass the required legislation in the senate.

In terms of intergenerational inequity, the gradual nature of the shift since 1992 from a pay-as-you-go public pension toward a private pension system supplemented by a public pension has meant that relatively little inequity has resulted between generations. As reliance on private pensions grows over time, intergenerational equity will continue to improve.

Lastly, concerning the fiscal sustainability of the pension system, while reliance on the age pension will continue to be high for many years into the future, in broad terms the pension system is relatively sustainable, with private pensions increasingly taking on more of the financial burden. Concerns have been raised, however, about the sustainability and equity of maintaining the tax-free status of private retirement income. The current absence of significant constraints on how private pension assets are used is also of concern, with some evidence that retirees run down private pension holdings too quickly and become reliant on the age pension.

Citation:

OECD, *Pensions at a glance*. Paris, OECD 2013, p. 68-70.

OECD, *Pensions at a glance*, Paris, OECD 2015, p. 207-211, http://www.keepeek.com/Digital-Asset-Management/oecd/social-issues-migration-health/pensions-at-a-glance-2015_pension_glance-2015-en#page209

Canada

Score 8

The basic components of Canada's public pension retirement-income system are the demogrant Old Age Security (OAS), the income-tested Guaranteed Income Supplement (GIS) and the contribution-fed, earnings-based Canada/Quebec Pension Plan (CPP/QPP). Other tiers of the pension system include employer pension plans (both defined-benefit and defined-contribution plans) and government incentive programs for individual saving such as Registered Retirement Saving Plan (RRSPs) and Tax-Free Saving Accounts (TFSA).

The Canadian pension system seems to be relatively effective as a tool to reduce poverty among the elderly. For individuals over 70 years of age in the lowest quintile of the earnings distribution, the proportion of working income "replaced" by retirement income is nearly 100%. Since 1995, elderly incomes at the bottom have been growing, but not as quickly as the incomes of the rest of the population.

Using Statistics Canada's Low-Income Cutoff (LICO) measure of poverty, an absolute definition, the poverty rate for persons 65 and over was 3.9% in 2014, the lowest rate ever recorded in the history of the series and down from 29.6% in 1976, the first year for which data are available.

In contrast, Statistics Canada's Low-Income Measure (LIM), a relative poverty definition, while falling from 30.6% in 1976 to 3.9% in 1995, has increased since then, reaching 12.9% in 2008 and 12.5% in 2014.

Intergenerational equity is not a major concern for the Canadian pension system as there is a close relationship between contributions and benefits on an individual basis. The combination of the OAS/GIS and the CPP/QPP provides a relatively high base income for low-income earners. At the same time, the CPP/QPP is currently designed to replace only 25% of the average wage up to \$54,900. This means that middle- and upper-income workers with no employer pension plan or private savings may encounter problems in replacing a sufficient proportion of their pre-retirement earnings. In the private sector, this issue affects three in four workers. In June 2016, the Liberal government reached an agreement with the provincial governments to expand CPP to replace 33% of the average wage up to \$82,700 by 2025. The expansion is set to benefit middle-to-high earners, who will eventually see a substantial increase in their CPP payments, paid for by higher CPP premiums when they are working.

The CPP is currently considered to be actuarially sound and fiscally sustainable at its current rate and benefit structure, due to large increases in contribution rates implemented in the late 1990s. The fiscal sustainability of the OAS/GIS is tied to the sustainability of the federal government's overall fiscal balance, and is fostered by the indexation of benefits to the CPI rather than to nominal wage increases.

In 2016, the Liberal government reversed the decision of the previous Conservative government to raise the age for receipt of OAS and GIS to 67 from 65 by 2023. The previous government had argued that because of the large increase in life expectancy and growing share of the population 65 and over, the financial sustainability of the system would be enhanced by the measure. The Liberal government responded to equity concerns and believed that sustainability issues related to the decision were manageable.

Citation:

Milligan, K. and T. Schirle, Simulated Replacements Rates for CPP Reform Options, School of Public Policy Research Paper, Volume 7(7), University of Calgary, 2014.

Czech Republic

Score 8

The Czech pension system has developed through a gradual and partial reform of the pay-as-you-go system that existed before 1989. Due to previous reforms, the sustainability gap associated with the ageing population is relatively limited. Pensioner poverty remains relatively low, partly reflecting the levels of pension afforded by the old system. The pension reform that came into force in January 2013 under the Nečas government aimed at diversifying funding within a two-pillar scheme. The second pillar included a voluntary private element which could channel part of the compulsory contributions paid to the pension system to newly established private companies. However, interest in participating in the new scheme was low and - following criticism from social partners and a commitment by the Czech Social Democratic Party (ČSSD) - it was eventually abolished in 2016. In September 2016,

the Sobotka government adopted two measures that have undermined the credibility of the previous reforms and, if they become relevant, will undermine the sustainability of the pension system. First, it approved a cap on the retirement age at 65 from around 2030, cancelling the previous approach of continuously increasing the retirement age with no upper limit. Second, it allows the government to increase pensions on an ad hoc basis by a maximum of 2.7% annually, if the system of pension indexation foresees a lower increase.

Netherlands

Score 8

The pension age has increased from 61 years in 2007 to 64 years and 9 months in 2016. In that year, 73,000 people stopped working in order to draw pensions. The Dutch pension system is based on three pillars. The first pillar is the basic, state-run old-age pension (AOW) for people 65 years and older. Everyone who pays Dutch wage tax and/or income tax and who is not yet 65 pays into the AOW system. The system may be considered a “pay-as-you-go” system. In comparison to other European countries, this pillar makes up only a limited part of the total old-age pension system in the Netherlands. Because the current number of pensioners will double over the next few decades, the system is subject to considerable and increasing pressure. The second pillar consists of the occupational pension schemes which serve to supplement the AOW scheme. The employer makes a pension commitment and the pension scheme covers all employees of the company or industry/branch. The third pillar comprises supplementary personal pension schemes that anyone can buy from insurance companies.

Although the system is considered the best after those in Denmark and Australia, like most European systems, it is vulnerable to a rise in the aging population and disturbances in the international financial market. As of 2013, the government will gradually increase the age AOW pension eligibility to 66 by 2018 and 67 by 2021. For supplementary pension schemes, the retirement age rose to 67 in 2014. As a result of the financial crisis and very low interest rates, pension fund assets have been shrinking. At the same time, however, the liquidity ratio of pension funds must be maintained at a minimum of 105%. The timeframe for recovery after a decrease of the minimum liquidity ratio was increased by the Dutch national bank from three to a maximum of five years. In spite of this, quite a few pension-insurance companies had to lower benefits from 0.5% to as much as 7% per year. Interim framework bills for strengthening the governance of pension funds (conditions for indexation of pension benefits, pensioners in the government board, oversight commissions, comparative monitoring) were adopted by parliament in the summer of 2014. A more definitive reform of the Dutch pension system will be proposed following a website-facilitated national dialogue in 2014 on pensions in four deliberative meetings between the government and all stakeholders. Debate focused on the re-distributive impacts (on the poor and rich, young and older, high and low education) and on the creation of more flexible pension schemes that give

individuals more choice opportunities versus retaining collectively managed pension schemes. At the time of writing, the government is still deliberating (Perspectiefnota Toekomst Pensioenstelsel, Kamerbrief 8 July 2016). Meanwhile, the government has decreased pension premiums (increasing disposable income for the working population), and has made pensions over €100,000 fully dependent on voluntary agreements between employers and employees.

