Pensions Report

Pension Policy

Sustainable Governance Indicators 2019

SGI Sustainable Governance Indicators

Bertelsmann Stiftung

Indicator

Pension Policy

Question

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

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

10-9 = Pension policy achieves the objectives fully.

8-6 = Pension policy achieves the objectives largely.

5-3 = Pension policy achieves the objectives partly.

2-1 = Pension policy does not achieve the objectives at all.

Switzerland

Score 10

The Swiss pension system is based on three pillars, each with its own logic of financing and redistribution. The underlying concept is that pension income should not fall below the subsistence level and should provide 60% of average pre-retirement income. The first pillar guarantees a basic income. The minimum benefit level for a couple as of 2018 was CHF 28,200 (about €24,500) per year, while the maximum benefit was CHF 42,300 (about €36,800). The minimum pension for a single person was CHF 14,100 (about €12,250), while the maximum pension was CHF 28,200 (about € 24,500). Employers and employees finance this through contributions. It is a pay-as-you-go system and 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. Historically, this system of occupational pensions is the core of the Swiss pension system and powerful interests (e.g., major political parties and financial institutions) allow for only piecemeal reforms.

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.

In international comparison, the Swiss pension system performs extremely well. According to a comparative analysis of 12 countries by a major Swiss bank, this system has the smallest "pension-gap," that is, the estimated share of income which a worker at age 50 must save privately in addition to contributions to the pension system if she wants to enjoy an adequate lifestyle during retirement. The respective figure for Switzerland is 11%, while in Germany it is 40%, in the UK 47% and in France 39%.

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 failed in a popular vote – as many other reform efforts in this policy area over the last 20 years. Then the government tried to find the necessary majorities for a new reform effort, though much less ambitious and comprehensive. It consists of increased revenues for the first pillar in exchange for tax cuts for firms (see Tax Policy section).

Important lessons can be learned from previous referenda on pensions as recent research has shown: 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.

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Denmark

Score 9

The Danish pension system 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 in the top of 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. First, there will be step increases in the retirement age (early retirement and pensions) and the early retirement period will be reduced from five to three years. Then, retirement ages will be linked to developments in life expectancy at the age of 60 such that the expected pension period will become 14.5 years (17.5 including early retirement) in the long run (currently the expected pension period is between 18.5 and 23.5 years). An attempt to phase these changes in more quickly did not get political support.

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

Finland

Score 9

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. In 2018, Finland pension system was ranked the third best in the world, according to the Mercer Global Pension Index, with the Finnish pension system ranked highest regarding administrative integrity and transparency.

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. Figures for 2017 show that the expected effective retirement age within the earnings-related pension system was 61.2 years, which was 0.1 years more than during the previous year. At present, Finland ranks in the middle of EU member states 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:
Nicholas Barr, "The Pension System in Finland: Adequacy, Sustainability and Systems Design", Finnish Centre for Pensions, 2013;
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https://www.etk.fi/en/statistics-2/statistics/effective-retirement-age/

Norway

Score 9

Aging represents a significant challenge for public finances in Norway, as across all European countries. Nevertheless, Norway's pension system is fairly 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 the Government Pension Fund – Global (Statens pensjonsfond – Utland), although this is not a pension fund as such.

A pension reform passed in 2009 came into effect in 2011. This has further strengthened the sustainability of the system. The crux of the reform was to introduce more choice and flexibility into the system in terms of retirement, while adding new mechanisms of gradual demographic adjustment. One major goal, in addition to improving financial sustainability, was to redesign contribution and benefit rules so as to encourage employment and discourage early retirement. This reform was carefully prepared, starting with the appointment of a cross-party pension commission in 2001; this body reported its findings in 2004, leading to a five-year process of political implementation that culminated in the 2009 reform, which drew widespread approval. During the process, the proposed reform was criticized as being "too little, too late," but that criticism has largely subsided today. The government recently created incentives for older citizens to postpone their retirement age from 67 to 70 years.

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

Australia

Score 8

Australia has two explicit pension systems, the public age pension and private employment-related pensions. The public age pension is funded from general taxation revenue, and because it is means-tested, it effectively acts as a social safety net. Pensioners enjoy additional benefits such as access to universal health care, concessions on pharmaceutical and other government services, and tax concessions.

Currently, the public 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 pensioners replying on public age pensions 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. In some cases, pensioners without their own home are forced to retire to rural Australia in order to find affordable housing. A few even migrate abroad.

Over time the balance will shift toward the private pension system, which was only introduced on a large 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 concessionally taxed at a flat rate of 15%, and private pension income in retirement is largely 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 public 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 public age pension will continue to be high for many years, 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 public age pension.

Citation:
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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 4.7% in 2016, one of the lowest rates ever recorded in the history of the series. In contrast, Statistics Canada's Low-Income Measure (LIM), a relative poverty definition, senior poverty rates have been on an upward trend over recent years, increasing from a low of 3.9% in 1995 to 14.2% in 2016.

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. With the recent benefits and contribution expansion, the CPP/QPP is projected to replace only a third of the average wage up to a ceiling that will reach CAD 82,700 in 2025. Thus, middle- and upper-income workers with no employer pension plan or private savings may not be able to replace a sufficient proportion of their pre-retirement earnings. In the private sector, this issue affects three in four workers.

The CPP is 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.

Czechia

Score 8

The Czech pension system has developed through 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. While pensions have increased more slowly than wages, pensioner poverty remains relatively low, partly reflecting the levels of pension afforded by the old system. In March 2018, the average monthly old-age pension stood at CZK 12,347 (€475). The retirement age, which has been gradually increased since 1996, is still different for men and women. In the case of women, it also depends on the number of children reared. The automatic increase in the retirement age by two months per year in case of men and four (since 2018: six) months in case of women will stop when an age of 65 years for both men and women is reached. In 2018, not only old-age but also widowers and orphans' pensions were revalued. The Babiš goverment has refrained from introducing other changes, which is in line with the previous government's view that the proposed increases in pension age will ensure sustainability for the medium term. This can, and may need to be revised, in view of the aging population.

