Pensions Report
Pension Policy

Sustainable Governance Indicators 2018
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 €24,500) per year, while the maximum benefit was CHF 42,300 (about €36,800). 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 €5,900) 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. In September 2017, an ambitious reform proposal of the government failed in a popular vote – as many other reform projects in this field have failed over the last 20 years. At the time of writing, the government is trying to find the necessary majorities for a new reform project, which in all likelihood will be less ambitious and comprehensive. In this regard, some lessons can be learned from previous referenda on pensions: 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. However, these compensations need to be carefully calculated.

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-structured 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 has for several years ranked 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 – international anerkendt, men ikke problemfrit), Copenhagen.

Finland

The Finnish pension system has two schemes: a residence-based, national pension, and a mandatory employment-based, earnings-related pension. Voluntary occupational schemes and private pension savings play a minor role; still, about one-fifth of Finnish 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 the government, the overall pension policy has thus far been able to provide adequate pension provision and Finland has, by and large, avoided the classic problem of poverty in old age. However, the oldest cohorts, women and retirees living alone suffer from poverty more often than other retirees. 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 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. In 2011, a national guarantee pension was introduced. While these reforms were successful, a further major reform came into effect in 2017, the main goal again being to lengthen careers and help close the sustainability gap in public finances. Major changes imply a gradual rise in the lowest retirement age, a harmonization of pension accrual, an increase in deferred retirement (to provide an incentive to stay in work life longer),
flexible part-time retirement and amendments to the accumulation rate. The European Commission has encouraged Finland to consider linking the retirement age to the extending life expectancy; in line with this suggestion, the present reform links the retirement age to life expectancy beginning in 2030. At present, Finland ranks in the middle of 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.

Citation:

Norway

Score 9

Aging represents a significant challenge for public finances in Norway, as across all European countries. Nevertheless, Norway’s pension system is well-positioned to sustain an aging population, based on current expectations, over the next few decades. With birth rates that have been persistently high by European standards, the demographic burden is less than in most comparable countries. However, since pensions in Norway are fairly generous, the burden on public finance remains high. Future pensions are essentially guaranteed by the massive savings accumulated in the oil fund, which since 2006 has been officially renamed as 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**

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. 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. Approximately 70% of pensioners receive a means-tested pension from the government. About 41% of pensioners receive a reduced government pension due to their own assets. The result is that Australian pensioners’ income is the second lowest in the OECD compared to the income of the working population. Measured income poverty of age pensioners is therefore relatively high. However, over 80% of pensioners own their home. This, combined with the large expenditure subsidies they receive, means that broader poverty measures that take wealth and expenditure subsidies into account show low rates of deprivation among this group.

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 9.5% on 1 July 2014 and was scheduled to increase by a further 0.5% per year until it reached 12% on 1 July 2019. However, in 2014 the Abbott government deferred further increases until 1 July 2021. Contributions to private pensions are concessional taxed at a flat rate of 15%, and private pension income in retirement is tax exempt.

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 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.

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:

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 (TFSAs).

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 people 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 since increased, 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 a quarter of the average wage up to CAD 55,300. 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 one-third of the average wage starting in 2019. There will also be increases to the CPP’s disability benefit and survivor’s pension. 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.

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. The pension system is currently in surplus and the medium-term sustainability gap associated with the aging population is relatively limited. Pensioner poverty remains relatively low, partly reflecting the levels of pension afforded by the old system. The current average pension is about €460. Two-thirds of pensioners have a pension below this level and women receive 18% less than men. 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 pledge by the Czech Social Democratic Party (ČSSD) – it was abolished in 2016. The Sobotka government also set a cap on the retirement age of 65 from around 2030, cancelling the previous approach of continuously increasing the retirement age with no upper limit, but still requiring a review every five years of financial sustainability such that the cap could be increased if judged necessary. It also allowed ad hoc pension increases to 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. The Dutch pension system is based on three pillars. The first pillar is the basic,
state-run old-age pension (AOW) for people (now) 66 years old and older. Everyone under 66 who pays Dutch wage tax and/or income tax pays into the AOW system. The system may be considered a “pay-as-you-go” system. This pillar makes up only a limited part of the total old-age pension system. 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 demographic changes (related to an aging population) and disturbances in the international financial market. As of 2013, the government gradually increased 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. However, it is becoming clear that for some types of jobs, mainly physical labor, a retirement age of 67 is not feasible due to health problems. Employers are reticent in hiring aged workers for fear of high health care costs. At the same time, paradoxically, higher educated people retire a year earlier on the average, because they can afford it.