Citation:

Ministerie van Sociale Zaken en Werkgelegenheid (2014), Toekomst Pensioenstelsel (www.Rijksoverheid.nl/onderwerpen/pensioen/toekomst-pensioenen)

CBS (2016), Pensioenleeftijd voor negende jaar omhoog (www.cbs.nl, consulted 2 November 2016)

Rijksoverheid, Kabinet presenteert koers naar beter pensioenstelsel (rijksoverheid.nl, consulted 2 November 2016))

Bovenberg, L., Pensioeninnovatie in Nederland en de wereld: Nederland kampioen in pensioen?, in TPE Digitaal, 8, 4, 163-185

Den Butter, F., Pensioenadvies SER blind voor ongelijkheid, MeJustice, 18 February 2015

Sweden

Score 8

Sweden's pension system succeeds in preventing poverty among senior citizens, but those living only on the very basic pension have problems making ends meet. In fact, Sweden has twice as many pensioners living at or below the poverty line as in Denmark and three times as many as in Norway, two comparable Nordic countries. Pensioners living on a baseline pension with limited savings and no private pension insurance are, however, eligible for additional support from social welfare programs.

The stability of the pensions system was a problem for a long time but appears to have improved over the last several years, due to major reforms of the whole pension system in Sweden. One result of the pension reforms is a new public-private mix, strengthening capital funded occupational and private pension schemes. The distributional principles appear to be sound but the volatility of the stock market during the most recent past has meant a major source of uncertainty about how stable and sustainable the system will be in the future.

Lastly, in regard to equity in the system, the results are mixed. Ideally, a pension system ensures equity among pensioners, the active work force and the adolescent generation. If equity refers to basically similar living conditions, Sweden's system fails in this respect. If equity however refers to a provision of baseline material goods related to needs, the performance of the system looks better. Some studies state that the new Swedish pension system does not undermine intergenerational equity, as long as the entry into the labor market for the adolescent generation is not blocked. Therefore, high and persistent youth unemployment rates threaten this aspect of equity in the long run.

In Sweden you can retire as early as 61 years of age, but that will give you a rather low monthly pension. You may continue to work up until 67 years of age; an agreement between the Social Democrats and the conservatives to extend that rule to 69 years was reached in September 2016.

United Kingdom

Score 8

The United Kingdom has a three-pillar pension system in which the second (employer-based) is the mainstay. Private pension funds were hardest hit by the financial crisis as investment yields fell, and some needed capital injections from employers. However, this has not had a significant effect on the incomes of those already retired. New entrants into private pension schemes are being offered less attractive terms than their predecessors. The Pensions Act 2010 will increase the state pension age to 66, from 65 for men and 60 for women, by 2020. Certain reforms have shifted pressure from pension funds to individual pensioners. These reforms will change the pensioners' living conditions substantially in the years to come. However, compared with many other countries, the UK public pension system is fiscally sustainable and guarantees the maintenance of a minimum income for pensioners through a "triple lock" of raising the basic state pension by the highest rate of inflation, average wages or 2% per annum. The Cameron government had pledged to maintain this policy and the May government seems intent to maintain this course, despite some criticism about the growing burden on the "millennial" generation.

The United Kingdom used to have a comparatively high degree of poverty among the elderly, but this has improved as pension provision has expanded, an increase in the proportion of pensioners owning mortgage-free properties and through specific additional payments, such as winter heating. The overall figures disguise some inequalities among groups of pensioners. For example, lifelong housewives fare much worse than those who have the benefit of adding occupational or private pensions to their income from the state pension system. Most pensioners are, however, on reasonably comfortable incomes. If anything, recent debate has been about cutting some of the fringe benefits of better-off pensioners, such as free bus travel, because of fears about an undue burden on younger generations.

Belgium

Score 7

Pension policy has long been a touchy issue in Belgium. Reforms were continuously delayed until the financial crisis hit the country and forced the previous government to initiate a number of reforms to restrict early retirement. Despite considerable political oppositions, the current government has steadfastly pursued an effort, with a firm plan – passed by parliament in July 2015 – to raise the legal pension age

gradually from 65 to 66 years (by 2025) and ultimately to 67 years (by 2030), with the aim of making the system more sustainable. The outcome in terms of higher labor participation rates for those aged 55 to 65 has fallen short of expectations, but this is partly the result of the adverse economic environment faced across Europe.

The fact that such a policy was approved after so many years of stalemate can be regarded as a significant step forward. In June 2015, the government also set up an advisory commission for pension reforms (comité national des pensions/nationaal pensioencomité) which is composed of economic experts and the main stakeholders, including trade unions. In 2016, they reported that the 2015 reforms were insufficient and endangered “solidarity” as a result of higher risks of poverty in the future. No additional measures have been taken by the government thus far.

Citation:

<http://www.oecd.org/belgium/Better-Life-Initiative-country-note-Belgium.pdf>

See point (12) in the European Council’s recommendations: <http://data.consilium.europa.eu/doc/document/ST-9190-2016-INIT/en/pdf>

Pension experts’ negative assessment: <https://www.rtbf.be/info/article/detail?id=9447107>

Estonia

Score 7

Estonia’s three-pillar pension system has been in force since 2002. In terms of pension payments, the situation is still transitional, as only 6% of current pensioners participated in the mandatory funded pillar. Thus, current pension benefits depend on the social-insurance contributions made by current employees to the first pillar. Voluntary privately funded pensions (third pillar) have remained marginal in terms of coverage and assets.

Old-age pension benefits are indexed, which guarantees slight annual increases based on social tax revenues and the cost of living. In 2016, this indexation resulted in an average pension-payment increase of 5.7%. Due to the low absolute level of benefits (€96 per month), elderly people still struggle to make ends meet. Because wages and salaries grow faster than pensions, the poverty rate among the elderly has increased in 2015.

Despite modest pension expenditures (roughly 5.5% of GDP), the sustainability of Estonia’s pension system is at risk. State pension-insurance expenditure persistently exceed social tax revenues, and according to the state budget strategy, the annual deficit will reach €474 million in 2017. A recent OECD report (2016) revealed that Estonian pension funds performed worst among the OECD countries during a 10-year period by showing negative annual productivity as 2.2%. Furthermore, the present pension system does not encourage people to work longer – 12% of old-age pensioners have retired before the nominal age.

In order to face these financial challenges, government has initiated several reform plans such as making retirement age flexible and revising the regulations for pension funds. The latter is aimed at increasing competition between pension funds and bringing administrative costs down.

Iceland

Score 7

Iceland's pension policy is based on a tax-financed, means-tested social security program supported by tax incentives to encourage participation in occupational pension funds and voluntary savings schemes. The pension funds, which are based on employee contributions of 4% of total wages and employer contributions of 8%, are designed to provide a pension equivalent to 56% of an individual's average working-life wage. In addition, employees can opt to pay a further 4%, with a further employer contribution of 2%, into a voluntary savings program.

In the past, Iceland's pension policy appeared both conducive to poverty prevention and fiscally sustainable. However, Iceland's pension funds experienced heavy losses as their investments in, among other equities, Iceland's banks depreciated substantially following the collapse of the banking sector in 2008. These losses, which totaled about a third of GDP, caused most pension funds to reduce their payments to members and further reduced the living standards of pension recipients. That said, the pension funds have recovered since 2008 and have an overall assets-to-GDP ratio that is among the highest in the OECD group.

Two main issues confront the pension system. First, the Pension Fund of State Employees, the largest pension fund, has a huge funding gap that will have to be financed through future tax revenue. Second, given that pension funds have previously been used to fund additional social programs, as if supporting the government is more important than safeguarding the interests of retirees, there is a persistent danger that the government will seek to use the funds to support its aims in a time of need.

Citation:

Ísleifsson, Ólafur (2012), "Vulnerability of pension fund balances," *Stjórnmal og stjórnsýsla*, Vol. 8, No 2., pp. 543-564. <http://www.stjornmalogstjornsysla.is/wp-content/uploads/2012/12/a.2012.8.2.17.pdf>

Israel

Score 7

Over the past two decades, Israel initiated several reforms of its pension policy, profoundly changing the system with respect to employer-based pensions and national insurance. The reforms introduced a new defined-benefit (DC) pension plan, with contributions invested in the market instead of government bonds. In so doing, it transformed an underfunded system driven by collective bargaining into a system

of mainly individually defined-contribution accounts with varied levels of collective risk sharing. In the last two years, Israel also increased the legal maximum for insurance contributions (including that for pension insurance), with the aim of improving fiscal stability and the system's overall sustainability.

