Pensions Report

Pension Policy

Sustainable Governance Indicators 2020

SGI Sustainable Governance Indicators

BertelsmannStiftung

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 2019 was CHF 28,440 (about €25,855) per year, while the maximum benefit was CHF 42,660 (about €38,780). The minimum pension for a single person was CHF 14,220 (about €12,930), while the maximum pension was CHF 28,440 (about €25,855). 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 €6,150) 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 found 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).

Two new reforms were proposed in 2019: (a) Employers and trade unions (but not the trade and crafts association) have agreed on a reform of the second pillar which reduces benefits in the future but shields the very next age groups. Basically, this means that the costs of the reforms are shifted to the younger generation. (b) The Federal Council has proposed introducing a new pension for unemployed workers 60 years of age and older. Both reform efforts have to be understood in their political context: After repeated failures to comprehensively reform the pension system, the social partner agreement signals the willingness to find a minimal and suboptimal solution to the looming problem of financial sustainability of the pension system. The pension for elderly unemployed reflects concerns about the job fears of elderly workers caused by increasing competition on the labor market, in particular due to the international mobility of labor. There is a referendum addressing the bilateral agreement with the EU regarding the migration of EU citizens and thus the free movement of labor that is scheduled for May 2020. By appeasing elderly workers with the new pension opportunity, the Federal Council hopes to reduce the support for the initiative. This initiative aims to abrogate the agreement on labor mobility between the EU and Switzerland which would automatically also mean the termination of other bilateral agreements between EU and Switzerland. These agreements are, however, of major importance for the Swiss economy.

Important lessons can be learned from previous referendums 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 the pension system remains stronger than in comparable countries such as Germany.

Citation:
Armingeon, Klaus 2018. „Die Entwicklung der schweizerischen Altersvorsorge", in: Swiss Political Science Review 24(1): 43–52, https://doi.org/10.1111/spsr.12291

Bertozzi, Fabio, Giuliano Bonoli and Benoit Gay-des-Combes. 2005. La Réforme De L'etat Social En Suisse. Vieillissement, Emploi, Conflit Travail-Famille. Lausanne: Presses polytechniques et universitaires romandes.

Häusermann, Silja, Thomas Kurer, and Denise Traber 2018. "The Politics of Trade-Offs: Studying the Dynamics of Welfare State Reform with Conjoint Experiments." Comparative Political Studies 0: 0010414018797943.

Leimgruber, Matthieu. 2008. Solidarity without the State? Business and the Shaping of the Swiss Welfare State, 1890-2000. Cambridge, UK; New York: Cambridge University Press.

UBS 2017: UBS International Pension Gap Index, Zürich: UBS.

Denmark

Score 9

The Danish pension system is well-structured in accordance with the World Bank's three-pillar conceptual framework. The first pillar is a tax-financed universal base pension with means-tested supplements. This pillar includes Denmark's ATP pension scheme. The second pillar comprises privately organized, contribution-based labor market pensions. The contribution rate, which has increased over the years, is now 12% or more for most employees. The third pillar involves 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 main challenges involve the complexity of the system, the possible disincentive effects on savings and retirement arising from the means testing of public pensions, and 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 – increase these ages considerably to cope with the aging population. First, the retirement age (early retirement and pensions) is being gradually increased and the early retirement period is being 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.

The Social Democratic government has promised that worn-out workers should be able to retire early. The difficulty will involve delineating who would qualify for early retirement and how the system will it be financed. The government will be under pressure to find answers in order to avoid reneging on its promise.

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

Regeringen Mette Frederiksens forståelsespapir, https://ufm.dk/ministeriet/regeringsgrundlag-vision-og-strategier/regeringen-mette-frederiksens-forstaelsespapir (accessed 15 October 2019)

Finland

Score 9

The Finnish public pension system has two individual programs: a basic residence-based pension consisting of the national pension and the guarantee 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 through specific private pension schemes, regular 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 aging of Finland's population and a rapid decrease in birth rates over recent years have together created problems in terms of labor-force maintenance and the fiscal sustainability of the pension system. Present strategies aim at encouraging later retirement in order to ensure that the state pension provides sufficient funding. In 2019, the Mercer Global Pension Index ranked Finland's pension system as the fourth-best in the world, and as the world's best with regard to 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 2018 show that the expected effective retirement age within the earnings-related pension system was 61.3 years, which was 0.1 year more than during the previous year. At present, Finland ranks in the middle of the EU's member states in terms of the average age at which workers exit from the labor force, but the effective retirement age is expected to reach its target level of 62.4 years in 2025.

The government led by the SPD's Antti Rinne proposed initiatives to enhance the old-age incomes of the poorest retirees, and passed the first gradual amendments to the national pensions. As a follow-up, the social partners were being called on to explore ways of increasing the lowest earnings-related pensions.