As a result of very low interest rates, pension fund assets, although still enormous (€660 billion or 193% of GDP), have not grown in proportion to the number of pensioners. The liquidity ratio of pension funds must be maintained at a minimum threshold of 105%. The timeframe for recovery after not meeting this threshold 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. 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 is still pending. Debate focuses on the redistributive 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. The government is still considering long-term retirement policies, hoping that its social partners, employers’ organizations and trade unions in the Socioeconomic Council will work out a compromise.

Citation:

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

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. In late 2017, a new agreement was reached between the government and most of the opposition parties to increase the retirement age to 69 years of age. The government is expected to introduce this proposal to the parliament (Riksdag) in 2018.

Citation:

United Kingdom

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

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 opposition, the current government has steadfastly pursued an effort – based on a firm plan passed by parliament in July 2015 – to gradually raise the legal pension-eligibility age from 65 to 66 years (by 2025) and ultimately to 67 years (by 2030). It is also seeking strong limits on access to early retirement (especially before 60 years of age), with the aim of making the system more sustainable in the long term. The outcome in terms of higher labor-market 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), composed of economic experts and other key stakeholders, including trade unions. In 2016, this body reported that the 2015 reforms were insufficient and endangered “solidarity” by increasing future poverty risks. However, no additional measures have been implemented to date, even though this remains a topic of high priority for the current government.

Citation:

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

**Estonia**

A three-pillar pension system has been in place since 2002. In terms of pension payments, the situation remains transitional, as only 8.5% of current pensioners benefit from the second pillar (mandatory individual accounts). Thus, current pension benefits depend mostly 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 2017, this indexation resulted in an average pension-payment increase of 5.1%. Due to the low absolute level of benefits (€410 per month), elderly people still struggle to make ends meet. Because wages and salaries grow faster than pensions, the senior citizen poverty rate increased substantially in 2016. The rapid increase of wages also explains the continuous decline in the pension replacement rate since 2009, which in 2016 consisted of 41.6% of net average salary.

Despite modest pension expenditures (roughly 5.5% of GDP), the sustainability of Estonia’s pension system is at risk. Due to population ageing, the state pension-insurance expenditure persistently exceeds social tax revenues (by 25% in 2016). A 2016 OECD report revealed that Estonian pension funds performed worst among the OECD countries during a 10-year period (negative annual productivity of -2.2%). The average productivity of mandatory pension funds in 2016 was even lower than in 2015 (1.8% and 2.6% respectively). Furthermore, the present pension system does not encourage people to work longer – 12% of old-age pensioners took an early retirement.
In order to face these financial challenges, government proposed in 2017 a reform plan to make the retirement age flexible and revise the regulations for pension funds. If enacted, these new regulations will have an effect from 2020 onward.

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 system 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. The pension funds have recovered since 2008 and once more 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 claim access to the funds to support its aims in a time of need.

In 2017, two major changes were made to the system. In March 2017, as part of the relaxation of capital controls, the central bank swept away curbs on pension funds’ investments in foreign markets, which had originally been imposed after the 2008 financial collapse. The 2016-2017 government reached an agreement with the trade unions of state employees on their pension rights. The rights of those employees in the A-section of the Pension Fund of State Employees were changed from equal to age-related. At the same time, the state pension age was increased from 65 to 67 years.
Israel

Score 7

Over the past two decades, Israel initiated several reforms for pension policy, profoundly changing the system with respect to employer-based pensions and national insurance. The reforms introduced a new defined-benefit (DB) 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 defined-contribution individual accounts with varied levels of collective risk sharing. In the last 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 ensured a steady pension contribution for every salaried employee, with two-thirds of this stream financed by the employer. In 2016, the contribution was raised to a minimum of 18.5% of monthly salary. 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 supply the 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 subject to the rules of the free market; even though every worker is legally entitled to a pension, private pension operators have discretion over client selection.