Netherlands

Score 8

The Dutch work fewer hours and retire later than people in other EU member states. The average pension age has increased from 61 years in 2007 to 64 years and 10 months in 2017. The proportion of people aged between 60 and 65 still active in the labor market has almost doubled since 2005.

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, 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. At the time of writing, negotiations on a new pension reform have stalled.

Citation:
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Melbourne Mercer Global Pension Index 2018, October 22, 2018

Sweden

Score 8

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

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

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

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

Citation:
OECD (2016), OECD Pensions Outlook 2016 (Paris: OECD).

OECD (2017), Pensions at a Glance (Paris: OECD).

OECD (2018), Pensions Outlook 2018 (Paris: OECD).

United Kingdom

Score 8

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

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

Belgium

Score 7

Pension policy has long been a touchy issue in Belgium. Reforms were continuously delayed until the financial crisis hit the country and forced the previous government to initiate a number of reforms to restrict early retirement. Despite considerable political 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 and hotly debated in the public arena. Indeed, the so-called pension reform has not been fully implemented and there seems to be no consensus between social partners on a number of issues. In principle, the federal government could impose the reform unilaterally, but it will depend on how cohesive the new federal majority will be after the 2019 elections.

Citation:
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https://www.levif.be/actualite/belgique/reforme-des-pensions-bacquelaine-fixe-un-dernier-delai-aux-partenaires-sociaux/article-normal-1045569.html
Notes:
Ajouter un point sur les nouveautés vs. ce qui bloque encore? Pensions à temps partiel vs pension à points/pénibilité
https://www.levif.be/actualite/belgique/reforme-des-pensions-le-conseil-d-etat-tacle-le-projet-penibilite/article-normal-1047441.html
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http://www.oecd.org/belgium/Better-Life-Initiative-country-note-Belgium.pdf

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https://www.lecho.be/economie-politique/belgique-federal/La-rentree-s-annonce-chaude-si-la-reforme-des-pensions-passe/9909613

https://www.lecho.be/monargent/dossier/guidepension2017/Plus-aucune-pension-ne-sera-victime-des-pieges-fiscaux/9937526

Estonia

Score 7

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 2018, this indexation resulted in an average pension-payment increase of 5.1%. Due to the low absolute level of benefits (€415 per month), elderly people still struggle to make ends meet. Because wages grow faster than pensions, the senior citizen poverty rate has increased substantially in recent years. The well-being of working pensioners has been hit by changes in the income tax system, which have added pension income to earnt income when calculating income tax.

Debates concerning the mandatory second pillar have intensified following the extremely poor performance of Estonian pension funds. A 2016 OECD report revealed that the productivity of Estonian pension funds was the worst of any OECD country's pension funds during a 10-year period. The annual productivity of Estonian pension funds was negative at -2.2%. Furthermore, the system is characterized by high administrative costs and minimal choice for citizens. In order to tackle these financial challenges, in 2017, the government proposed a reform to make the retirement age flexible and revise the regulations for pension funds. Yet, notable progress has not yet been achieved on these issues.

Citation:
Ministry of Finance (2016). Statistics on public old age pension, mandatory funded pension and voluntary funded pension. (in Estonian) /Riikliku vanaduspensioni, kohustusliku kogumispensioni ja vabatahtliku kogumispensioni statistika/ http://www.pensionikeskus.ee/files/dokumendid/kogumispensioni_statistika_012017.pdf (accessed 23.10.2017)

France

Score 7

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 a constant increase in the effective average age of entry into a pension since 2010, calculated as 60.5 years by the OECD for 2017 (compared to 63.3 years for the EU-28 average). 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 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. Macron has deliberately chosen to reduce the advantages enjoyed by the pensioners in order to increase the income of people in work. This has been done by increasing a universal tax paid (CSG, Cotisation sociale généralisée – Universal Social Contribution) and eliminating a social contribution paid only by salaried people. The government has also decided that in 2019, pensions will be increased by only 0.3%, while the inflation estimate for 2018 is 1.6%.

In the meantime, the first positive effects of the Sarkozy reforms of 2010 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. After a set of intensive consultations, the reform is expected to be adopted in 2019.

Citation:
OECD: Pensions at a Glance 2017. OECD and G20 Indicators
OCDE: Vieillissement et politique de l'emploi – statistiques sur l'age effectif moyen de la retraite (http://www.oecd.org/fr/els/emp/age-effectif-moyen-de-retraite.htm)
Conseil d'orientation des retraites (COR): Rapport annuel, June 2018.

Iceland

Score 7

Iceland's pension system is a fully funded one rather than pay-as-you-go. 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. There is a large number of pension funds, currently 27, although this is down from 50 in 1997. Pension funds' average annual returns on investments range from 1.2% to 6.2% in real terms (i.e., adjusted for inflation). Under the period capital controls 2009 – 2017, pension funds, which before the 2008 crash had gradually increased their foreign holdings, were confined to domestic placements.

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 others, equities in 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 pensioners. 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 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 restrictions on pension funds' investments in foreign markets, which had been imposed following 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.

Citation:
Ísleifsson, Ólafur (2012),"Vulnerability of pension fund balances," Stjórnmál og stjórnsýsla, Vol. 8, No 2., 543-564.
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OECD Data. Pension funds assets 2015. https://data.oecd.org/pension/pension-funds-assets.htm. Accessed 22 December 2018.