Citation:
Nicholas Barr, "The Pension System in Finland: Adequacy, Sustainability and Systems Design," Finnish Center for Pensions, 2013;
Agreement on the 2017 Earnings-related Pension Reform, http://www.etk.fi/wp-content/uploads/agreement_on_2017_earnings_related_pension_reform_final.pdf;
"The Finnish Pension System," http://www.infopankki.fi/en/living-in-Finland/work_and_enterprise/pension;
Susan Kuivalainen, Juha Rantala, Kati Ahonen, Kati Kuitto and Liisa-Maria Palomäki (eds.) 2017. Eläkkeet ja eläkeläisten toimeentulo 1995–2015 [Pensions and livelihood of retirees 1995-2015]. Helsinki: Finnish Center for Pensions.
https://www.etk.fi/en/statistics-2/statistics/effective-retirement-age/
Melbourne Mercer Global Pension Index 2019, https://www.mercer.com.au/our-thinking/mmgpi.html

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 healthcare, 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.

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, over the period from July 2017 to July 2023, the age of eligibility for the public age pension is being progressively increased from 65 to 67 years.

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 largely tax-exempt status of private retirement income. More broadly, the government is concerned about the extent to which the retirement-income system is working, and will work into the future, as it should. Consequently, the Treasurer announced a review into the retirement-income system on 27 September 2019, with plans to produce a report by June 2020.

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

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

https://treasury.gov.au/review/retirement-income-review

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. In the recent election campaign, the Liberal government promised to increase old-age security benefits by an extra 10% once recipients turn 75, which is estimated to reduce poverty in this age group by 14.5%.

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.

Milligan, K (2019) Old Age Security Expansion. Letter written to Liberal policy advisor Tyler Meredit, retrieved Nov 11 2019 from http://blogs.ubc.ca/kevinmilligan/2019/09/18/old-age-security-expansion/.

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 2019, the average monthly old-age pension stood at CZK 13,319 (€ 512), an increase from 12,347 (€475) in 2018. However, there is a roughly 20% difference between the average pension for women and men. The official retirement age, which has been gradually increased since 1996, is still different for men and women. In the case of women, this age also depends on the number of children reared. In 2017, the ceiling for the maximum retirement age was set at 65 years.

The Babiš cabinet set pension reform as the first of its six main priorities in its government manifesto, emphasizing the need for a clearer separation between the public pension scheme and the regular state budget. In February 2019, led by the Ministry of Labor and Social Affairs, a new pension commission was established, bringing together representatives from each of the parliamentary political parties, the social partners, the academic community and other relevant interest groups and pro-retiree organizations. In October 2019, the commission reached agreement on a model that would separate the current public pension pillar into two components. One would be a solidarity pillar, paid from the budget. The second would be paid though contributions. While details yet have to be hammered out, the expectation is that the delineation of the two pillars would come with an increase in the share of tax financing. Currently, 80% of all pension spending is financed by contributions, while 20% of funding comes from the state budget. After some debate, the government decided in autumn 2019 to keep the current retirement age for the next five years. Pension growth in 2020 was set above the standard indexation formula, generating additional costs of 0.1% of GDP.

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) that provides benefits for people 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 obligatory occupational pension schemes that supplement the AOW scheme. Both employees and employers are obliged to contribute. In this way, the pension scheme covers all employees of a given company and industry/sector. The third pillar comprises supplementary personal pension schemes that anyone can buy from insurance companies.

Many self-employed people (who number more than 1.2 million in the Netherlands) do not opt for a pension package, as this is not yet compulsory. Previously, self-employed people often had a short history in the conventional labor market that gave them some pension; however, most newly self-employed or freelance people today do not have any pension scheme whatever.

Although the system is considered the world’s best after those in Denmark and Australia, it – like most European systems – is vulnerable to demographic changes related to an aging population, as well as to disturbances in international financial markets. This is because pension funds, driven by the need to meet their growing financial obligations, are large players in stock markets. As of 2013, the government gradually increased the age of AOW pension eligibility to 66 by 2018, with a further increase to 67 by 2021. For supplementary pension schemes, the retirement age rose to 67 in 2014. During the review period, further increases in the retirement age were capped, and concessions were made for people engaged in physically demanding jobs. Due to the fact that the actual average retirement age is significantly lower that the legal level of 65, the average retirement age is continuing to rise.

Due to the very low interest-rate levels, pension-fund assets, although still enormous (totaling €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 time period given for recovery after failing to meet this threshold was increased by the Dutch central bank from three to a maximum of five years. Nevertheless, quite a few pension-insurance companies are at risk of having to lower their benefits. Interim framework bills for strengthening the governance of pension funds (e.g., requirements for the indexation of pension benefits, the inclusion of pensioners on governing boards, and the use of oversight commissions and comparative monitoring practices) 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. In 2019, the long-due retirement-plan agreement was finally signed, but was immediately called into question by the financial sector due to extremely low interest rates. For now, actual pension cuts in the coming year have been avoided, but the issue remains a political hot potato.