One of its main consequences was shifting more responsibility to individuals. This risk was partly resolved by an agreement that was struck between the "New Histadrut" trade union, the Coordination Office of the Economic Organizations and the government. Once approved by the government in 2008, it insured a steady pension contribution to every salaried employee with two-thirds of the fund financed by his or her employer. In 2016, the contribution was raised to a minimum of 18.5% of the monthly salary and is expected to yield high turnovers in the future. Thus, it is meant to secure the future of Israel's moderately aging population. However, it also reduced available income for poor households and does not fund supplementary income that is critical for the extremely poor.

At the end of 2008, the Israeli government implemented a reform that introduced a requirement for life-cycle strategies in pension savings products. The reform initiated the establishment of different investment tracks with age-based investment profiles, serving as default options for savers who failed to make an investment choice by themselves. Since the new system is regulated rather than operated by the state, it is subjected to the rules of the free-market; even though legally every worker is entitled to a pension, private pensions have discretion over client selection.

In 2016, a new reform to the pension system was launched by the finance minister, Moshe Kahlon. The reform is expected to help the weakest workers by lowering the pension fees. In addition, two "default" pension funds have committed to charging lower management fees, resulting in an expected increase of monthly pension payments after retirement of 18%. Minister Kahlon also approved recommendations from his team to explore pension plans for the self-employed, who are currently not included in the mandatory pension scheme.

Citation:

Swirsky, S., E. Konor-Atias and E. Rapaport, "Social status report 2014", January 2015. (Hebrew)

<http://adva.org/wp-content/uploads/2015/02/social-2014-11.pdf>

Sasson, Assa and Zarhia, Zvi "starting on July 1st: Thousands more added to the pension" TheMarker, 23.2.2016

<http://www.themarket.com/markets/1.2860665>

JPOST, "Pension Reform", The Jerusalem Post, 8.2.2016, <http://www.jpost.com/Opinion/Pension-reform-463059>

"Kahlon unveils pension plan for self-employed Israel", Globes, 21.4.2016,

<http://www.globes.co.il/en/article-kahlon-unveils-pension-plan-for-self-employed-israelis-1001119587>

Lithuania

Score 7

Lithuania's pension system does not adequately protect recipients against old-age poverty. The share of the population over 65 years of age who are poor or suffer from social exclusion is well above the EU average; 31.7% of all people over 65

were at risk of poverty in 2013. During the financial crisis, the Lithuanian authorities were forced to cut social expenditures (including pensions), thus increasing the risk of poverty for some retired people. However, pensions were restored to their pre-crisis levels as of 1 January 2012, and policymakers later decided to compensate pensioners for pension cuts made during the crisis within a period of three years, which is expected to end in 2017.

In terms of intergenerational equity, Lithuania's three-pillar pension system, which mixes public and private pension programs, should ensure equity among pensioners, the active labor force and the adolescent generation. The 2004 pension reform added two privately funded pillars (a statutory pillar that receives a portion of mandatory state social-insurance contributions, and a voluntary pillar that is funded through private contributions) to the pay-as-you-go (PAYG) state insurance fund. However, this system as a whole suffered from instability and uncertainty; for instance, during the financial crisis, the government cut the share of social-security contributions going to the second-pillar private pension funds from 5.5% to 1.5%. Beginning in 2013, this contribution was increased to 2.5%. Also in 2013, another change to the private-savings system was introduced that reduced the contribution level to 2%. Furthermore, it allowed individuals either to stop their private contributions or to gradually top up 2% from the social-security contributions to the state insurance fund. Beginning in 2020, the share of contributions transferred from the state social-security fund to private funds is expected to be increased to 3.5%. However, the new coalition government led by the Lithuanian Farmers and Greens Union publicly proposed going beyond consolidating the state budget and social security fund to reform the both PAYG and private savings pillars.

In terms of fiscal stability, Lithuania's pension system faces unfavorable demographic change ahead. The old-age dependency ratio is projected to more than double by 2060 as the working-age population shrinks by a projected 35.8%. The parliament approved a gradual increase in the age of pension eligibility to 65 years in 2011, and in 2012 changed the pension-system's second pillar to provide for a possible gradual increase in the share of social contributions received by private funds (however, only 33% of those who participated in the previous pension scheme decided to join a new scheme). The unsustainable PAYG pillar continues to pose a risk to the sustainability of public finances overall. Therefore, a comprehensive reform of the state insurance fund, including pensions as well as other social expenditures, remains necessary in order to ensure its long-term sustainability while safeguarding its ability to protect people from poverty. In addition, the statutory retirement age should be better aligned with Lithuania's increasing life expectancies.

The European Commission has recommended adopting a comprehensive reform of the pension system. In 2016, the Lithuanian parliament approved a new "social model," which includes three major changes to the state social-insurance pillar. First, the basic part of the pension will be state financed, while the individual part of the pension will depend on social security contributions and be financed from the Social

Security Fund. Second, clear pension indexation rules will be introduced, linking pension rises to average increases in the wage fund. Third, the mandatory period a person has to work before qualifying for a pension will be gradually increased from 30 to 35 years by 2027. These changes were expected to take effect from 2018, though the new coalition government may reserve the reforms.

Citation:

COMMISSION STAFF WORKING DOCUMENT, country report Lithuania 2016: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_lithuania_en.pdf

Luxembourg

Score 7

Luxembourg's pension plans offer one of the highest replacement rates within the OECD and provide a high living standard for the elderly. The poverty in old age rate is lower than that for families and even more so if single parent families are considered. However, pensioners must contribute financially to the health care insurance system and are fully taxed.

Luxembourg has not enacted a rigorous austerity policy, but has slightly changed its pension regime and general employment rules. The OECD and the European Commission have urged Luxembourg to reform its pension system to ensure its long-term sustainability.

The financial sustainability of the pension system is premised on continued population growth. However, Luxembourg's current population growth is driven by immigration and its strong economic performance. Whether the economy will remain strong and the number of contributors continue to increase over the next decades is uncertain.

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Slovenia

Score 7

Slovenia has a traditional pay-as-you-go (PAYG) pension system with modest pensions, whose intergenerational fairness and financial sustainability in face of an aging society has suffered from a low employment rate for the elderly. A substantial

pension reform was adopted in December 2012. This instituted a gradual increase in the full-retirement age to 65 for men and woman, or 60 for workers with at least 40 years of pensionable service. In addition, it introduced incentives for people to continue working after qualifying for official retirement, and implemented changes to the pension formula that will slow future pension growth. The Cerar government has acknowledged the need for further changes but has been reluctant to come up with detailed reform proposals. In March 2016, the Ministry of Labor, Family, Social Affairs and Equal Opportunities presented a White Book on Pensions with a view to stimulating the debate and preparing the ground for a new reform consensus. The White Book does not contain a concrete reform proposal, but features a comprehensive analysis of the demographic projections and the long-term sustainability of the pension system as well as an outline of the different options.

Citation:

BinNews (2016): Govt backtracks on pension reform, 2nd year running. Pushed to 2018. February 18 (<http://www.biznews.com/sa-investing/2016/02/18/govt-backtracks-on-pension-reform-2nd-year-running-pushed-to-2018/>).

Macjen, B. (2016): Slovenia seeking consensus on pension reform through a White Book on pensions. European Social Policy Network, Flash Report 2016/47, Brussels.