In 2016, a new pension-system reform was launched by Minister of Finance Moshe Kahlon. The reform was expected to help the weakest workers by lowering the pension fees by increasing competition. In addition, two “default” pension funds committed to charging lower management fees were created; these are expected to increase monthly post-retirement pension payments by 18%.
New legislation taking effect in January 2017 requires self-employed individuals to pay into an Israeli-recognized pension plan as of the 2017 tax year.

Regarding the prevention of poverty among the elderly and the guarantee of equality, Israel’s pension policy has room for improvement. Recent research indicates that post-retirement income-level inequalities are due to the large gaps in pension saving in different socioeconomic groups.

Citation:


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. The Skvernelis government decided to allocate an additional €371.8 million for old-age pensions in 2018.

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. In addition, the Ministry of Social Security and Labor is drafting a set of proposals to the second pillar of the pension system. These proposals should be announced by the end of 2017 and possibly lead to a major reform in 2018, provided there is sufficient parliamentary support for the reform.

Citation:

**Luxembourg**

Luxembourg’s pension plans offer one of the highest replacement rates within the OECD and provide a high living standard for the elderly. The old-age poverty rate is lower than the poverty rate 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. Despite Luxembourg’s high reserves (almost €18 billion, approximately 4.5 times the 2016 pension payments), the OECD and the European Commission have urged Luxembourg to reform its pension system to ensure long-term sustainability and increase incentives for late retirement as well as linking pension levels with contributions. The share of foreign contributors rose from 44.3% in 2015 to 44.5% in 2016. Furthermore, 46.8% of all pensions in 2016 are paid to non-residents, putting additional long-term pressure on the system.

In addition, the disability benefit scheme has been reformed to reduce early transitions from work incapacity to retirement, encouraging redeployment within companies. Nevertheless, the abolition of early retirement (draft law no. 6844) remains pending.

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.

Slovenia

Slovenia has a traditional pay-as-you-go (PAYG) pension system with modest pensions, whose intergenerational fairness and financial sustainability in the 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. Featuring a comprehensive analysis of the demographic projections and the long-term sustainability of the pension system as well as an overview of the different
options, it was aimed at stimulating the debate and preparing the ground for a new reform consensus. In July 2017, building on the White Book, the government and the social partners, within the framework of the tripartite Economic and Social Council, agreed upon the broad outline of a pension reform to be adopted by 2020 that includes a 70% net replacement rate, raising the actual retirement age and an indexation rule that links the growth of pensions to wage growth and changes in consumer prices. Already in 2017, an amendment of the Pension and Disability Insurance Act, unanimously passed by parliament in April 2017, increased the minimum old-age and disability pension to €500 per month as from 1 October 2017 for pensioners meeting the full retirement conditions. According to estimates, around 52,000 pensioners will benefit from the amendment and will, on average, receive an additional €26 each month.

Citation:


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 billion). 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. 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. Moreover, the impact of the crisis and financial needs of the government reduced the accumulated reserves (El Fondo de Reserva de la Seguridad Social) and put the system under additional pressure. These developments have increased 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. The progressive loss of purchasing power for pensioners is generating a growing burden among the Spanish population.

Citation:
http://javierdiazgimenez.z.com/res/PEN3-PAP.pdf
February 2017, Concepción Patxot, Meritxell Solé and Guadalupe Souto: “Should pensions be redistributive? The impact of Spanish reforms on the system’s sustainability and adequacy”

United States

Score 7

The Social Security retirement program is the main public pension system, complementing various employer-based pension plans, tax-subsidized retirement saving plans (401k plans) and private retirement accounts. Social Security is funded by mandatory employee and employer contributions, totaling 12.4% of wages, on wages up to approximately $120,000 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 hit the asset base of pension funds, resulting in current or expected future failures to make full payments by many private employers. A long-term 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.