Citation:
Rijksoverhead, Pensioenakkoord: een toekomstbestendig pensioenstelsel, https://www.rijksoverheid.nl/onderwerpen/pensioen/toekomst-pensioenstelsel (visited 3 november 2019)

CBS (2019), Helft 65-jarigen werkt tot pensionering

Melbourne Mercer Global Pension Index 2019, November 3, 2019

Pensioendilemma’s in tien grafieken, 18 maart 2019, https://fd.nl/economie-politiek/1293173/pensioendilemma-s-in-tien-grafieken

Pensioenlefftijd nederlanders voor het eerst beoven de 65 jaar, 17 augustus 2019, https://fd.nl/economie-politiek/1311155/pensioenleeftijd-nederlanders-voor-het-eerst-boven-de-65-jaar

Centrale banken bederven het pensioensprookje, NRC Next, 21 June, 2019

SER, Naar een nieuw pensioenstelsel, Juni 2019

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.

There is a long-term plan to gradually raise the retirement age in order to ensure the sustainability of the pensions system as the proportion of senior citizens in Sweden increases. In 2019, the parliament confirmed an agreement between the government and most of the opposition parties to increase the retirement age to 67 years, with an option to remain in the workforce for another year.

Citation:
OECD (2019), Pensions at a Glance (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. Successive governments, perhaps fearing a backlash from "gray" voters, have pledged to maintain this policy, 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 compared to other European countries. Older people lacking earnings-related pensions are at a comparatively high risk of poverty. 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.

Citation:
Ebbinghaus, Bernhard (2019): Pension reforms and old age inequalities in Europe: From old to new social risks?, Conference Paper, European Sociological Association Conference, Manchester 2019

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 Michel 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 stronger limits on access to early retirement (especially before 60 years of age) and has created the possibility of taking part-time retirement, with the aim of making the system more sustainable in the long term.

These are major steps forward. In comparison with the pre-crisis year of 2007, the outcome in terms labor market participation rates for those aged 50 to 64 marks a substantial improvement (the participation rate was around 50% in Q2 2007 compared to 64% in Q2 2019, the latest available data).

However, these improvements have fallen short of expectations, with the Council of Europe noting that “Nevertheless public expenditure on pensions would still increase by 2.9 percentage points of GDP by 2070 […]. [T]ransitions from inactivity or unemployment to employment remain low and Belgium is not on track to achieving its Europe 2020 employment target of 73.2%. Strong regional disparities in the labor market persist.”

The significant dispersion of votes in the last elections and the lack of a majority to form a federal government may eventually open the door to a partial reversal of these reforms.

Citation:
https://plus.lesoir.be/125786/article/2017-11-23/reforme-des-pensions-ce-qui-est-fait-ce-quil-reste-faire
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Pension experts’ negative assessment: https://www.rtbf.be/info/article/detail?id=9447107
https://www.lecho.be/economie-politique/belgique/elections/les-quatre-raisons-de-la-victoire-du-vlaams-belang/10130787.html

Estonia

Score 7

A three-pillar pension system has existed in Estonia since 2002, which has been widely seen as a success. Recently, several inefficiencies and flaws in the system have become apparent, which has led to extensive political debate and several reform initiatives. Before the 2019 parliamentary elections, pension system reform was high on the political agenda. Debates concerning the mandatory second pillar were provoked by the poor performance of pension funds, high administrative costs and minimal choice for citizens. In September 2019, new investment rules came into force for second pillar funds, which relaxed investment restrictions and imposed reduced rates for administration costs. Despite that, conservative parties proposed making the second pillar voluntary and allowing people to withdraw funds before retirement. The idea gained significant support among the electorate and eventually legitimized the populist plan to abolish mandatory pension funds. At the time of this writing, it appears very likely that the government will implement its plan, despite criticism from opposition parties, the research community, the central bank and the OECD. Critics warn that the reform may destabilize country’s economy and in the long run increase poverty among the elderly.

Poverty among the elderly is already an increasing concern. The average level of benefits is modest (€485 per month) and annual indexation provides only a slight relief. Political promises to increase pensions beyond indexation will be hard to fulfill because public pension funds are already running an annual deficit close to 2% of GDP. As an intermediary financial remedy, the retirement age will be raised from 63.5 to 65 in 2027 and continue to increase in line with life expectancy thereafter.

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 offers the most generous pensions worldwide, and that given the high life expectancy in the country, these pensions are paid for a longer period than in most other nations.

In order to assure the sustainability of the pension system, French governments continuously introduced reform measures over the last decade: pension contributions have been increased, the number of years of contribution needed to receive a full pension has been increased to 43 years, and the peculiarities or privileges granted to some professional groups ("special regimes") have been reduced. 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, the Universal Social Contribution (Cotisation sociale généralisée, CSG), and by eliminating a social contribution paid only by salaried people. The government had also decided that in 2019, pensions would be increased by only 0.3%, but after the eruption of the Yellow Vest protests, it accepted an increase reflecting the inflation rate for the most modest pensions.

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 this lasted only two 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 would drastically simplify the current system, merging the current 42 different social regimes into one. This is a daunting task, as the reforms foreseen would constitute a frontal attack on the privileges accumulated over time by a number of groups and professions. After a set of intensive consultations, the reform originally due to be adopted in 2019 was postponed to 2020. Despite intense discussions and negotiations, the project has met fierce opposition and triggered mass mobilization. It remains to be seen whether Macron will succeed in bringing through this reform, regarded as being crucial in order to give him greater financial maneuvering room in the second half of his mandate.