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 (DC) pension plan, with contributions invested in the market instead of government bonds. In so doing, it transformed an underfunded system driven by collective bargaining into a system of mainly 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.

Israel’s pensions framework has been changing and evolving to accommodate current needs. In 2016, a new pension-system reform was introduced, aiming to help workers by lowering pension fees and increasing competition between pension funds. In addition, two “default” pension funds committed to charging lower management fees were created. In 2018, two additional “default” pension funds were approved under a new tender. While some actors within the finance sector appealed to the courts against the conditions of the new tender, the appeal was quickly withdrawn. Journalists have speculated that the purpose of launching the appeal was to prevent the conditions of the new tender being applied to management fees paid by pensioners, since these fees are a major source of revenue for the financial sector. As of 2017, not only employees (as was the case before the change), but also self-employed individuals are required to use Israeli-recognized pension plans.

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:
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Radomsky, Binyamin,”What Israel’s New Self-Employed Pension Plan Requirement Means for Freelancers,” 26.02.2017, http://aboulafia.co.il/self-employed-pension-plan-israel/

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 ended in 2017. The Skvernelis government decided to allocate an additional €371.8 million for old-age pensions in 2018 and to reform the pension system by shifting responsibility for contributions to the state social security fund from employers to employees and by increasing contributions to private savings pillars.

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%.

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.

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 pension is state financed, with an individual share dependent on social security contributions and financed from the Social Security Fund. Second, clear pension indexation rules link pension increases to average increases in the wage fund. Third, the mandatory period a person must work before qualifying for a pension is gradually increased from 30 to 35 years by 2027. These changes took effect in 2018.

The new coalition government led by the Lithuanian Farmers and Greens Union proposed going beyond consolidating the state budget and social security fund to reforming both the PAYG and private-savings pillars. On the basis of these proposals, the parliament adopted changes to the legislation governing the second pillar of the pension system in 2018. The reform will abandon the system whereby the State Social Insurance Fund Board transfers 2% of the social insurance contributions into the second-pillar pension funds. Instead, a new formula (4% + 2%) for pension accumulation was established. The contribution into the pension fund will be comprised of 4% of the participant's personal income and 2% of the national average salary as a supplementary contribution paid out of the state budget. The Constitutional Court has been called to rule on the legality of the second-pillar pension reform.

Citation:
COMMISSION STAFF WORKING DOCUMENT, country report Lithuania 2017: https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-lithuania-en.pdf

Luxembourg

Score 7

Luxembourg's pension plans offer one of the highest replacement rates within the OECD and provide a high living standard for the elderly. The 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, 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 financial sustainability of the pension system is premised on a 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.

Citation:
"Neue Langzeitprognosen: Die Renten sind (nicht mehr lange) sicher." https://www.wort.lu/de/politik/neue-langzeitprognosen-die-renten-sind-nicht-mehr-lange-sicher-584178895061e01abe83d1cb. Accessed 5 Nov. 2018.

Slovenia

Score 7

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 have slowed pension growth. The Cerar government emphasized the need for further change and eventually agreed with the social partners 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 have benefited from the amendment and, on average, received an additional €26 each month.

Citation:
Macjen, B. (2017): Slovenia increases minimum old-age and disability pension. European Social Policy Network, Flash Report 2017/53, Brussels.

Macjen, B. (2018): Slovenia has made another important step toward a new pension reform. European Social Policy Network, Flash Report 2018/15, Brussels.

Spain

Score 7

Spanish pension policy achieves the goal of poverty prevention, but meets intergenerational-equity and fiscal-sustainability standards to only a moderate degree. The pension system represents the largest single piece of public spending (more than €120 billion), and pensioners maintained their purchasing power during the crisis years. Moreover, whereas the poverty rate among Spain’s general population is 26%, the rate among the elderly is only 12%. Thus, the elderly are less economically vulnerable than active but unemployed workers, which demonstrates that the current system does not ensure equity across different generations – that is, pensioners, the active labor force and youth.

The model (with the exception of private pension plans that are publicly subsidized through favorable tax treatment) is based on a pay-as-you-go methodology that relies on current contributors to the insurance system being able to pay the expenses for the current generation of recipients. However, 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 reduced the country's accumulated reserves, with the social-security fund diminishing from €66 billion at its peak to just €8 billion. Consequently, debates over the long-term fiscal sustainability of the social-security system have topped the political agenda. In 2018, several demonstrations by pensioners across Spain added additional urgency to the political debate. Pessimistic forecasts show a growing deficit, with pension-related expenditures forecast to rise from 8% of GDP 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. In the 2013 pension reform, a pension revaluation index was introduced, and beginning in 2019, a sustainability factor was to be added linking the level of state pensions to life expectancy. These changes were intended to help the system achieve sustainability in the long run. However, due to societal pressure, the 2018 budget included a 3% increase in the lowest pensions, and a general revaluation of pensions by 1.6% to compensate for inflation. In 2018, the parliamentary committee on public-pension reform agreed to return to the pre-2013 practice of increasing pensions according to the consumer price index, and to eliminate the sustainability factor (or at least delay its introduction until 2023). To date, it has been impossible to establish a broad political consensus among all political parties for reform of the pension system through the creation of new taxes.

Citation:
Universidad de Extremadura (2018), El incremento de las pensiones contributivas
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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 (or 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 lower than 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 and the Republican Congress have not been willing to raise taxes or cut benefits in order to address the long-term funding deficiencies of the Social Security Program, which are becoming more difficult to deal with – requiring larger, more painful adjustments with every year in which the government fails to act.

Austria

Score 6

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 intergenerational 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.