Spain

Score 7

Spanish pension policy targets its objectives both through a public pension scheme and by offering favorable tax relief for those enrolled in private pension schemes. It largely achieves the goals of poverty prevention and fiscal sustainability, but only moderately meets standards of intergenerational equity. The pension system represents the largest single piece of public spending (more than €120,000 million). Despite the cuts suffered in salaries and subsidies as a result of the austerity measures and internal devaluation, Spanish pensioners have maintained their purchasing power during the crisis years. Moreover, whereas the poverty rate among Spain's general population is 22% (and nearly 30% among children), the rate among the elderly is only 12%. Thus, it seems that poverty prevention among older generations has succeeded and that the elderly are less economically vulnerable than active but unemployed workers or other young inactive people without social benefits. It cannot be said, however, that the current system ensures equity across generations – pensioners, the active labor force and youth. As a matter of fact, intergenerational equity is not an explicit goal and fair burden-sharing is not explicitly defined. The model (with the exception of private pension plans publicly subsidized through favorable tax treatment) is instead based on the pay-as-you-go methodology in which current contributors to the insurance system pay the expenses for the current generation of recipients. Although there are accumulated reserves and the rights of new retirees have always been respected so far, the model is based on the (doubtful) expectancy that the following generation will be able to cover the necessities of the previous generation. These shifting demographics, in combination with longer life expectancies, are leading to an unsustainable population pyramid

that is worse in Spain than anywhere else in Europe. Combined with the impact of the crisis, these developments have refueled debates over the long-term fiscal sustainability of the Spanish social-security system. Pessimistic forecasts show a growing deficit and an increase in the weight of pensions in relation to GDP from 8% in 2005 to 15% in 2050. It is very doubtful that the country will be able to maintain a sufficient employment-population ratio or increase productivity enough to compensate for societal aging under the current system.

Citation:

February 2016, Javier Díaz-Giménez and Julián Díaz-Saavedra, "The future of Spanish pensions"
<http://javierdiazgimenez.com/res/PEN3-PAP.pdf>

United States

Score 7

The Social Security retirement system is one leg of the pension system, complementing a private system of company-based saving plans (so-called 401k plans) that receive tax subsidies, and a variety of private retirement accounts. Social Security is funded by mandatory employee and employer contributions, totaling 12.4% of wages, on wages up to \$117,000 per year. The wage replacement rate of the public system is on average 45%, below the OECD average, though with higher rates for people with lower incomes. Benefits from company-based and private accounts raise the wage-replacement rate to 80%. However, 78 million Americans have no access to company-based retirement plans. In addition, the financial crisis has hit the asset base of pension funds, resulting in current or expected future failures to make full payments by many private employers. The Social Security funding shortfall has been politically intractable, with Democrats blocking benefit cuts (including reductions of scheduled benefit increases) and Republicans blocking increases in the payroll tax. In 2016 Obama proposed an expansion of social security. He endorsed raising pay roll tax on the wealthiest Americans, whose responsibility for contributing to the program is capped at \$118,500 of wage income.

With respect to the three goals of pension systems, the U.S. pension system is partially successful in reducing poverty among the elderly. (The poverty rate among the elderly is high by OECD standards, but not as high as the general U.S. poverty rate.) The system is hard to assess with respect to intergenerational equity. Historically, each succeeding retirement cohort has received generous subsidies from current workers, but the growth of the elderly population threatens coming retirement cohorts with potential losses of expected benefits. The system is currently at risk with respect to financial sustainability.

Austria

Score 6

Within the short term, Austria's pension system is still considered to be reliable and secure. However, the system's ability to respond to demographic changes is open to

question. The population is aging and the birth rate declining, yet the logical response – prolonging the period a person has to work before being entitled to a pension – is politically difficult to implement. Austrians still retire early by international comparison; nevertheless some progress has been made in terms of increasing the effective retirement age in the last years.

Thus, while the pension system itself is still considered stable, more efficient responses to the coming demographic changes must be found. Longer life expectancies have not completely found an equivalent in longer periods of working. This represents a significant burden for future generations, as pension expenditures consume a significant amount of government resources, to the disadvantage of the younger generations. According to recent calculations by the Austrian audit court, by 2015 pension payments will consume around 47% of net state tax income. In comparison, state expenditures for schools and universities (primary, secondary and tertiary education) amounted to around 18% of net tax income in 2012. The system therefore largely fails to achieve the objective of intergenerational equity.

The different interests behind the different positions remain the same: Employers and right-of-center parties argue that without a significant increase in the statutory pension age, the outlook for the next generation is dire; labor unions and left-of-center parties argue that individuals who have worked hard for decades should be guaranteed the best-possible quality of life in their later years and without having to work significantly longer. Austria is partially stuck in a situation where the elderly – indirectly, as they constitute the relative majority of voters due to demographics – block significant reforms of the pension system in the country. No government will go against that voting block without significant protests from the youth.

France

Score 6

The French pension system is relatively generous, and largely prevents poverty of the elderly. But it is also complex, which is a problem for equity: First, the so-called general regime applies to all private employees and is complemented by additional voluntary systems, in particular in large companies. Second, some professions are affiliated to “special regimes” which are characterized by shorter periods of contribution and higher generosity in pension payments. These systems usually cover employees working in public companies or groups highly subsidized by the public budget (coal mines, public transport, sailors and fishermen, for example). Finally, public servants usually benefit from higher payments as their pension payments are based on their final salary (last six months), and not on an average (e.g., best 25 years). Early retirement remains a common practice. However, the raising of the retirement age to 62 has led to an increase in the average age of entry into a pension, calculated as 62.3 years by the national pension insurance organization (2014).

In order to assure the sustainability of the pension system, French governments continuously introduce reform measures: an increase in pension contributions; an

increase in the number of years of contribution, to 43 years; and in 2008, a reduction of peculiarities or privileges granted to some professional groups (“special regimes”). The Socialist Party had fought against the rise of the pension age. The Hollande administration introduced the concept of “penibility,” a complex and bureaucratic mechanism allowing workers to enter retirement at age 60 if they fulfill the criteria and measures set up for each industrial or service sector. In addition to its costs, the consequences of this new mechanism are twofold: it introduces further uncertainty about the actual pension age and puts in place a highly complex and cumbersome system of measuring penibility that the business community, in particular small and medium companies, reject and refuse to apply. In the meantime, the first positive effects of the Sarkozy reforms have started to be felt: in 2015, for the first time, the pension branch of the social security system showed a positive balance. In October 2015, an agreement was reached between three unions and the representatives of employers. It will postpone the payment of supplementary pensions (which are run jointly by the social partners) until the age of 64 for most beneficiaries. The main novelty of this rather complex agreement is that it introduces flexibility in fixing the pension age and actually allows its postponement for most employees in the private sector to the age of 64.

Germany

Score 6

Germany has engaged in a significant number of pension reforms in recent decades. In particular, a 2004 reform aims to make the pension system more sustainable through increasing the retirement age and reduction in future pension increases linked to demographic change. In 2014, the current government reversed the previous pension reform agenda. Subsequent reforms have been hotly disputed with critics claiming they would undermine the long-term sustainability of the pensions system. First, the government reduced the retirement age by two years for workers who have contributed to the pension system for at least 45 years. Second, it provided a catch up for housewives with children born before 1992 relative to those with children born after 1992. Finally, pensions for people with disabilities were improved. The calculation will now include two additional years of (fictive) contributions. The cost of these reforms is estimated to be €160 billion by 2030. Public subsidies for the pension fund will increase from €400 million to €2 billion by 2022.

In June 2016, pension payments increased by an astonishingly high rate of 5.03% in the east of Germany and 4.35% in the west of Germany. This is the largest increase in pension payments since 1993 and due to increasing wages and high employment rates. However, increasing healthcare contribution rates and long-term care insurance costs will reduce the level of net pension increases. Even so, the statutory pension level is expected to decrease about 6% by 2045 due to the current pension adjustment formula. This expected decrease has been hotly discussed, but no legislative reforms have been undertaken.

Ireland

Score 6

The Irish system of pension provision rests on three pillars: a state old-age pension, occupational pensions and individual pension plans. The substantial proportion of the population that is employed in the public sector enjoys relatively generous occupational pension entitlements.

In May 2011, an annual levy of 0.6% was imposed on the value of pension assets. In the 2014 budget, this levy was increased to 0.75%. The levy applied only to private sector pension funds. In the 2016 budget, the minister announced that this levy was being terminated at the end of 2015.

Irish pension funds registered a strong gain averaging close to 6% in 2016 notwithstanding a weak start to the year and the negative confidence effects generated by the Brexit referendum. It is important that pension funds register such gains due to the effects of an aging population.