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. President Trump has given mixed signals regarding his support for cost-cutting reforms of the Social Security system. After the December 2017 enactment of major tax cuts, cuts in entitlement programs may be on the agenda of the Republican-controlled Congress in 2018.

**Austria**

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 of Austrian-born citizens is 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, pension payments consume almost 50% of net state tax income. In comparison, state expenditures for schools and universities (primary, secondary and tertiary education) are lagging behind. 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.

Debates concerning the pension system are cross-cutting and sensitive: the majority of migrant families have a relatively high fertility rate, the inter-generational conflict is linked to an (at least potentially significant) ethnic conflict and public employees in some cases have a different (usually better) pension system. The pension debates also touch on the conflict between employees in the more secure public sectors and employees outside that system.
France

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 effective average age of entry into a pension, calculated as 62.3 years by the national pension insurance organization (2014). The OECD estimates that the age of retirement will further increase following the gradual implementation of the pension reform. An international survey shows that France is the country offering the most generous pensions and that these pensions are paid for a longer period than is the case elsewhere.

In order to assure the sustainability of the pension system, French governments continuously introduced reform measures over the last decade: pension contributions have been raised, the number of years of contribution needed to get a full pension has been risen to 43 years, and the peculiarities or privileges granted to a some professional groups (“special regimes”) have been downsized. However, the Hollande administration partially broke with this trend by introducing 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 were twofold: it introduced further uncertainty about the actual pension age, and it put in place a highly complex and cumbersome system of measuring penibility that the business community, in particular small- and medium-sized companies, reject and refuse to apply.

In the meantime, the first positive effects of the Sarkozy reforms have been felt. In 2015, for the first time, the pension branch of the social security system showed a positive balance, although it is expected that this will not last more than a few years. An agreement between three trade unions and the employers’ association added further adaptations concerning the supplementary pension. The payment of supplementary pensions (which are run jointly by the social partners) will be postponed 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. Macron has indicated that he will not introduce new reforms concerning the
retirement age and the number of years of contribution during his term. Instead, he has suggested changing the method of calculation for pensions by creating a system of credit points accumulated by employees, which will be monetarized at the moment of their retirement. He further declared that he will get rid of the present jungle of social regimes. This will be a daunting task as the foreseen reforms would constitute a frontal attack on the privileges accumulated over time by several groups and professions.

Citation:
OECD: Pensions at a Glance 2017. OECD and G20 Indicators

Germany

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 grand-coalition 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 total €160 billion by 2030. Public subsidies for the pension fund will increase from €400 million to €2 billion by 2022. In 2017, several smaller pension policies were introduced. For example, company pension plans have been encouraged as an addition to statutory pension insurance, while the calculation of pension payments in cases of long-lasting illness was adjusted, and the difference in pension payments and pension levels between eastern and western federal states will be harmonized by 2025. The extra costs of €3.9 billion per year will be covered by pension contributions and tax money.

As a consequence of the excellent employment and revenue situation the contribution rate was lowered from 18.9% to 18.7% in 2015 and again to 18.6% in 2017, although this will only take effect in 2018. 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. This was the largest increase in pension payments since 1993 and due to increasing wages and high employment rates. On 1 July 2017, pensions again increased by 1.9% in the west and 3.59% in the eastern part of the country. However, increasing health care contribution rates and long-term care insurance costs reduce the level of net pension increases.

Relative to the active labor income, the statutory pension level is expected to decrease by about 6 percentage points by 2045 due to the current pension adjustment
formula and the increasing ratio of pensioners to working population. But even these built-in adjustments might not be sufficient to safeguard the system’s sustainability according to implicit debt calculations, leading to expert demands for a further increase in the statutory pension age. The expected relative decrease in pension levels has been hotly discussed with respect to an increasing risk of old-age poverty for certain population groups and most political parties see the need for legislative action under the next government. Yet, pensioners today are significantly less likely to be at risk of poverty than the rest of the population. With pension spending at 10.1% of GDP, Germany was slightly above the OECD average in 2013 (OECD 2017).