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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, 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 of 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 region.

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:
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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 varying 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.

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.

Citation:
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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. Gitanas Nausėda, the newly elected president, recently announced a package of proposals for the parliament's autumn 2019 session that included around €100 million of additional social security spending (mostly earmarked for increases in pensions and disability benefits). The parliament ultimately decided to increase old-age pensions in 2020 by around 8.11%, to create an average pension of €377 per month or €399 for those with a minimum required employment history. Other types of pensions are also set to increase.

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.

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 abandoned the system whereby the State Social Insurance Fund Board transferred 2% of the social-insurance contributions into the second-pillar pension funds. Instead, a new formula (4% + 2%) for pension accumulation was established. This means that pension-fund contributions comprise 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:
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Luxembourg

Score 7

Luxembourg's pension plans offer one of the highest replacement rates within the OECD, and provide a high living of standard for the elderly (maximum: €8,300 monthly). The old-age poverty rate is lower than the poverty rate for families, especially when considering single-parent families. However, pensioners must contribute financially to the healthcare insurance system, and are fully taxed.

Luxembourg has not enacted a rigorous austerity policy, but has made slight changes to its pension regime and general employment rules. Despite Luxembourg's high level of reserves, the OECD and the European Commission have urged Luxembourg to reform its pension system to ensure long-term sustainability, by increasing incentives for late retirement and linking pension levels with contributions.

The financial sustainability of the pension system is premised on continued population growth. However, Luxembourg's current population growth is driven by immigration and its strong economic performance. Neither the economy's overall strength nor the rate of increase in the number of contributors to the system over the decades to come can be predicted with certainty.

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„Rentensystem schützt vor Altersarmut: Arbeitnehmerkammer reagiert auf Kritik der EU an Luxemburg." Tageblatt,

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Malta

Score 7

Government expenditure on social security benefits amounted to €512.0 million during the first six months of 2019, with an increase of €13.1 million for retirement pensions alone. Indeed, pensions represent a substantial public expenditure with projections indicating that pension-related expenditure will increase by 3.4 percentage points 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.

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 government has also introduced tax incentives for private individuals opting to invest in a private pension plan in Malta. These tax incentives are also applicable to corporations and employers. However, labor unions have called for greater government support for work-based pensions. A Pension Strategy Group was established in 2018 and is expected to release its findings by December 2020. Within this context, a government scheme is aiming to encourage increased voluntary saving through a system of occupational pensions.

Nonetheless, 25.4% 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 noncontributory 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, since Malta has the highest gender-related pension gap in the EU.

A number of measures have been taken since 2013 to address these shortcomings. The 2020 budget continues to build on previous years, and foresees increases in contributory pensions and higher income-tax ceilings for pensioners. Government bonds designed to provide pensioners with an additional source of revenue have also been offered for the last three years. 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 lack of pensions for women who have not paid into the system remains a problem. The government provides women with a two-year tax credit for every child they raise; however this needs to be increased to reflect the EU average as well as the realities of women who have stayed home to look after children.

Citation:
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https://socialsecurity.gov.mt/en/Pensions/Pages/Contributory-Retirement-Pension-FAQ.aspx
The Budget Speech 2020 (Maltese) p.16-17, p.24
Newsbook.com.mt 21/02/2019 Gov announces 62+ Savings Bonds for the third year

New Zealand

Score 7

New Zealand's pension system is tax-based. There is no retirement age, but 65 is the current age of eligibility for New Zealand Superannuation. The level of NZ Super payments is reviewed annually, taking into account inflation and average wages. Any eligible New Zealander receives NZ Super regardless of how much they earn through paid work or what assets they own. While universally accessible, NZ Super is one of the least generous pensions relative to the working wage in the industrialized world: New Zealand superannuitants get just 43% of the average working wage; the average across the OECD is 63%. However, the system operates as a form of universal basic income and is relatively efficient: just 10.6% of over 65s in New Zealand are considered to be living in poverty compared to the OECD average of 12.5% – even though among those 76 and over, 15% are in poverty compared to 13.9% across the OECD. Historically the assumption was that most New Zealanders would be living in their own mortgage-free house by the time of retirement. This is no longer a realistic assumption, hence the need for more personal savings to supplement the universal payment.

Due to demographic changes, the cost of NZ Super is projected to rise from NZD 13 billion in 2016 to NZD 76 billion by 2050. The percentage of GDP that goes toward paying for NZ Super will increase from about 4% in 2001 to 7.1% in 2049 and 7.9% by 2059. Nevertheless, the recent review of retirement income policy recommends retaining the government's scheme and has resisted recommending the introduction of a raised age of retirement or a means test.