Poverty prevention:

The state pension is not income-related. It provides €20 a month for a fully qualified individual, regardless of previous earnings, with increases for qualified dependents. This is about one-third of average earnings among the employed population. The nominal value of this pension was held constant after the onset of the crisis in 2009, despite the general fall in incomes, and a period of falling prices between 2010 and 2011 and again in 2014. A modest increase (equal to about 1.25%) was announced in the 2016 budget.

Ireland ranks among Europe's best – alongside the United Kingdom and the Netherlands – with regard to the size of existing private pension funds relative to GDP. About 55% of the workforce has made some pension provision for their retirement outside the main state scheme. However, these schemes have come under very severe pressure following the stock market crash of 2007 and the increase in their liabilities due to a sharp decline in annuity rates. The trend of a shift from defined-benefit to defined-contribution schemes is continuing.

Fiscal sustainability:

The state pension scheme is a pay-as-you-go system. Its sustainability depends on the ability of the state to raise the funds required to meet ongoing commitments through taxes and social insurance levies. Although Ireland's population structure is now relatively young, it is aging rapidly. This has led to repeated predictions of a pension-system crisis unless the retirement age is raised significantly and the amount earmarked for pensions from income taxes and social insurance levies is steadily increased.

Pensions for those employed in the public sector were until 2009 almost entirely funded from general tax revenue. Significant changes to the funding of public-sector pensions were made in 2009 and in the Public Service Pensions Act, 2012. These will, over time, make the system more sustainable, but a great deal of further adjustment will be required.

Intergenerational equity:

The recently introduced pension reforms will eventually increase the equity of the Irish pensions system across generations. At present, inequities arise because those in the current generation of pensioners who enjoy the state pension or public-sector pensions did not contribute sufficiently through taxation and direct pension contributions to fund the level of pensions they receive. Those now in the workforce are unlikely to enjoy comparable pension levels when they reach retirement age. Furthermore, the adjustments that have been made to pensions since the crisis of 2008 have been smaller than the adjustments to the after-tax income of those who are in employment.

A package of changes to the rules governing defined benefits schemes was announced toward the end of 2013 and implemented in 2014. This change addresses the situation of underfunded defined-benefit pension schemes that wind up in deficit or elect to restructure. In the past, pensioners could have received all or most of the pension fund, whereas contributing members who had not yet retired received considerably less than expected. The new rules were designed to ensure a more equal distribution of assets under a limited set of circumstances. However, the 2015 application of these new rules by a large scheme is now being challenged in the courts by pensioners.

Citation:

Data on poverty levels among the retired are from the Survey on Income and Living Conditions, 2011 Results:
http://www.cso.ie/en/media/csoie/releasespublications/documents/silc/2011/silc_2011.pdf

Italy

Score 6

The Monti government introduced a key sustainability-oriented reform of Italy's pension policy by increasing the retirement age to 67 years and by reducing benefit levels for higher income groups. Thanks to this reform, no further major reforms of the retirement system will be needed at least in the next few years to ensure its sustainability – despite the demographic imbalance between the aged and the young. The current situation, however, is less positive from the point of view of intergenerational fairness, as the younger generations will receive significantly smaller amounts upon retirement. This problem is exacerbated by the late entry into the labor force of younger cohorts, which itself is a consequence of the economic crisis. In addition, the growing number of permanently unemployed also face receiving little to none in terms of a pension. The high percentage of public spending on pensions also diverts financial resources from other welfare policies such as family policy. Ensuring pensions comes with high costs for the rest of society.

The problem of poverty prevention which exists today for a relatively limited share of the population will be much more significant and relevant for the young cohorts of today when they reach retirement age.

Supplementary pension schemes have to date played only a limited role in the pension system and fiscal policies adopted to encourage them have not been sufficiently bold. Recent data suggests that the importance of supplementary pension schemes is gradually increasing.

The government has recently introduced new measures to make the age of retirement more flexible and increase lower pension rates.

Japan

Score 6

Given the rapid aging of the population, Japan's pension system faces critical challenges. The last major overhaul became effective in 2006. Under its provisions, future pension disbursements will rise less than inflation, payments (after an intermediate period) will commence at age 65 instead of age 60, contributions will top out at 18.3% of income, and a payout ratio of 50% is promised. However, the program's assumed relationship between future payment levels, contributions and the starting age for receiving benefits is based on optimistic macroeconomic forecasts. In the wake of the global financial crisis, these assumptions have become increasingly unrealistic, and further reforms are needed.

Based on its 2014 Revitalization Program, the Government Pension Investment Fund has shifted its asset portfolio somewhat away from bonds (and from Japanese government bonds/JGBs in particular) toward other assets such as stocks. The fund held about 23% of its funds each in international and in domestic equities as of the end of 2015, close to its target. Many observers are concerned about the higher levels of risk associated with stocks. However, JGBs are also risky due to the Japanese state's extraordinary level of indebtedness.

Japan has a higher-than-average old-age poverty rate, although the previous pension reform contributed to reducing this gap. Since October 2016, more irregular workers have been enrolled in the earning-related national pension scheme (*kôsei nenkin* instead of the more basic *kokumin nenkin*) as the necessary income ceiling has been lowered. This measure has, however, an unintended negative impact on housewives whose incentives to work are lowered. Other new legislation from 2016 has expanded the voluntary participation in defined contribution pension schemes to all citizens, which is expected to have a sizable impact on this market.

Citation:

WillisTowersWatson, Japan: New legislation a game changer for the defined contribution market, 9 June 2016, <https://www.towerswatson.com/en/Insights/Newsletters/Global/global-news-briefs/2016/06/japan-new-legislation->

changes-defined-contribution-market

Philip Brasor and Masako Tsubuku, New pension ceiling meant to help low-paid workers may hit housewives, The Japan Times, 8 October 2016, <http://www.japantimes.co.jp/news/2016/10/08/business/new-pension-ceiling-meant-help-low-paid-workers-may-hit-housewives/>

Malta

Score 6

Government expenditure on contributory benefits amounted to €30 million during the first six months of 2016 with an increase of €14.7 million in retirement pensions alone. Indeed, pensions represent a substantial public expenditure with projections indicating that pension-related expenditure will amount to 12.8% of GDP by 2060. Pension-related expenditure has been a major concern at EU level, with the European Commission 2014 and 2015 Country Specific Recommendations for Malta both noting the need to consolidate the pension system, particularly by increasing further the statutory retirement age to reflect life expectancy changes. Nonetheless, older people are more likely to be at risk of poverty than the rest of the Maltese population (17.2% vs. 15.9%) and 3.9% higher than the EU average.

The Maltese pension system could be described as an exclusive form of public pensions. It is based on a pay-as-you-earn system, as well as a means-tested non-contributory system. Until recently pensions were not linked to inflation and considerable erosion in real value occurred and, although partially rectified, the real value of pensions cannot make up for decades of loss. Low tax ceilings also meant that pensioners were required to pay income tax on their pensions. The 2013 budget, which raised the tax ceiling and revised supplementary assistance for those aged 65 and older, has gone some way to help to redress this situation.

Subsequent measures sought to consolidate shortcomings in this area. For instance, in 2014, parliament voted to introduce a third pillar to the pension system. This third pillar provides fiscal incentives to encourage people to invest in private-sector pension schemes. However, it will be some time before this reform will reduce the stress of pension costs on public finances. Second pillar pensions have not yet been introduced though a government task force to study this issue is likely to occur.

The 2015 budget removed income tax for pensioners whose pension does not exceed the minimum wage. During the same year, the Pensions Strategy Group 2015 report provided a detailed overview of possible scenarios up to 2060, and identified a number of guiding principles for developing a flexible and sustainable pension system. The report was, however, criticized for not addressing the issue of how to get people to voluntarily save and being weak on defining what constitutes a strong scheme system and what benchmarks should be used.