Citation:

http://www.deutsche-rentenversicherung.de/Allgemein/de/Naviga-

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 €920 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:
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. Linking the age of retirement to rising life expectancy further strengthens the system. 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 took effect in 2006. Under its provisions, future pension disbursements would rise less than inflation, payments (after an intermediate period) would commence at age 65 instead of 60, contributions would top out at 18.3% of income, and a payout ratio of 50% was promised. However, the program’s assumed relationship between future payment levels, contributions and the starting age for receiving benefits was based on optimistic macroeconomic forecasts. In late 2016, a “burden sharing” provision was introduced for future years, for instance stipulating that pension adjustments will only reflect wage-level changes, not price-level changes.

The Government Pension Investment Fund has shifted its asset portfolio somewhat
away from bonds (and away from Japanese government bonds (JGBs) in particular), and toward other assets such as domestic and international stocks. 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. The fund performed well in 2016, growing by 5.9% in value.

Japan has a higher-than-average old-age poverty rate, although the previous pension reform contributed to reducing this gap. Since 2016, more nonregular workers have been enrolled in the earnings-related national pension scheme (kōsei nenkin instead of the more basic kokumin nenkin) as the necessary income ceiling has been lowered. In a parallel move, the government has increased pressure on those who do not contribute to the national pension system, initiating the possibility of seizing the assets of non-contributors. Only 63.4% of those covered were estimated to have paid their premiums in 2015.

Citation:
Japan to get tougher on pension premium deadbeats, Nikkei Asian Review, 20 September 2016
Japan’s pension payments system set for overhaul, Japan Times, 3 February 2017

Malta

Score 6

Government expenditure on contributory benefits amounted to €479.8 million during the first six months of 2017 with an increase of €46.7 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; this has been a major concern at the EU level. The European Commission’s 2014 and 2015 Country Specific Recommendations for Malta both noted the need to consolidate the pension system. This concern was restated in the 2017 European Commission Country Specific Recommendations for Malta. Nonetheless, older people are more likely to be at risk of poverty than the rest of the Maltese population (21% versus 15.3%).

The Maltese pension system 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. Measures taken in the 2013 and 2017 budgets, which raised the tax ceilings for pensioners 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. 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 labor unions have been calling for greater government support for work-based pensions.

The Pensions Strategy Group 2015 report provided a detailed overview of possible scenarios up to 2060 and identified several 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. Within this context, a recently launched government scheme is aiming to encourage increased voluntary saving through a system of occupational pensions.

The government’s commitment toward adequate and sustainable pensions have also been illustrated in the 2016 budget with increments for pensioners who receive less than €140 per week and no tax increases for pensioners. However, the new minimum of €560 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 €13,000. It is envisaged that approximately 22,000 pensioners will benefit from this measure. The care-persons’ benefit has also been increased to €140 per week in the 2017 budget and financial assistance of €5,200 per year is allocated for care workers for those choosing not to enter a retirement home. The government also plans to reform pensions for those with disabilities and a new social security benefit scheme for vulnerable workers has been introduced.

NGOs have also 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 123/2017
Malta Independent 21/08/2015 Watch: Deficit in 2015 to be 1.6% of GDP, budget 2016 to look at lower income strata
Recommendation for a COUNCIL RECOMMENDATION on Malta’s 2014 national reform program and delivering a Council opinion on Malta’s 2014 stability program COM (2014) 419 final p. 6
Recommendation for a COUNCIL RECOMMENDATION on the 2017 National Reform Program of Malta and delivering a Council opinion on the 2017 Stability Program of Malta COM(2017) 517 final p.4
Malta Today 29/11/2012 Budget 2013 at a glance
Times of Malta 04/12/2014 Third pillar pensions: a first step?
Strengthening the Pension System – A Strategy for an Adequate and Sustainable Maltese Pension System p. 4
The Malta Independent 07/09/2017 Government launches scheme to incentivize voluntary occupational pension
The Malta Independent 15/10/2015 Toward a sustainable pension system
The Malta Independent 13/10/2015 Budget 2016: What’s in it for you – point by point, how the budget will affect you
The Malta Independent 18/10/16 Budget 2017: Pensions and Pensioners Given a boost
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
Times of Malta 15/11/17 Social Security Benefits for Vulnerable workers unveiled
New Zealand