To encourage private savings as a means to relieve the pressure on the state pension system, New Zealand introduced KiwiSaver 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. Demand for more ethical investment options from KiwiSaver providers has been an ongoing refrain. However, despite these drawbacks, KiwiSaver is a popular savings option for New Zealanders, although most continue to view the universal national superannuation as likely to be their primary source of income in retirement (RRIP 2020)

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Slovenia

Score 7

Slovenia has a traditional pay-as-you-go (PAYG) pension system with modest pensions, whose intergenerational fairness and financial sustainability in the face of an rapidly 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. The Šarec government has prepared amendments to the Pension and Disability Insurance Act that have aimed at improving pension adequacy and at fostering the employment of pensioners, but have raised concerns about the financial sustainability of the pension scheme.

Citation:
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United States

Score 7

The Social Security retirement program is the United States' main public pension system that complements 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%, which is below the OECD average, though the rate is higher 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 of 2008 hit the asset base of pension funds, which has resulted in many private employers proving unable to make full payments. 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 (i.e. poverty prevention, intergenerational equity and fiscal sustainability), the U.S. pension system is partially successful in reducing poverty among the elderly. In other words, while the poverty rate among the elderly is high by OECD standards, it is 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. These funding deficiencies are increasingly difficult to manage and will require larger, more painful adjustments with every year in which the government fails to act.

Austria

Score 6

The pension 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 calculations by the Austrian Court of Audit, 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.

Another conflict concerns the advantageous situation of retired public sector employees compared to retired private sector employees. The representatives of public sector employees argue that top incomes cannot be earned in the public sector, while the representatives of private sector employees argue that the higher degree of job security in the public sector does not justify the current differences in pensions. However, as public sector employees are probably the best organized segment of Austria's labor force, it is (and will be) difficult to bridge this gap within Austria's pension system. An aging population means an aging electorate, which means political parties are hesitant to make significant changes to the system, because they may lose the support of older generations of voters.

Germany

Score 6

Germany has engaged in a significant number of pension reforms in recent decades. In particular, the far-reaching 2004 reform aimed to make the pension system more sustainable by increasing the retirement age and establishing a link between pension increases and demographic change.

Since 2014, the grand-coalition governments have reversed the previous pension reform agenda and gradually increased the generosity of the system. Critics have argued that these measures would undermine the system's long-term sustainability. 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" payment for housewives with children born before 1992. The calculation will now include two additional years of (fictive) contributions, allowing this group greater parity with counterparts whose children were born after 1992. Finally, pensions for people with disabilities were increased. The total cost of these reforms is expected to reach €160 billion by 2030.

In 2017 and 2018, several additional reforms were undertaken: Company pension plans have been encouraged as an addition to the statutory pension insurance system, pension calculations for people with long-lasting illnesses were adjusted, and the current difference in pension payments and pension levels in the federal states of the former East and West Germany states was set to sunset by 2025.

In November 2019, the government decided to introduce a basic state pension (Grundrente). This is intended to reduce old-age poverty. As long as they have paid into the old-age pension system for more than 35 years, including periods of child raising periods and care, the pensions provided to low-income earners will be increased. They will be treated as if they had paid contributions for 35 years on the basis of 80% of the average wage. The basic pension will then be deemed fully paid up to a monthly maximum taxable income of €1,250 for single individuals and €1,950 for couples (including income from pensions and capital in the means test). The government expects that the additional costs associated with this provision will be about €1.1 billion to €1.5 billion annually. In addition, the government implemented several measures aimed at improving private and occupational pension provisions (BMAS 2019).

Public subsidies for the pension fund have increased routinely over time. In 2017, subsidies totaled €67.8 billion, and with an increase to €98 billion expected by 2019. In August 2018, the government introduced a “double stop line,” which means that contribution rates should not exceed more than 20% of income by 2025, and that pension levels should not fall below 48% of income by the same year. This will only be financially possible with a substantial further increase in the federal subsidy.

The contribution rate has been lowered from 18.9% to 18.6% since January 2015. Meanwhile, pensions have been increasing quickly in recent years due to the high levels of employment growth and the rising average wage of the active population. On 1 July 2019, pensions again increased by 3.18% compared to 1.9% in 2017 and 3.22% in 2018. However, increasing healthcare contributions and long-term care insurance costs have somewhat reduced the level of net pension increases.

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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. Already, more than 28% of the population is older than 65. The last major overhaul of the pension system occurred in 2006. Under its provisions, the value of future pension disbursements would rise less than inflation, payments would eventually commence at age 65 instead of 60, contributions would top out at 18.3% of income, and a payout ratio of 50% was promised. The program’s assumed relationship between future payment levels, contributions and the starting age for receiving benefits was based on optimistic macroeconomic forecasts, but so far only minor revisions have taken place.

In mid-2019, a report by the Financial Services Agency highlighted a potential average income savings gap of JPY 20 million (about €170,000 at September 2019 exchange rates) for a couple with each member living to the age of 95. Finance Minister Aso refused to endorse the report, claiming “misunderstandings.” Later that year, the government announced the creation of a new council on social security issues that will consider major reforms. One possible measure may entail shifting the age at which public pensions begin to be disbursed further, from 60 to 70, as proposed by an advisory panel to the finance minister in April 2019. Another pressing issue is Japan’s high old-age poverty rate of 19% (OECD average: 12.5%).

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. Japanese corporate pension funds are following this trend, with their exposure to domestic government bonds dropping to 18.3% by March 2019. 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.