The government's commitment towards adequate and sustainable pensions have also been illustrated in the 2016 budget with increments for pensioners who receive less

than €40 per week and no tax increases for pensioners. However the new minimum of €60 a month will need to be increased further to provide the pensioner with a living income. Significantly, the 2017 budget introduced a two-year plan for the removal of all income tax on all pensions (public, private or foreign) up to a maximum of €3,000. It is envisaged that approximately 22,000 pensioners will benefit from this measure. The carers' benefit in the 2017 budget has also been increased to €40 per week, and financial assistance of €200 per year is allocated for care workers for those choosing not to enter a retirement home. NGOs have flagged the issue of lack of pensions for migrants working in undeclared jobs, which will impact these individuals and the economy in years to come.

Citation:

National Statistics Office (NSO) News Release 120/2016

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Budget 2017 Speech (Maltese) p. 36

Times of Malta 22/06/16 Government will not introduce second pillar pensions by stealth

Times of Malta 11/03/16 NGOs warn of problem over lack of pensions for migrants

New Zealand

Score 6

New Zealand's pension system is tax-based. It is relatively efficient, as it prevents poverty in old age with a relatively low level of public spending, measured as a percentage of GDP. The most recent innovation in this area is KiwiSaver, introduced in 2007, a publicly-subsidized private pension plan offered on a voluntary basis. At the time of writing, KiwiSaver enjoys broad political support from both the government and main opposition party. Although introduced by a Labour government, the National government has implemented only minor modifications. KiwiSaver is a popular option. As of September 2016, more than 2.67 million people had joined the program. At the close of the current review period, the government was discussing the option to make enrollment mandatory. From the start of the scheme until May 2015, those who joined KiwiSaver received a 1,000 NZD tax-free "kick start" to their KiwiSaver account from the government. The government removed this incentive as part of its 2015 budget. However, despite its popularity, the KiwiSaver scheme has come under public scrutiny. A particular criticism has been the lack of transparency around account fee charges, as most KiwiSaver providers don't inform customers of the exact amount charged for managing their accounts. Another public debate concerns where the KiwiSaver funds end up. It was

revealed that, through KiwiSaver, New Zealanders have been investing in tobacco and weapons' companies.

In the longer term, however, demographic changes mean that more effort must be made to encourage private savings as part of a strategic plan to address public sector affordability issues and intergenerational equity challenges. New Zealand's recent history of economic downturn and rising unemployment discouraged private saving. As conditions have improved, however, the issues of intergenerational equity and affordability have focused attention on reform. The OECD has suggested improving fiscal sustainability through the raising of the retirement age, while slowing the pace of growth in benefit payments, and through removing subsidies, especially to high-income members. So far, the government has resisted pressure from some economic and social forecasters, party leaders, and media voices to gradually increase the age of pension eligibility from 65 to 67 years; indeed, prior to the 2014 election the prime minister threatened to resign rather than adopt a retirement age of 67 years as government policy. One proposal coming from a government support party, United Future, was to encourage a higher retirement age by increasing the pension rate for those retiring at 70, while allowing retirees to take their pensions at lower rates from the age of 60.

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South Korea

Score 6

Due to increasing life expectancies and the low fertility rate, the average age of South Korea's population is increasing much faster than in many other OECD countries. The share of the population that is 65 years or older is expected to increase from 7% in 2000 to 37% in 2050.

Old-age poverty is a major problem in South Korea as pensions are small, and most elderly people today lack coverage under a national pension system that did not cover a large share of the workforce until its expansion in 1999. The government has also failed to enforce mandatory participation in the system, while many employers fail to register their employees for participation. Furthermore, most irregular workers and self-employed are not covered by the system. Beginning in 2016, the government made it mandatory for businesses with 300 or more employees to provide retirement pensions to their employees. This requirement will gradually be extended to all businesses by 2022. The Park Geun-hye administration also introduced a general basic pension of KRW 200,000, although the controversy over raising taxes forced the government to scale back from 100% coverage to a coverage of 70% of lower-income pensioners.

The national pension system is currently fiscally sustainable and needs only small subsidies. However, given the risks involved in pension funds, it is not clear what level of subsidies the fund will require once those who entered into the system since 1999 retire. Growing concerns about the long-term financial sustainability of the pension fund led to a drastic reform in 2007. The earnings replacement rate was reduced from 60% to 50% in 2008 and will be further reduced to 40% by 2028.

Three older and much smaller pension funds for government employees (insolvent since 2001), military personnel (insolvent since 1973) and teachers (expected to be insolvent from 2033 on) are already running deficits and have to be subsidized by the government. Faced with the increasing fiscal burden of relatively generous civil servant pension schemes, the Park Geun-hye administration pushed ahead with reform of the government-employee pension plan, increasing the pension age over time from 60 to 65 and reducing pension benefits. In a 2016 global pension index evaluating the quality and sustainability of pension systems, the Korean pension system □ along with those of China and Japan □ was given a D grade, indicating major weaknesses.

South Korea's pension funds are vulnerable to government interference. Their degree of profitability is also low due to poor management. Another problem relates to the lack of proper monitoring and accountability for fund investments. Observers have also expressed concern regarding a lack of transparency in decision-making processes, which could result in significant losses. The professionalism and independence of the National Pension Service's management have additionally been subject to ongoing criticism.

Citation:

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Bulgaria

Score 5

Bulgaria has a mixed pension system consisting of three pillars: a public pay-as-you-go pillar financed by social-insurance contributions, an obligatory fully funded private-pension-fund pillar and a voluntary third pillar. The second pillar was introduced in 2002 for people born after 1959, and is not yet paying out many pensions. The portion of social security contributions going to the second pillar has increased much less than originally envisaged, and presently the pillar is underfunded.

While the pension system substantially reduces poverty among the elderly, the poverty rate among senior citizens remains high from a comparative perspective. The Bulgarian pension system also suffers from a lack of intergenerational fairness and fiscal sustainability. Given the present demographic dynamics and the existing system's configuration, both the implicit public-pension debt and the real pension burden will increase significantly over time. These problems have been aggravated by a decision in 2013 to terminate the gradual increase in the retirement age originally adopted in 2011 by the first Borissov government.

The second Borissov government has sought to restore the increase in the retirement age. A pension reform adopted in July 2015 following extensive consultations with the social partners has called for a gradual increase in the retirement age by two and three months a year until it reaches 65 for both men and women in 2029 and 2037 respectively. In a move to strengthen the public first pillar, the second Borissov government also introduced new options for opting out of the second pillar. The draft budget for 2017 included an increase in the social insurance contribution rate by one percentage point, which was justified as a means to improve the financial sustainability of the first pillar.

Chile

Score 5

Chile's pension system combines a redistributive means-tested pillar financed by general taxation with a self-financed pillar based on individual contributions and individual pension accounts, which are managed by private pension fund managers and invested both domestically and abroad. The redistributive pillar was extended and broadened very substantially by a 2008 pension reform that implemented means-tested pension subsidies, guaranteeing a pension floor to all older citizens that is very high relative to the country's minimum and average wages. The reform also provided pension benefit entitlements to women based on the number of children they have had, with no ceiling on the number of children. It is a matter of some debate whether the Chilean pension system guarantees intergenerational equity or prevents poverty caused by old age. It can be argued that both public and private pension systems are fiscally sustainable (like those of Norway, the best-funded system among all OECD countries), and thus provide both intergenerational and intragenerational equity across income groups. Nevertheless, the Chilean system largely fails to guarantee poverty prevention among large parts of the socioeconomically weaker and older population who depend on the support of their families or have no pensions at all if they worked in unstable and/or informal employment. Thus, the pension system has (because of the capitalization logic) virtually zero redistributive effect.

An advisory presidential commission (Comisión Asesora Presidencial sobre el Sistema de Pensiones) was set up in April 2014 with the task of analyzing possible pension-system changes. The current system, which was established under Augusto Pinochet's military regime, is strongly criticized as being designed to guarantee and

provide sufficient funds for the economic and political elite and their financial interests, as these groups have strong links to the pension-fund management companies. The commission presented its final report in September 2015. It contained no radical reform proposals, but did suggest some slight changes such as an increase in contributions and an expansion in the coverage provided by basic solidarity pensions (*pensión básica solidaria*). The current scenario indicates that poverty amongst the elderly will rise in the medium and long term if reforms are not introduced soon.