The demographic challenge of an aging population has not changed. The government has not indicated whether it will respond to this challenge with a radical attempt to redefine the pension system (e.g., by raising the state pension age). The reason for the lack of action is the electorate of the governing parties (as well as of the SPÖ in the opposition): An older electorate is more afraid of structural change.

Germany

Score 6

Germany has engaged in a significant number of pension reforms in recent decades. The comprehensive and far-reaching 2004 reform aimed to make the pension system more sustainable through increasing the retirement age and a reduction in future pension increases linked to demographic change. Reforms in recent years have rather gone in the opposite direction. 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. The calculation will now include two additional years of (fictive) contributions. It is expected that about seven million mothers will benefit and is the most expensive measure within the reform package. Pensions for people with disabilities were improved. The cost of these reforms is estimated to be €160 billion by 2030. Finally, the government has decided to further converge the pension formula for the east and the west of Germany with full convergence by 2025.

The largest challenge for the system's stability is demographic change, with the baby-boomer generation reaching retirement age in the 2020s. This will dramatically increase the ratio of pensioners to the active workforce. This trend would automatically lead to cuts in the level of pensions (relative to the average wage level) and may increase the risk of poverty in old age. To address this challenge, in 2018 the government agreed to establish the so-called double stop-line. This includes the double guarantee that the contribution rate will not increase above 20% and the pension level will not fall below 48% of the average wage. However, these guarantees will only hold to 2025, while the strong increase in the pensioner-to-worker ratio will occur after that. But even this temporary double guarantee requires a drastic increase in federal subsidies for the pension system. These subsidies are already increasing. In 2017, federal subsidies reached a level of €67.8 billion compared to €62.43 billion in 2015

The uncertain medium- and long-term sustainability of the system stand in strong contrast to the comfortable short-run development, which mirrors the employment boom and rising salaries. The contribution rate has fallen from 19.9% in 2011 to 18.6% in 2018. At the same time, pension payments have increased in a dynamic way. In the west of Germany, pension payments increased 4.25% in 2016, 1.9% in 2017 and 3.22% in 2018. In the east of Germany, pension payments increased 5.95% in 2016, 3.59% in 2017 and 3.37% in 2018. To some extent, however, increasing health care contribution rates and long-term care insurance costs have reduced net pension increases.

Citation:
SPIEGEL Online 2018: http://www.spiegel.de/wirtschaft/soziales/rente-grosse-koalition-einigt-sich-auf-reform-was-bedeutet-das-a-1225438.html

Deutsche Rentenversicherung: Rentenversicherung in Zahlen 2018: hhttps://www.deutsche-rentenversicherung.de/cae/servlet/contentblob/238692/publicationFile/61815/01_rv_in_zahlen_2013.pdf

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

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 interim 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. A "burden sharing" provision was introduced in 2016 and took effect in 2018. Among other aspects, it stipulated that pension adjustments would 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.

In another challenge, Japan has an old-age poverty rate of 19% as compared to an OECD-area average of 12.5%. In May 2018, the government estimated that expenditures on social-security benefits in 2040 would rise to 1.6 times their current levels. Given the prospect of further fiscal shortages in an aging Japan, further reforms are critical and urgent.

Citation:
OECD: Pensions at a Glance 2017. How does Japan compare?, 5 December 2017, https://www.oecd.org/japan/PAG2017-JPN.pdf

Japan's pension payments system set for overhaul, Japan Times, 3 February 2017

Malta

Score 6

Government expenditure on social-security benefits amounted to €497.0 million during the first six months of 2018, with an increase of €14.1 million for 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. Indeed, the sustainability of pensions has been a recurring point of concern in the European Commission's Country Specific Recommendations in the last few years. This concern was restated in the 2018 Country Specific Recommendations for Malta.

In 2014, the parliament voted to introduce a third pillar to the pension system. However, it will be some time before this reform can reduce the stress of pension costs on public finances. Second-pillar pensions have not yet been introduced, though this is increasingly regarded as an important addition to the pension system. 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 the development of a flexible and sustainable pension system. However, the report was criticized for failing to address the issue of how to get people to save voluntarily, and for offering only weak definitions of what constitutes a strong system and what benchmarks should be used. Within this context, a government scheme is aiming to encourage increased voluntary saving through a system of occupational pensions.

Nonetheless, 26.4% of individuals aged 65 years and over are at risk of poverty and social exclusion. The Maltese pension system is based on a pay-as-you-go model, as well as a means-tested non-contributory system. Until recently, pensions were not linked to inflation, and considerable erosion in real value occurred. Although this has been partially rectified, the real value of pensions today cannot make up for decades of decline. Low tax ceilings have also meant that pensioners have been required to pay income tax on their pensions. As it stands, Malta’s pension system protects against absolute poverty, but does not constitute an adequate income replacement. Additionally, women are worse off and a European Parliament report states that the gender gap in pensions is one of the EU’s greatest.
Measures have been taken since 2013 to address these shortcomings. Most notably the 2016 budget included incremental benefits for pensioners who receive less than €140 per week, and no tax increases for pensioners, while 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. The non-taxable income ceiling will be raised further during 2019, and a rise in pensions over and above cost-of-living adjustments has also been announced. Government bonds designed to provide pensioners with an additional source of revenue have also been launched. Increases have also been made to disability pensions, and allowances provided to those caring for the elderly. NGOs have also flagged the issue of lack of pensions for migrants working in undeclared jobs, a fact that will impact these individuals and the economy more broadly in years to come. The 2018 European Commission adequacy report recommended that a mechanism be introduced to ensure that national insurance contributions after retirement are reflected in pension amounts, and that pensions be increased through a formula that equally reflects wage inflation and retail price inflation.