Citation:
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How Japan’s prime minister plans to cope with daunting demography, The Economist, 17 November 2018, https://www.economist.com/asia/2018/11/17/how-japans-prime-minister-plans-to-cope-with-daunting-demography

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Govt to launch new social security council, The Japan News, 7 September 2019

Japan Panel Proposes Allowing Pension-Starting Age above 70, Nippon.com, 23 April 2019, https://www.nippon.com/en/news/yjj2019042300575/japan-panel-proposes-allowing-pension-starting-age-above-70.html

Portugal

Score 6

One of the key elements in the Socialist Party’s agreement with the PCP and BE involved ending the austerity approach to pension policy.

In 2019, pension values were again increased. This included an extra increase in pensions and an extra pension supplement for low-income pensioners.

The official retirement age is linked to life expectancy. In 2019, it was increased to 66 years and five months, from 66 years and four months in 2018.

Despite this adjustment factor, the system faces medium- and long-term financial imbalances. Expenditure on pensions is high and has risen since the turn of the new millennium. Between 2000 and 2013, expenditure on pensions increased by over 50%, from 10% to 15.7% of GDP. This is the third largest increase in the European Union, exceeded only by Cyprus and Greece. Since 2013, it has fallen, standing at

14.6% in 2016, the most recent year for which data is available. However, that is still the fourth highest level in the European Union, only lower than Greece, Italy and France. This contrasts with 2000, when it was only the 14th highest in the European Union.

A recent study of the pension system, which looked ahead to 2070, forecasts an increase in the absolute number of pensioners from 26.3% of the population in 2020 to 35.9% in 2050. While this is not expected to raise the weight of pensions as a share of GDP, the study does forecast that, if the social security system remains unchanged, it will run deficits between 2027 and 2070, peaking at a deficit of 2.8% of GDP in 2050.

Citation:
Montepio (2019), “Pensões em 2019: Quem vai ter aumento?,” available online at: https://www.montepio.org/ei/ultimas/gestao-diaria-ultimas/pensoes-em-2019-quem-vai-ter-aumento/

Moreira, A. (2019), “Sustentabilidade do sistema de pensões português,” available online at: https://www.ffms.pt/FileDownload/62281dcc-1734-403d-846e-c5b38bc8fa7e/resumo-do-estudo-sustentabilidade-do-sistema-de-pensoes-portugues

Pordata (2019), “Pensões: despesa total em % do PIB,” available online at: https://www.pordata.pt/Europa/Pens%C3%B5es+despesa+total+em+percentagem+do+PIB-1579

South Korea

Score 6

Old-age poverty is a major problem in South Korea, with the poverty rate among retirement-age people the highest in the OECD. Pensions are small, and most elderly people today lack coverage under a national pension system that excluded 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 do not register their employees for participation. National pension benefit levels are still very low (with an average monthly pension of KRW 520,000, equivalent to $440), 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 from its current maximum of KRW 206,050 to KRW 300,000 a month by 2021, with benefit eligibility coming at the age of 65. This pension will be provided to the 70% of elderly classified as low-income. Currently, the South Korean government is expending only 3.0% of its GDP for pensions, a very low share compared to the OECD average of 7.5%. In the past, the country’s pension funds have been vulnerable to government interference, with the funds 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. The old-age dependency ratio is currently low in comparison to that in other OECD countries, although the low fertility rate means that this might become a problem in the long run.

Citation:
Moon, Hyungpyo. The Korean Pension System: Current State and Tasks Ahead. KDI.
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Spain

Score 6

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. There is no shortage of warnings from within or outside Spain (e.g., the Bank of Spain, IMF and OECD) that the country's pensions system is heading toward a crisis.

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 €1.5 billion in autumn 2019. Consequently, debates over the long-term fiscal sustainability of the social-security system have topped the political agenda. In 2019, several demonstrations by pensioners across Spain added additional urgency to the political debate.

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).

Attempts to reach an agreement on a reform were torpedoed at the beginning of 2019 when the left-wing party Podemos introduced last-minute amendments to a draft agreement that was being prepared by the so-called Pacto de Toledo congressional committee on pensions reform.

Citation:
Universidad de Extremadura (2018), El incremento de las pensiones contributivas
https://www.willistowerswatson.com/es-ES/press/2018/07/el-incremento-de-las-pensiones-contributivas-con-el-ipc-costara-mas-a-cada-cotizante

Vanguardia, 19/02/2019 El Pacto de Toledo se cierra sin un acuerdo en pensiones a las puertas de las elecciones, https://www.lavanguardia.com/economia/20190219/46575394998/pensiones-pacto-de-toledo-gobierno-elecciones-jubilacion.html

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 11 percentage points between 2014 and 2018. 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. This is clearly reflected in the high and rising old-age dependency ratio.

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. It is a matter of some debate whether the Chilean pension system guarantees intergenerational equity and 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 changes to the pension system, which was established under Augusto Pinochet and is strongly criticized as being elitist. The commission’s final report, presented in September 2015, 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 population’s most pressing concerns.