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 major parties. Although introduced by a Labour government, the National governments implemented only minor modifications. KiwiSaver is a popular option. As of September 2017, more than 2.7 million people had joined the program. 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. For a long time, the government 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 then prime minister threatened to resign rather than adopt a retirement age of 67 years as government policy. One proposal coming from a then 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. Finally, in March 2017, the government released plans to lift the pension age to 67 by 2040 and require migrants to live in New Zealand for 20 years, rather than 10, before they can get New Zealand Super. These plans notwithstanding, in the run-up to the 2017 election, the Labour and NZ First parties made it clear that under their leadership, the 65-year age entitlement would continue.

Citation:
South Korea

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, and many employers fail to register their employees for participation. The level of the national pension benefit is still very low. By contrast, subscribers to the four occupational pension funds enjoy relatively high benefits, a state of inequality that also provokes considerable controversy. President Moon has pledged to raise the basic pension to KRW 300,000 a month from the current maximum of KRW 206,050, with benefit eligibility coming at the age of 65. This pension will be provided to the 70% of elderly classified as low-income.

Given the low fertility rate, the old-age dependency ratio is expected to increase rapidly in the future. Thus, improving sustainability within the public pension systems is an important although not immediately urgent task. Previously, the country’s pension funds have been vulnerable to government interference. For this reason, pension reform has been one of the Moon administration’s top priorities.

Bulgaria

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 pillar. The second pillar includes 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. Consequently, the pillar is currently underfunded.

The pension system does not reduce poverty among the elderly, suffers from lack of intergenerational fairness and is fiscally unsustainable – especially in light of the negative demographic trends. The demographic problem was exacerbated by the suspension of the increase in the retirement age from 2013 to 2016. Moreover, as it stands, the increase will end when the retirement age reaches 65 for men in 2029 and women in 2032.

Like the previous budget, the draft budget for 2018 included a further one percentage point increase in social security contributions. While this move will increase
revenues for the first and (to a lesser extent) second pension pillars, it will not make the system financially sustainable. The 2016 introduction of an option to opt out of the second pillar and participate only in the first pillar has further reduced the sustainability of the first pillar, despite possible positive effects for its revenues in the short run. So far, however, only about 0.03% of the funds accumulated in the universal private pension funds have been transferred to the first pillar.

Chile

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 redistributioinal 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 among 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://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

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 no longer face the highest risk of poverty thanks to amendments to various benefits schemes since 2012. This has improved Cyprus’s ratio of pension expenditure to GDP, which until 2012 was the EU-27’s second lowest.

A range of pension schemes places public employees in a better position than private sector workers. They benefit from different retirement ages, depending on their sector of work, and receive both state and social-insurance pensions, along with a bonus upon retirement. Private sector workers have access to social-insurance benefits and, some, to provident-fund schemes. Provident funds suffered drastic capital losses from the 2013 bail-in and from mismanagement. Reforms to the social-insurance system have been beneficial. Changes included an increase in the retirement age, increases in employers’ and employees’ contributions, special allowances for specific groups and the guaranteed minimum income (GMI) program. These measures have partially mitigated the economic crisis’s worst ills affecting vulnerable groups. Pensioners, in particular women, appear to have benefited significantly from the GMI, improving the AROBE rate.

The European Commission notes that the gender gap in pensions is the highest in the EU and expresses concerns about the very high increase in inequality. However, 2017 data show some improvement on these indicators.

Citation:

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.

One of the key problems with the current pension system in Mexico is its low coverage: in 2016, only 27% of the working age population had a pension account, a rate below that of countries like Chile, Costa Rica and Uruguay. Moreover, increasing mandatory contributions is not a viable solution in the Mexican context, as it would further incentivize informal employment. An increase in mandatory contribution would have to be accompanied by more comprehensive measures that account for the complexity of the Mexican labor market and the government’s fiscal capacity.