Citation:
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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 2015 National Reform Program of Malta and delivering a Council opinion on the 2015 Stability Program of Malta COM (2015) 267 final p. 5
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
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The Malta Independent 15/10/2015 Toward a sustainable pension system
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Malta Today 29/11/2012 Budget 2013 at a glance
Budget 2019 Speech (Maltese) p. 15
The Malta Independent 13/10/2015 Budget 2016: What’s in it for you – point by point, how the budget will affect you
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Budget 2019 Speech (Maltese) p. 15, p. 19, p.20
Times of Malta 06/06/2018 €100m scheme meant to offer pensioners additional revenue stream
Times of Malta 11/03/16 NGOs warn of problem over lack of pensions for migrants
Times of Malta 07/09/18 Pensioner’s Budget Expectations
European Parliament 2017 Gender Gap in Pensions: Looking Ahead

New Zealand

Score 6

New Zealand’s pension system is tax-based. The universal pension for those aged 65 and over is neither income nor asset tested. 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. According to the OECD, 10.6% of over 65s in New Zealand were considered to be living in poverty compared to the OECD average of 12.5%. However, among those 76 and over, 15% were in poverty compared to 13.9% across the OECD.

The most recent innovation in this area is KiwiSaver, introduced in 2007, a publicly-subsidized private pension plan offered on a voluntary basis. KiwiSaver has come under public scrutiny because of a perceived lack of transparency around account fee charges. Another public debate concerns where the KiwiSaver funds are invested. For example, it was revealed that KiwiSaver had 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, especially if the government sticks to its plan to reduce immigration by substantial numbers. 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. In March 2017, the

National-led government published plans to lift the pension age from 65 to 67 by 2040 and require migrants to live in New Zealand for 20 years, rather than 10, before becoming eligible for a pension. These plans notwithstanding, under the Labour-led government the age of eligibility for New Zealand Superannuation is set to remain at 65.

Citation:
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South Korea

Score 6

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, and employees in private companies are often pressured to retire long before the legal retirement age of 60 (which will gradually increase to 65 by 2033). Thus, pension reform has been one of the Moon administration's top priorities, although changes have to date been slow. The basic pension will gradually increase to KRW 300,000 a month by 2021, from its 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.
In the past, the country's pension funds have been vulnerable to government interference, with the pension fund used to finance controversial projects and to prop up the stock market. Efforts to reform governance structures so as to improve the performance and enhance the transparency of the National Pension System have stalled. 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 important, although not an immediately urgent task.

Citation:
Moon, Hyungpyo. The Korean Pension System: Current State and Tasks Ahead. KDI.
Banjo, Shelly. Korea's Stubborn Leviathan. Sep 11, 2017. https://www.bloomberg.com/news/articles/2017-09-11/korea-s-reform-block-the-495-billion-national-pension-service

Bulgaria

Score 5

Bulgaria has a mixed pension system consisting of three pillars: a public pay-as-you-go pillar financed by social insurance contributions, an obligatory fully funded private-pension-fund pillar and a voluntary pillar. The second pillar includes people born after 1959 and is not yet paying out many pensions. However, the second pillar is currently underfunded due to the parliament’s refusal to increase its share in the general contributions as originally envisaged.

The share of retired people experiencing material and social deprivation fell by nine percentage points between 2014 and 2017. Yet, at more than 50%, the rate is still very high, indicating the very limited effectiveness of the pension system in reducing poverty among the elderly. The pension system is fiscally unsustainable due to its heavy reliance on the pay-as-you-go pillar combined with a negative demographic dynamic. A planned increase in the retirement age to 65 for men in 2029 and for women in 2032 will not be sufficient to make the system sustainable.

In the course of drafting the 2019 budget, the government reneged on its promise to abolish the ceiling for a maximal pension under the first pillar. This promise created an incentive for people nearing retirement age to postpone retirement and remain active over the last two years in the hope that if they wait they will be able to retire without incurring a pension ceiling. This was a major cause for the relatively fast growth in pension fund revenues and the improvement in the dependency ratio. Conversely, keeping the ceiling is likely to lead to lower employment and revenues.

Chile

Score 5

Chile’s pension system combines a redistributive means-tested pillar financed by general taxation with a self-financed pillar based on individual contributions and individual pension accounts, which are administrated by private pension fund managers and invested both domestically and abroad. The redistributive pillar was extended and broadened very substantially in the context of a pension reform in 2008 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, 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 old-age poverty. 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 elderly population who depend on the support of their families or have no pensions at all if they worked under unstable and/or informal conditions. Thus, because of the capitalization logic, the pension system has a negligible redistributional 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. Thus, it is no surprise that surveys indicate that the topic of pensions ranks as one of the most pressing concerns for Chileans. During 2015 and 2016, dissatisfaction with the pension system increased significantly and led to peaceful, but massive demonstrations in more than 50 cities.

In October 2018, President Piñera announced a reform to the pension system that includes six main provisions:
(1) an increase of 40% in the solidarity pillar by means of a tax contribution in order to protect the most vulnerable groups; (2) an increase in contributions from 10% to 14% at the employer's expense; (3) greater competitiveness among pension fund managers by incorporating new market participants; (4) stronger incentives to postpone the age of retirement; (5) a dependence insurance for those who lose their physical or intellectual capacities; (6) an insurance for pension gaps. By the end of the period under review, the reform proposal not yet passed the Congress.