In 2015 and 2016, massive demonstrations throughout the country revealed the dissatisfaction with the pension system. The mass protest of October 2019, which academics and political analysts have referred to as a social explosion (estallido social), were widely motivated by this generalized discontent with the social security system, including the pension system.

In October 2018, President Piñera announced a reform to the pension system. However, due to the massive protests and strikes of October 2019, this reform initiative will be reevaluated. Among the first measures announced by the government in an effort to calm the situation was an increase of 20% in the minimum social pension (from approximately $150 to $180), along with an increase in the employer contribution rate from 10% to 15% of the worker’s wages. Nevertheless, the announcement of these “first aid measures” were widely regarded as patches to an unjust and thus unsustainable system. The political and social crisis of October 2019 ultimately breathed new life into political and academic debates regarding the possibility of more profound change.

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/docs/20190612/20190612104953/encuestacep_mayo2019.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 2018/2019:

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https://www.efe.com/efe/america/economia/pinera-anuncia-reforma-de-pensiones-que-aumenta-aporte-laboral-y-estatal/20000011-3795835

Cyprus

Score 5

Improvements in living conditions continue. Citizens over 65 years of age have greatly benefited, though as a group they continue to face a higher risk of poverty. Cyprus's ratio of pension expenditure to GDP, which until 2012 was the EU-27's second lowest, has also improved.

A range of pension schemes places public employees in a better position than private sector workers. Retirement ages vary according to employment sector. Public employees 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 EU has expressed hope that a new regulatory framework adopted in 2019 will improve the currently inadequate system. The new framework should also strengthen the currently weak supervision of the insurance and pension schemes. Reforms to the social-insurance system that started in 2010 focused on the retirement age, contribution rates, allowances to specific groups, the introduction of a guaranteed minimum income (GMI) and other measures. These reforms have partially mitigated the economic crisis's worst ills affecting vulnerable groups. Though they have benefited significantly from the GMI, pensioners, in particular women, remain vulnerable, with a high risk of poverty or social exclusion.

The European Commission noted in 2017 that the gender gap in pensions is the highest in the EU. It also noted a steep increase in inequality in 2018.

Citation:
1. European Commission, Semester Country Specific recommendations, Cyprus, 2019, https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-specific-recommendation-commission-recommendation-cyprus_en.pdf
2. Poverty and Social Exclusion Statistics 2008-2018, Cyprus Statistics Service, 2019, https://www.mof.gov.cy/mof/cystat/statistics.nsf/All/7F87785CA7BE6AC4C225846600399F19?OpenDocument&sub=5&sel=1&e=&print

Italy

Score 5

With 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 expectancies, 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.
One of the promises of the first Conte government was to radically reform the Fornero pension law. Driven by Salvini's Northern League in particular, the government imposed a reform that again reduced the age of retirement ("Quota 100" enables retirement at 62 after at least 38 years of contributions). This reform began to be implemented in 2019, and will add significant costs to the pension system. To save money, the government has reduced automatic inflation adjustments for large pensions. As of the time of writing, the second Conte government had not elected to revise the Salvini reform.

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. 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 far from being sufficiently robust to be able 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 government announced a reform of the pension system that will be introduced during the new government's six-year term.

Citation:
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http://www.elfinanciero.com.mx/economia/gobierno-de-amlo-promete-reforma-en-pensiones-en-cuatro-anos
https://www.forbes.com.mx/se-acerca-el-dia-d-para-el-sistema-de-pensiones/

Poland

Score 5

The three-pillar pension system, which Poland introduced in 1999 following World Bank recommendations, has since been radically transformed. 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 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.

The pension-eligibility age was a hot topic in the 2015 election campaign. The first PiS government scrapped the envisaged increase in the retirement age, and even lowered the retirement ages for men to 65 and for women to 60 in November 2017. This decrease in the retirement age, which has been estimated to cost 0.5% of GDP annually, 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. In order to finance part of the costs for the second pillar, the government tried to abolish the maximum contribution to ZUS, the public pension pillar. However, this move was declared unconstitutional by the Constitutional Tribunal in November 2018.

In 2018, the government also laid the foundations for a new occupational pension savings scheme, which is supposed to replace the existing second pillar. The new scheme was introduced for employees of companies with more than 250 staff in July 2019. The scheme will be extended to cover employees of smaller firms in the second half of 2020. While employees have the right to withdraw from the scheme, the government hopes to integrate up to 75% of the country's employed population through the scheme's automatic enrollment. Experts are divided. Some experts argue that it is a good idea to force Poles to save money and that the government should create incentives to do so, while others argue that these programs are inefficient.

In the period under review, the PiS government has largely focused on addressing the growing level of poverty among pensioners. It eventually adopted the "500+" scheme, which provides an extra annual payment to poor pensioners. Moreover, shortly before the 2019 European Parliament elections, all pensioners were paid a 13th pension. In the campaign to the parliamentary elections in October 2019, the government promised to pay a 13th and even a 14th pension on a regular basis. However, the financing of these costly promises is unclear. Some PiS members of parliament have suggested that the government could utilize the Solidarity Fund, which was meant to finance improvements for people with special needs.