Citation:

Poland

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. As pension age was a hot topic in the 2015 election campaign the 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 and became effective in November 2017. It will cost PLN 15 billion annually. The lowering of the retirement age has reduced the sustainability of the Polish pension system and is likely to increase poverty among women. The announced reform of the second pension pillar was delayed following disputes between Minister of Finance Morawiecki and Minister of Labor Rafalsk. According to the eventual compromise, the second pillar will be abolished, with 75% of the assets to be transferred to fully private pension schemes (in the so-called third pillar) and 25% going to the state’s Demographic Reserve Fund. At the end of the year, two other bills were under discussion, one introducing a 500+ scheme for pensioners that could provide people in need with an extra payment on an annual basis and another one abolishing the maximum contribution to ZUS, the public pension pillar, for people who earn above a certain threshold. This may bring more money into the pension fund in the short term but will demand additional future spending. About 350,000 Poles would be affected by these changes. PiS, as with previous governments, has ignored repeated EU recommendations to reform the costly pension systems for miners and farmers.

**Portugal**

*Score 5*

The pension system was one of the most closely scrutinized aspects of government policy between the 2011 bailout and its end in the spring of 2017. This was one of the main areas in which the government sought to reduce public expenditure. The official retirement age is linked to life expectancy. In 2016, it was increased to 66 years and two months; and further to 66 years and three 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. In a public statement on 12 April 2017 Costa promised that the new pension policy would be implemented in August 2017, guaranteeing the provision of pensions sufficient to allow all those over 65 to live a decent life, and allowing all those who began work between 12 and 14 years of age to retire at the age of 60. It remains to be seen whether this promise will be realized.

**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 originally 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. In order to limit the pressure on the first
pillar associated with a rapidly aging Slovak population, the indexation of pensions was gradually changed between 2013 and 2017. Instead of being indexed to the growth of the average wage and the consumer price index (i.e., inflation), the annual adjustment of pensions became dependent on the development of the cost of living of pensioners. In 2017, however, the government reneged on the change in indexation. An ad hoc increase of pensions by 2% in 2017 was followed by the guarantee of a pension increase of at least 2% of an average pension for the period 2018 – 2021. The Council for Budgetary Responsibility and others have warned of the costs for the first pillar resulting from these increases.

Citation:

Turkey

Score 5

In 2001, Turkey’s pension system was reformed with the enactment of Law 4632. The law allowed insurance companies to offer individual retirement plans. This transformed the single-component pension system into a two-component system, with one compulsory component and one optional component. While the compulsory component consisted of a pay-as-you-go statutory public pension scheme, the voluntary component consisted of a voluntary funded individual pension scheme.

The World Bank (2016) noted that pension spending in Turkey, around 7% of GDP, is modest in comparison to high-income OECD countries. This low spending reflects Turkey’s relatively young population. Furthermore, due to the system’s high dependency ratio and generous eligibility rules, more than half the country’s pension spending is financed through budget transfers. A 2008 reform adjusted pension parameters, gradually increasing the retirement age and contribution period, and reducing the accrual rate. Though these adjustments will be phased in over several decades, too slowly to counter the effects of expanding 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.

Law 6327 enacted in June 2012 aimed to encourage more working people to purchase complementary pension plans. The law stipulated that the state would match 25% of all contributions (premiums) paid by individuals to government-recognized pension schemes, starting in January 2013 (up to the annual pre-tax monthly minimum wage). The reform aimed at extending coverage and making the system more progressive, which should make investing in a pension scheme more attractive to workers.

Most recently, the government introduced Law 6740 to boost total savings in the economy. The law was enacted in August 2016 and took effect in January 2017. Under the law, all public and private sector employees under 45 years old will be
automatically assigned to an individual pension plan. Employees will start making contributions to the plan at the minimum rate of 3% of their taxable earnings, unless they request to opt out within two months of their automatic enrollment. The government will match 25% of employees’ contributions to their private pension fund. In case the employee stays in the plan, another one-off state subsidy of TYR 1,000 will be provided.

Citation:

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 country’s aging demographics, 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 systemic stability.