During the period under review, dissatisfaction with the pension system has increased significantly and led to peaceful, but massive demonstrations in more than 50 cities. Without a doubt, the pension system will be a central issue in the presidential and legislative elections in 2017. As yet, the government has not presented a concrete reform proposal.

Citation:

<http://www.comision-pensiones.cl/>

<http://ciperchile.cl/2015/11/18/conclusiones-de-la-comision-bravo-todo-esta-al-reves-con-las-pensiones/>

The Commission's Executive Summary: <http://www.comision-pensiones.cl/Documentos/GetResumen>

Demonstrations against the current pension system: <http://www.comision-pensiones.cl/Documentos/GetResumen>

Cyprus

Score 5

A significant improvement in some groups' living conditions, particularly among citizens over 65 years of age, is shown in recent years data. Elder groups used to face the highest risk of poverty and have the EU's lowest relative median income for this age category. Amendments to various benefits schemes after 2012 have improved Cyprus's ratio of pension expenditure to GDP, which until 2012 was the EU-27's second lowest. However, pension schemes vary, which places some groups in an inferior position than others. Public employees in various sectors benefit from different retirement ages, while receiving both state and social-insurance pensions, along with a gratuity upon retirement. Private-sector workers typically have access to the government social-insurance program, while some are members in provident-funds schemes. The latter suffered the effects of the 2013 bail-in, which led to drastic capital losses for provident funds and for beneficiaries. Mismanagement also took a toll. The social-insurance system has recently been reformed, with retirement age pushed upward, increase of contribution and more, in an effort to ultimately offer adequate, secure and sustainable pension incomes.

The guaranteed minimum income (GMI) program and special allowances have partially mitigated the economic crisis's worst ills, partly compensating for the cuts in benefits and pensions that affected vulnerable groups. Pensioners, particularly people living alone, and above all women, seem to have benefited significantly from the GMI, while still facing high risks of poverty and social exclusion.

Citation:

1. Relative median income ratio of 65+ age group for 2014. Eurostat, 2015, <http://appsso.eurostat.ec.europa.eu/nui/show.do>
2. At Risk of Poverty Statistics 2008-2015, Cyprus Statistics Service, 2016, <http://www.mof.gov.cy/mof/cystat/statistics.nsf/All/AB7DD4BF996590ADC2258050002AA527>

Mexico

Score 5

Mexico is slowly shifting from a pensions system based on contributions and corporate identity to one that is more universalistic in character, operated by government-approved financial agencies called Afores. Some Mexican states have in recent years introduced noncontributory old-age pensions based on universal eligibility. A pension reform plan is now underway to introduce a universal old-age pension for Mexicans over the age of 65. Mexico is in a relatively advantageous position to introduce reform in that its birth rate peaked in the 1970s, which has led to a reduction in children's demands on the public sector. At the other end of the demographic balance, Mexico still has a relatively low proportion of old people. As a result, Mexico's dependent population is fairly low. This happy position will eventually change for the worse. Conscious of this, Mexican governments have been continuously attempting to reform the pension system to increase coverage and quality. Overall, however, these modernization attempts have not been very successful. For instance, a universal pension reform was foreseen as an integral part of the 2012 Pacto. Unfortunately, it was partially approved in the lower chamber and has been facing a blockade in the Senate since 2014. Thus, more reforms will be needed as the population ages. The current system – while improving – will not be robust enough in the future to cope with the growing population of elderly. Historically, Mexico's pensions policy has been based on the principle of contributions, which has not provided adequate, or any, safety net for the elderly poor. However, some parts of Mexico, notably the capital district, now have a limited old-age pension system based on a universal entitlement.

Poland

Score 5

Poland introduced a three-pillar pension system following World Bank recommendations in 1999. Starting in 2011, pension contributions were partially redirected from the second – obligatory, but private and funded – to newly created subaccounts in the first, public pillar. In addition, the sustainability of the first pillar was improved in 2011 by the adoption of an increase in statutory retirement ages, which would have been phased in between 2013 and 2020 (for men) or 2040 (for women), until everyone retires at the age of 67 for both sexes. Every government has ignored repeated EU recommendations to reform the costly pension systems for miners and farmers. As pension age was a hot topic in the 2015 election campaign, the current PiS government immediately used its parliamentary majority to suggest a

decrease of the pension age again, an initiative the party had already tried to bring to parliament through a referendum before the elections. A bill allowing women to retire at the age of 60 and men at the age of 65 was eventually passed in parliament on 16 November 2016. The lowering of the retirement age has reduced the sustainability of the Polish pension system and is likely to increase poverty among women. Discussions within the government about a general reorganization of the three-pillar system have not yet been conclusive.

Portugal

Score 5 The pension program has been one of the most closely scrutinized aspects of government policy since the 2011 bailout. It has been one of the main areas in which the government has sought to reduce public expenditure. The retirement age is linked to life expectancy. In 2016, it was increased to 66 years and 2 months and will increase to 66 years and 3 months in 2017.

Pension policy was a central issue in the 2015 election campaign. A key element in the Socialist Party and Portuguese Communist Party agreement concerned pensions. Consequently, a major change introduced by the Costa government has been an increase in the value of pensions. The 2017 government budget will increase the value of several pension categories.

Slovakia

Score 5 Slovakia introduced a three-pillar pension system along World Bank lines in 2004. From 2012 to 2015, the Fico government adopted a number of measures aimed at strengthening the first (public, pay-as-you-go) system to the detriment of the relatively strong second (private, fully funded) pillar. These changes have re-increased the role of the state in providing for the elderly, and have given the pension system a more redistributive nature. While these reforms improved the public pension program's short-term financial situation, the expected increase in public pension spending in the long term remains much higher than the EU average. In an attempt at further weakening the second pension pillar, the third Fico government has announced in the government manifesto plans to facilitate the withdrawal of savings from the second pension pillar. Ignoring the indexation rules that have been in effect since 2013, it has also granted an ad hoc pension increase in 2017.

Turkey

Score 5 Turkey's social security and general health insurance law, passed in 2006 and implemented in October 2008, radically reformed the country's previous pension and

health system. The reforms put an end to the unequal, corporatist character and fragmented structure of the previous system and made the Social Security Institution responsible for managing provisions. With the new changes, the state began to contribute to the system, in addition to employers and employees. The new law specifically set out to cover all social groups, including individuals not formally employed, and guarantees equal access to health care. In addition, those under 18 years of age are covered by health insurance without having to pay premiums.

The 2008 reform updated pension rules by gradually increasing the retirement age and contribution period, while reducing the accrual rate. The 2008 social security reform improved the coverage provided by public pensions, and is expected to yield significant savings, but these are insufficient to ensure pension-system balance over the long term. The World Bank notes that pension spending in Turkey, at around 7% of GDP, is still modest in comparison to high-income OECD countries. This reflects the relatively young population, and the fact that due to the system's high dependency ratio and generous eligibility rules (including early retirement and low minimum years of service), more than half the country's pension spending is financed through budget transfers. The 2008 reform adjusted pension parameters, gradually increasing the retirement age and contribution period, and reducing the accrual rate. But these adjustments will be phased in over a period of several decades, too slowly to counter the effects of expanded coverage and a maturing population. For this reason, pension-system deficits are expected to remain around 3% of GDP until the middle of the century.

Under the 2013 pension law, the government matches 25% of individual contributions up to a gross monthly salary of around €10. Participants will gain access to government contributions through a gradual vesting system – 15% after the first three years, 35% after six years, 60% after 10 years and 100% at retirement at the age of 56. The reform was aimed at widening system coverage and making the system more progressive, and could be an important step in making pensions far more attractive.

Citation:

World Bank (2016) "World Bank Group - Turkey Partnership - Country Program Snapshot, Washington D.C.