Citation:
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The Commission's Executive Summery:
http://www.comision-pensiones.cl/Documentos/GetResumen

Centro de Estudios Públicos:
https://www.cepchile.cl/cep/site/artic/20171025/asocfile/20171025105022/encuestacep_sep_oct2017.pdf

https://www.cepchile.cl/cep/site/artic/20180927/asocfile/20180927122721/cap2_las_inseguridades_de_los_chilenos_rgonzalez_aherrera_emunoz.pdf

About the pension reform proposal 2018:
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https://lta.reuters.com/articulo/topNews/idLTAKCN1N302C-OUSLT

Cyprus

Score 5

A significant improvement in living conditions, in particular among citizens over 65 years of age, is visible in recent years. Elder groups no longer face a very high risk of poverty thanks to changes 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 retirement ages that vary according to employment sector as well as receive state and social-insurance pensions and a retirement bonus. Private sector employees have access to social-insurance benefits and, some, to provident-fund schemes. The provident fund system is fragmented, with rules greatly varying. The EU points to the need for a universal pillar that would cover both the public and private sectors. Reforms to the social-insurance system increased the retirement age, raised the rate of employers' and employees' contributions, provided special allowances to specific groups, and introduced a guaranteed minimum income (GMI). 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 their at risk of poverty or social exclusion rate.

The European Commission noted in 2017 that the gender gap in pensions is the highest in the EU. It also expressed concerns about the high increase in inequality; it noted however a reverse trend in 2018.

Citation:
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2. At Risk of Poverty Statistics 2008-2017, Cyprus Statistics Service, 2018, http://www.mof.gov.cy/mof/cystat/statistics.nsf/All/AC5A89D9938EBEF7C22578A00031BACA/$file/EUSILC-POVERTY-A2008_2017-EN-170918.xls?OpenElement

Italy

Score 5

Following the 2011 Fornero reform of Italy's pension policy, which increased the retirement age to 67 years, reduced benefit levels for higher income groups and linked the age of retirement to rising life expectancy, the pension system achieved a satisfactory level of sustainability. Thanks to this reform, no further major reforms of the retirement system would have been 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 or uncertain 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 nothing in terms of a pension. The high percentage of public spending on pensions also diverts financial resources from other welfare policies (e.g., family policy). Ensuring pensions comes with high costs for the rest of society.

The problem of poverty prevention, which exists today for an already significant share of the population, will be even more relevant for today's younger cohorts 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, however, that the importance of supplementary pension schemes is gradually increasing.
The new government has promised to introduce a deep reform of the Fornero pension and to reduce the age of retirement (enabling retirement at 62 years of age after at least 38 years of contributions). This reform is to be implemented in 2019 and will have a substantial negative effect on the sustainability of the pension system. At the same time, the government has promised to increase the minimum pension payment to the threshold of €780 per month.

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 small, indicating that a window for reform will open up in the coming years. As this comparatively privileged position will eventually change for the worse, the pressure to reform soon will increase. Conscious of this dynamic, Mexican governments have been continuously attempting to reform the pension system to increase coverage and quality. Due to a political blockade in the Senate such previous efforts have so far not been rewarded.

While improving, the current system is not robust enough to cope with the growing population of elderly people. Historically, Mexico's pensions policy has been based on the principle of contributions, which has not provided any, let alone an adequate, 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. The new finance minister, Carlos Urzua, announced a reform of the pension system that will be introduced during the new government's six-year term. Urzua discussed the low employer and employee pension contributions that lag far behind other OECD countries in terms of the percentage of total wages.

Citation:
http://www.elfinanciero.com.mx/economia/urge-poner-en-agenda-reforma-de-pensiones.html
http://www.elfinanciero.com.mx/economia/gobierno-de-amlo-promete-reforma-en-pensiones-en-cuatro-anos

Poland

Score 5

Poland introduced a three-pillar pension system following World Bank recommendations in 1999. Starting in 2011, pension contributions were partially redirected from the second – obligatory, but private and funded – to newly created subaccounts in the first, public pillar. In addition, the first pillar was made more sustainable in 2011 through the adoption of a gradual increase in statutory retirement ages, rising until 2020 for men and until 2040 for women; ultimately the age of retirement for both sexes was to be 67. Pension-eligibility age was a hot topic in the 2015 election campaign and the government immediately used its parliamentary majority to propose 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 became effective in November 2017. It will cost PLN 15 billion or 0.5% of GDP annually. This decrease in the retirement age has reduced the sustainability of the Polish pension system, and is likely to increase poverty, especially among women, and to intensify the growing labor shortage.

These changes have been followed by further reform initiatives. A bill to introduce a "500+" scheme for pensioners that could provide people in need with an extra payment on an annual basis had not been adopted as of the time of writing. The adopted abolition of the maximum contribution to ZUS, the public pension pillar, for people who earn above a certain threshold was sent to the Constitutional Tribunal by President Duda, and was declared unconstitutional by the Tribunal in November 2018. With about 350,000 Poles affected, it would have brought more money into the pension fund in the short term, but would have generated additional future spending.

In 2018, the foundations for a new occupational pension savings scheme were laid. This program will be introduced gradually beginning in July 2019, and aims to bring up to 75% of the country's employed population into occupational pension schemes through automatic enrollment. At the same time, however, the announced reform of the remaining second pillar was further postponed.

Citation:
Chłoń-Domińczak, A. (2019): New Occupational Pension Savings Scheme in Poland. European Social Policy Network, Flash Report 2019/01, Brussels.

Portugal

Score 5

The pension system was one of the main policy areas in which the government sought to reduce public expenditure during the 2011 – 2014 bailout period.

One of the key elements in the Socialist Party's agreement with the PCP and BE involved ending the austerity approach to pensions. In 2018, pension values were again increased, continuing the pattern set in 2016 and 2017. Exact details on pensions, which is a key policy issue in Portugal, can be found in the citations below.

The official retirement age is linked to life expectancy. In 2018, it was increased to 66 years and four months from 66 years and three months in 2017. In October 2017, the government also reintroduced the conditional possibility of early retirement for workers who began work between 12 and 14 years old.