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. 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 (for men and women alike) and increase the early retirement age from 60 to 62. These plans, however, were not implemented before the September 2016 elections. The Plenković government came up with similar plans in its National Reform Program for 2017 as presented in April 2017 but did not launch any legal initiatives during the period of review.
Greece

Score 4

The Greek pension system is a pay-as-you-go corporatist system, based on a multitude of occupational pension funds. These funds have recently been merged into a larger, private sector pension scheme, managed by a single state authority (the EFKA). Social spending reached 27% of GDP in 2016 (among the highest level in the EU-28) and the largest share of social protection expenditure is devoted to pensions. In December 2016, the country supported 2.6 million pensioners and more than 1.2 million pensioners lived on less than €500 per month.

The prospects of the Greek pension system are not good, as the country has one of the worst old-age dependency ratios (31) among all OECD countries. Further, nearly one-third of the value of pension funds was lost following 2009 due to surging unemployment and a fall in contributions.

The pay-as-you-go system, according to which the working population contributes to pension funds so that old-age pensioners can obtain their pensions, is unsustainable. 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. Notably, the proportion of people aged 55 to 64 in work in Greece is the lowest of any OECD country, except Turkey.

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 May 2016, the Syriza-ANEL government passed legislation which increased social insurance contributions and reduced the supplementary pensions for retirees. New pension legislation has cut pension payments by up to 30%, while poor policy design led to 18 legislative amendments in the 18 month period following the initial reform (May 2016 – October 2017).

Overall, however, the thrust of the new legislation continued to protect older generations more than the youth. The legislation’s positive contribution includes the establishment of a nationwide management system and unification of previously fragmented private sector pension schemes, but Greece’s pension system is not
sustainable and needs major reform. However, reform is politically extremely difficult, as one in two households rely on pensions to make ends meet. In accordance to the Third Bailout, Greece has legislated new pension cuts, which are due to take effect in 2019.

Citation:

**Hungary**

**Score 4**

Hungary introduced a three-pillar pension system along World Bank guidelines in 1997 that featured a strong mandatory, fully funded second pillar. Upon coming to office, the second Orbán government abolished this second pillar and confiscated its assets. It also shifted disability pensions to the social assistance scheme, eliminated some early-retirement options and did not reverse the shift from Swiss indexation (which adjusts outstanding pensions by the average of the price and wage indices) to price indexation, as it had been introduced by the previous government in the context of the great recession. These changes have improved the financial sustainability of the first pension pillar but have also increased poverty among pensioners. The third Orbán government has failed to address this issue. Its main reform project has been the monstrous 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. In a populist move, the government also sent to all pensioners vouchers worth HUF 10,000 (€33), accompanied by a letter by, and a portrait of, Orbán in the 2016 and 2017 Christmas season. With the parliamentary elections in April 2018 approaching, debates about pension reform intensified in 2017.

Citation:

**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 2017 monthly minimum wage of €380. 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 2016 was €279. According to the
Central Statistics Bureau, the at-risk-of-poverty rate among retired persons continues to grow rapidly, reaching 38.1% in 2015 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 stable for 2017.

The second pillar mandatory funded pension scheme has come under criticism for excessive fees. An independent private start-up fund has emerged, offering substantially lower commissions and favorable terms. Legislators have taken interest and draft legislation is under consideration to limit as of 2018 bank commissions and fees levied for managing the mandatory funded pension scheme.

Citation:
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.

In an attempt to buy popular support, the Grindeanu und Tudose governments have enacted significant increases to old-age pensions. Going beyond the standard pension indexation, the average pension grew by 10% in 2017. In order to finance the
additional spending, the Grindeanu government adopted a freeze on special pensions in April 2017. Moreover, it shifted revenues from the mandatory, fully funded second pillar, which has performed quite well since its creation in 2008, to the public pension pillar. As for 2017, it reneged on the original rules and did not raise the share in the social insurance contribution going to the second pillar. As for 2018, it lowered the share from 5.1% to 3.75%. By weakening the role of the second pillar, the Grindeanu and Tudose governments have exacerbated uncertainty among future pensioners and within capital markets and have reduced the reliability and long-term sustainability of the pension system.
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