Croatia

Score 4

Like some other East-Central European countries, Croatia introduced a three-pillar pension system with a mandatory second pillar in the late 1990s. The average effective replacement rate for pensions is around 40%, partially due to the fact that many pensioners retire early. As a result, pensioner poverty is rather high in Croatia. The rules for calculating benefits are generally equitable. However, war veterans enjoy strong privileges, and inequalities between cohorts have been introduced through irregular supplements that have reflected the electoral cycle. As a

consequence of the aging of the population, the low general employment rate and the decline in the effective retirement age, the system is neither fiscally sustainable nor intergenerationally fair. The public pension fund has shown a persistent deficit, which represents a significant risk to the stability of the system.

The Milanović government began to address these problems. The Pension Insurance Act of January 2014, intended to stimulate employees to work as long as possible, raised the statutory retirement age from 65 to 67 and the early retirement age from 60 to 62. Under the new rules, early retirement cannot be taken without penalty until 41 years of service have been completed, and eligibility begins only at 60 years of age. Moreover, an amendment to the Act on Social Welfare has allowed the continuation of pension payments even if a retiree takes on a part-time job. Pensions under certain “special schemes” that are above a certain threshold have been temporarily cut by 10% and indexed to GDP growth. New rules covering disability pensions were introduced, and the occupational-rehabilitation system has been changed. Disability-pension beneficiaries must now undergo a compulsory medical assessment every three years and are subject to random control assessments. While improving the fiscal sustainability of the pension systems, these reforms have done little to address the issue of pensioner poverty and intergenerational fairness.

The Orešković government presented plans to shorten the deadlines for raising the retirement age to 67 (both for men and women) and increase the early retirement age from 60 to 62. These plans, however, were not implemented before the September 2016 elections.

Citation:

Werding, M., M. Primorac (2016): Old-Age Provision in Transition: The Case of Croatia. CESifo, Working Paper No. 5761, Munich (https://www.cesifo-group.de/ifoHome/publications/working-papers/CESifoWP/CESifoWPdetails?wp_id=19191601).

Greece

Score 4

The Greek pension system is a pay-as-you-go corporatist system, based on a multitude of occupational pension funds (there were approximately 60 pension funds in 2013). The largest share of social protection expenditure is devoted to pensions. In terms of relative poverty of persons who are 65-years old or older, Greece is ranked roughly in the middle of the list of OECD countries, with 7.1% of old-age Greeks living in relative poverty.

However, the prospects of the Greek pension system are not at all good, as the country has one of the worst old-age dependency ratios among all OECD countries. Further, nearly one-third of what pension funds had was lost since 2009 due to a fall in contributions on the back of surging unemployment.

The aforementioned pay-as-you-go system, according to which the working population contributes to pension funds so that old-age pensioners can obtain their

pensions, cannot be sustained for long. Since the start of the economic crisis, pension funds have periodically faced the prospect of bankruptcy, as the number of people who work and contribute to social insurance is shrinking while the number of pensioners is increasing. Expenditure on pensions had reached 17.5% of GDP in 2012 (the highest level in the EU-28).

Moreover, pension policy does not meet intergenerational equity requirements. Existing arrangements primarily serve the interests of middle- and old-age groups at the expense of younger generations of workers. This is a constant pattern running parallel to the periodic trimming of pensions. Owing to the economic crisis and the successive economic adjustment programs, pension policy has not changed direction, despite promises made by Syriza that upon coming to power it would restore pensions to pre-crisis levels. In the period under review, the Syriza-ANEL government, in power since January 2015, passed legislation which increased social insurance contributions and reduced the supplementary pensions of old-age pensioners. Overall, however the thrust of the new legislation continued similar patterns of protecting the older generations more than the youth.

In short, Greece's pension system is not sustainable and still needs major reform. However, reform is politically extremely difficult. One in two households rely on pensions to make ends meet and about 45% of pensioners receive pensions below what is considered the poverty limit of €65 per month.

Citation:

Data on pensions and old-age dependency ratio is drawn on the SGI data set, available on this platform.

Hungary

Score 4

Hungary introduced a three-pillar pension system along World Bank guidelines in 1997, featuring a strong mandatory second pillar. Upon coming to office, the Orbán government abolished this second pillar, confiscated, “nationalized” assets, and also eliminated some early-retirement options that has strongly increased uncertainty regarding income in old age. The growing shadow economy and the increasing tendency to replace a share of wages with benefits not subject to social insurance contributions have reduced the pension claims of many future pensioners. However, the Orbán government has failed to address these issues. The main reform since 2014 has been the merger of the Pension Insurance Fund (Országos Nyugdíjbiztosítási Főigazgatóság, ONYF) and part of the National Health Insurance Fund (Országos Egészségbiztosítási Pénztár, OEP) adopted in June 2016. Part of a broader administrative reform, the merger has been justified as a means to better integrate different fields of social policy and reduce costs. As it stands, however, the reforms, which were drawn up quickly, looks more like another monstrous centralization drive.

Gál, R. (2016): Reorganisation of the pension administration in Hungary. European Social Policy Network, Flash Report No. 2016/52.

Latvia

Score 4

The state pension system guarantees a monthly minimum pension. The amount of the monthly pension is dependent on the recipient's years of service, but is at least equal to or larger than the state social-security benefit of €70, though less than half the 2016 monthly minimum wage of €370. However, where the amount of an individual's monthly pension is below the minimum wage, the recipient qualifies for public assistance. The average monthly pension in 2014 was €66. According to the Central Statistics Bureau, the at-risk-of-poverty rate among retired persons continues to grow rapidly, reaching 34.6% in 2014 compared to 27.6% in 2013.

The introduction of a three-pillar pension system has increased the system's fiscal sustainability and inter-generational equity. The three pillars consist of a compulsory state pension scheme (also known as a notional defined contribution system), a state-run mandatory funded pension scheme and a private voluntary pension scheme.

The European Commission Fiscal Sustainability Report 2012 concluded that the notional defined contribution system had low sustainability risks, given its expected reliance on funds raised through the second pillar. Initial projections that the pre-crisis contribution rate of 6% would be quickly restored were overly optimistic. In 2014, the rate was only 4%, with a further delay of the reintroduction of the 6% rate until 2016. The 6% rate is projected to be stable for 2017.

Citation:

1. European Commission (2012), Fiscal Sustainability Report, Available at: http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-8_en.pdf, Last assessed: 20.05.2013.
2. Central Statistical Bureau, Database, Available at: <http://data.csb.gov.lv>

Romania

Score 4

In Romania, low fertility rates combined with the massive out-migration of working-age citizens have contributed to a rapidly aging population. Forecasts for 2050 predict that 43% of the population will be over the age of 65 – a dramatic increase from the comparable figure of 27% in 2011. These demographic pressures threaten to undermine the pension system's sustainability, even more so as the actual retirement age has continued to decline despite an increase in the official retirement age in 2014.

Poverty among pensioners remains a problem as well. The situation is particularly dire in the agricultural sector, where workers of the former agricultural cooperatives were left with very low pensions following the dissolution of these cooperatives after 1990. As a result, many retirees live below or near the poverty limit, and many more

rely on support from relatives to supplement their pensions. In part due to their lower pension-eligibility age, women typically have considerably lower pensions than men, and therefore have double the poverty-risk rates.

The Ciolos government did little to address these issues. It ignored the repeated recommendation by the European Commission to harmonize the retirement age for men and women, and even weakened the sustainability and credibility of the pension system by deviating from the original rules on the financing of the second, fully-funded pension pillar. The 2008 pension reform, which introduced a three-pillar system along World Bank guidelines, contained provisions for a statutory 0.5 percentage point increase per year in contributions to the mandatory fully-funded second pillar, with a target of reaching 6% of employees' gross salaries by 2016. In 2016, however, contributions were raised only to 5.1%, with the government pleading budget constraints and pressures on public spending. With a little help from the constitutional court, the Ciolos government succeeded in preventing new special pension rights for mayors, deputy mayors, local and county counsellors, as legislated by parliament. It did not dare to tackle existing huge pension privileges of certain occupational groups.

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