Despite this adjustment factor, the system faces medium- and long-term financial imbalances according to the analysis of a former social security secretary of state, a problem that is likely to be compounded by an aging population profile.

Citation:
Maria Margarida Corrêa de Aguiar (2018), "Sustentabilidade financeira da Segurança Social: números, diagnósticos e entendimentos," available online at: https://www.publico.pt/2018/04/23/economia/opiniao/sustentabilidade-financeira-da-seguranca-social-numeros-diagnosticos-e-entendimentos-1811092

https://observador.pt/seccao/economia/pensoes/

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. These changes have improved the situation of pensioners, but have reduced the financial sustainability of the first pension pillar. In May 2018, Smer-SD launched a debate about capping the envisaged gradual increase in the retirement age at 65.

Turkey

Score 5

In 2001, Turkey's pension system was reformed with the enactment of Law 4632, as emphasized by the European Commission (2017). 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. In June 2012, Law No. 6327 was enacted, stipulating that the state would match 25% of all annual contributions paid by individuals to funded pension schemes starting in January 2013. In August 2016, Law No. 6740 was enacted. Under the law, all publicly and privately employed wage and salary earners who are less than 45 years of age would be automatically assigned to an individual pension plan and start contributing at a minimum rate of 3% of their taxable earnings, unless they opt out within two months of their automatic enrolment in the plan. After the plan went into effect, 60% of 12 million workers included in the system opted out of the plan, urging the government to take further action. According to the "New Economic Program 2019 – 2021," announced in September 2018, employees will be obliged to stay in the individual pension plan for three years before being able to opt out. Thus, for three years the pension plan will be compulsory.

Pension spending in Turkey is modest, amounting to 8.1% of GDP. 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. Currently the pension age is 60 years for men and 58 years for women, with at least 7,200 days of contributions. The pension age will gradually rise to 65 for men and to 65 for women, from 2036 to 2044. But these adjustments will be too slow to counter the effects of expanding coverage and an aging population. For this reason, pension-system deficits are expected to remain around 3% of GDP until the middle of the century.

Citation:
European Commission (2017) 'New Legislation in Turkey requiring Automatic Enrolment in the Voluntary Funded Individual Pension Scheme', ESPN Flash Report 2017/10.

Organization for Economic Co-operation and Development (2017) 'Pensions at a Glance 2017: Country Profiles - Turkey', Paris: OECD

Croatia

Score 4

Like some other East-Central European countries, Croatia introduced a three-pillar pension system with a mandatory fully funded 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. However, war veterans enjoy strong privileges. 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. Croatia has an unfavorable pensioner-to-worker ratio of 1:1.26 and the average number of years of service is 30 – much less than in most European countries. The public pension fund has shown a persistent deficit, which represents a significant risk to systemic stability. Only HRK 21 billion out of HRK 38 billion required for payment of pensions is covered by social contributions. The remaining HRK 17 billion come from the government budget, which means that 15% of the budget is allocated for pensions.

The Milanović government began to address these problems. The Pension Insurance Act of January 2014 raised the statutory retirement age from 65 to 67 and the early retirement age from 60 to 62 by 2038. The Orešković government presented plans to shorten the deadlines for raising the retirement age to 67 (for men and women alike) and for increasing the early retirement age, but these plans were not implemented. In 2018, the Plenković government finally decided to launch a substantial pension reform. The comprehensive reform package submitted to parliament in October 2018 by Minister of Labor and Pensions Marko Pavić contained two controversial provisions. First, it called for bringing forward the increase in the retirement age to 67 to 2033 and to accelerate the equalization of retirement age for men and women. Second, it included a new option for pensioners to transfer their savings from the second pillar to the first pillar, an option that would have been attractive because of the resulting eligibility to a 27% pension supplement for those receiving only first pillar pensions. Critics were quick to point out that the second provision would have severely weakened the second pillar and would have given the government the chance to fill the "gaps" in the public pensions scheme by using the transferred assets from the second pillar. Eventually, Pavić modified his original plan. While the right to transfer savings from the second to the first pillar was kept, the final legislation, passed in December 2018, made all pensioners eligible to some kind of pension supplement.

Citation:

Bejaković, P. (2018) The Croatian Pension System and Challenges of Pension Policy, in: Z. Petak, K. Kotarski (eds.), Policy-Making at the European Periphery: The Case of Croatia. Cham: Palgrave Macmillan, 229-245.

Bezovan, G. (2018): Croatia: Will the Reform of the Pension System Contribute to Improving the Adequacy and Sustainability of Pensions? European Social Policy Network, Flash Report 2018/69, Brussels.

Greece

Score 4

The Greek pension system is a pay-as-you-go corporatist system, based on a multitude of occupational pension funds. Pensions have become a major policy issue because Greece, along with Italy and Germany, has the largest share of the total population aged 65 and older in the whole of the EU (over 20% of the total population).

The system has been radically changed since 2010 by a range of reforms aimed at making the system more viable and limiting public expenditures on pensions. The latest 2016 reform (Law 4387) abolished all special arrangements, unified all pension fund schemes as well as rules on contributions and benefits under a new body (EFKA). This latest reform also established a general system of defined benefit pension plans and the introduction of a basic pension financed by general tax revenue. According to the law, the main pension is made up of a national pension (set at €384 at the full rate and financed by the state budget) and a "redistributive" pension calculated on the basis of the average reference wage over the whole working life, the length of contributions, and the replacement rate. Current pensions are to be recalculated by the new method and the resulting "difference" will be phased out gradually in late 2018.

In 2012, in the midst of the economic crisis, when fiscal constraints were supposed to be the harshest possible, Greece spent 17.6% of GDP on pensions, more than any other EU member state. The problem has grown since then and, in fact, the largest share of social protection expenditure is devoted to pensions.

The prospects of the Greek pension system are not good, as the country has one of the worst old-age dependency ratios 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. In May 2016, the 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 continuous legislative amendments of the 2016 pension reform. The last phase of this reform is expected to take place in January 2019, when, based on the Memorandum of Understanding signed between Greece and its creditors in the summer of 2015, the government should implement further cuts on pensions. If implemented, such cuts will affect pensioners who had benefited from past early-retirement legislation, before the onset of the crisis or were pensioned off just as the crisis started. Owing to their sheer size, this is a segment of the retired population which no government has tried to displease.

While the pension reform of 2016 had positive aspects (e.g., the establishment of a nationwide management system and unification of previously fragmented private sector pension schemes), Greece's pension system remains unsustainable. Bluntly, there are currently about 2.7 million pensioners, along with another 300,000 recent retirees, while the recorded number of Greeks working and paying insurance contributions is around 3.6 million.

Citation:
Data on share of old people who work and old-age dependency ratio is drawn on the SGI data set, available on this platform. Data on pension expenditure is drawn on Eurostat, available at https://ec.europa.eu/eurostat/statistics-explained/index.php/Social_protection_statistics_-_pension_expenditure_and_pension_beneficiaries
European Trade Union Institute, Pension Reform in Greece, https://www.etui.org/ReformsWatch/Greece/Pension-reform-in-Greece-background-summary

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. As a result, pensioners have not benefited from the strong recent growth in wages. These changes have improved the financial sustainability of the first pension pillar but have also increased poverty among pensioners. The Orbán governments have failed to address this issue. The main reform project of the third Orbán government was the monstrous merger of the Pension Insurance Fund (Országos Nyugdíjbiztosítási Főigazgatóság, ONYF) and part of the National Health Insurance Fund (Országos Egészségbiztosítási Pénztár, OEP). In a populist move in the electoral campaign in 2018, the government sent vouchers worth HUF 10,000 (€33) to all pensioners.

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 2018 monthly minimum wage of €430. 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 2017 was €289.40. According to the Central Statistics Bureau, the at-risk-of-poverty rate among retired persons continues to grow rapidly, reaching 44.2% in 2016 compared to 38.1% in 2015 and 27.6% in 2013.

Two types of mandatory pension schemes exist in Latvia: a non-financial (notional) contribution (pay-as-you-go) and a funded contribution. There are also voluntary private pension funds that are complementary to the mandatory schemes. Jointly, these constitute a three-pillar pension system, which has increased the system's fiscal sustainability and intergenerational equity.

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.

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 as of 2018 to limit bank commissions and fees levied for managing the mandatory funded pension scheme.

In a 2018 report, OECD highlighted the need for Latvia to strengthen the social safety net for elderly people, and raise the basic state pension in order to reduce poverty among pensioners (especially among women) and address the challenge of a rapidly declining population. Latvia's old-age poverty rate is the second highest in the OECD – more than 25% of people aged 65 and over have an income below the relative poverty line. The basic pension level is very low and has not risen in nominal terms for more than a decade.

The report also criticized Latvia's three-pillar system and specifically the NDC schemes, because they automatically adjust to changes in the size of the labor force and life expectancy. Consequently, if these are not matched with an adjustment in retirement age, the future replacement rates will remain below the OECD average. The report also noted that Latvia's shrinking labor force lowers the internal returns of pay-as-you-go pensions and that the default option in the mandatory scheme is only appropriate for very risk-averse individuals, not the entire population.

However, the tax reform of 2017/2018 signals a willingness to address some of the problems in the system. The tax reform introduces a progressive taxation of personal income, including pensions. In addition, the non-taxable minimum is higher for pensioners (€235 per month in 2017 up to €300 per month in 2020) than for the working age population (€75 per month in 2017 up to €250 per month in 2020). In 2018, the indexing of pensions also became more favorable for those with longer social contribution records.

Nevertheless, even with the amendments, the pension indexing system remains complex and many of the issues identified by the European Union and OECD remain – further reforms are urgently needed, especially with regard to poverty reduction.

Citation:

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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 suggest that 43% of the population will be over the age of 65 by 2050 – which marks 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. A further problem is that the pension system is not equitable at all, as there are huge differences between the pensions of ordinary citizens and the pensions of the politically connected. The latter often benefit from additional pension claims based on positions in public administration or public enterprises that involve very little effort, but are primarily used for siphoning off government resources to loyal party supporters.

As pensioners have been a major constituency of the governing PSD, the Dăncilă government's pension policy has focused on increasing public pensions. In 2018, it adopted a 10% increase in regular pensions and a 23% increase in the guaranteed minimum pension. While the strong showing of revenues has helped finance the pension increases, the short-term fiscal stance of the public pension fund, let alone its long-term sustainability has declined. The government and President Iohannis have continued to clash over the government's plans to reduce contributions to, or to dissolve entirely, the mandatory fully funded second pillar introduced by the 2008 pension reform. Without a long-term strategy for maintaining a workforce that can sustain its pensioner population, Romania's pension framework will become increasingly vulnerable to economic and financial shocks.

Address | Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Straße 256
33311 Gütersloh
Germany
Phone +49 5241 81-0

Dr. Christof Schiller
Phone +49 5241 81-81470
christof.schiller@bertelsmann-stiftung.de

Dr. Thorsten Hellmann
Phone +49 5241 81-81236
thorsten.hellmann@bertelsmann-stiftung.de

Pia Paulini
Phone +49 5241 81-81468
pia.paulini@bertelsmann-stiftung.de

www.bertelsmann-stiftung.de
www.sgi-network.org

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