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

Owczarek, D. (2019): Soziale Probleme lösen oder Wähler gewinnen? Die Sozialpolitik der PiS seit 2015, Polen Analysen Nr. 246, Darmstadt/ Bremen (https://www.laender-analysen.de/polen-analysen/246/soziale-probleme-loesen-oder- waehler-gewinnen-die-sozialpolitik-der-pis-seit-2015/).

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.

Sustainability has further suffered due to the parliament's decision in March 2019 to stop automatic increases in the retirement age in line with life expectancy and to set the retirement age at 64 years old. Women can retire earlier if they have raised children: 63.5 years old for mothers of one child, 63 years old for mothers of two children or 62.5 years old for mothers of three or more children. Put on the agenda by Smer-SD leader and former prime minister Robert Fico, the change in the retirement age was supported by the trade unions, which organized a petition that was signed by more than 230,000 people. The Ministry of Finance and Ministry of the Economy as well as opposition parties and several think tanks opposed the proposal, forecasting that the changes would undermine the long-term sustainability of the pensions system and estimating that the proposal would cost €900 million per year.

Turkey

Score 5

In 2001, Turkey's pension system was reformed with the enactment of Law No. 4632. The law allowed insurance companies to offer individual retirement plans. This transformed the single-component pension system, as emphasized by Peksevim and Akgiray (2019), into a three-component system, which includes one compulsory component, one occupational component and one optional component. While the compulsory component consists of a pay-as-you-go statutory public pension scheme, the voluntary component consists of voluntary individual pension schemes. On the other hand, the occupational component covers mainly the armed forces pension plan (OYAK), pension funds for employees of the state mining coal company, and a relatively small number of small voluntary occupational plans. 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. An upper bound was assigned to the contribution by the state.

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 enrollment 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 are obliged to stay in the individual pension plan for three years before being able to opt out. Thus, for three years the pension plan would be compulsory. In addition, the New Economic Program 2020 – 2022 emphasized that a Complementary Pension System will be established, with the backing of the government's social partners, and a comprehensive reform package will be introduced. The government has stated that policies to balance the social security system will be implemented while safeguarding social justice.

Pension spending in Turkey is modest, amounting to 7.7% of GDP during 2017. Due to the system's high dependency ratio and generous eligibility rules, 38% of 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:
Peksevim, S. and V. Akgiray (2019) 'Reforming the Pension System in Turkey: Comparison of Mandatory and Auto-Enrollment Pension Systems in Selected OECD Countries, Paris: OECD
Turkish Statistical Institute, 'Statistics on Health and Social Protection,' Ankara.

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 at 39% is the second lowest in the European Union, partly because many pensioners retire early. Only 15% of pensioners worked for 40 or more years. As a result, pensioner poverty is high in Croatia, with almost one-third of pensioners at risk of poverty or social exclusion. Though approximately 170,000 retirees enjoy privileged pensions, among them more than 70,000 war veterans. 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. Almost half of the pension spending is covered by the government budget rather than by social contributions, which means that pensions account for 15% of the government budget.

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. In October 2018, the Plenković government submitted a substantial pension reform to parliament which 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 pointed out that the second provision would severely weaken the second pillar. In response the final legislation, passed in December 2018, was slightly modified so that all pensioners would be eligible to some kind of pension supplement. In 2019, trade unions gathered about three-quarters of a million signatures for a referendum on the issue, and forced the government to back down and introduce amendments to the law to lower the official state retirement age to 65, while allowing those who wish to do so to continue working beyond that age. In late 2019, the government also announced the introduction of "national pensions" for citizens who have never worked or have worked less than 15 years from 2021 onwards.

Citation:
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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).

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 slightly since then, with 17.8% of GDP spent on pensions in 2015 (EU-28: 12.8%). In fact, the largest share of social-protection expenditure was devoted to pensions.

The pension system has been radically changed since 2010 by a range of reforms aimed at making the system more viable and seeking to limit public expenditures. The latest reform (Law 4387), in 2016, abolished all special arrangements, unified all pension-fund programs, and subsumed all rules on contributions and benefits under a new body (EFKA). This reform also established a general system of defined-benefit pension plans, and introduced a basic pension financed by general tax revenue. According to the law, the main pension is now 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.

The prospects for the Greek pension system are not good, as the country has one of the worst old-age dependency ratios in the OECD. 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.

The IMF points out that Greece spends more on old-age pensions, as a share of GDP, than the average euro area country. In the run-up to the election the previous government worsened the imbalance when it restored the pre-crisis practice of a bonus “13th month” pension.

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 programs), courts have found other of its aspects to be unconstitutional. For instance, in the period under review, the country’s supreme administrative court struck down several aspects of the reform pertaining to low replacement rates. All in all, 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

Details on pension reform can be found in 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. While undermining trust in the reliability of pension policy, these measures have improved the financial situation of the public pension scheme.

For the time being, the growing gap between the growth in wages and pensions has been partly compensated by extra payments. Immediately before the 2018 parliamentary elections, all pensioners received checks worth HUF 9,000 for the payment of their energy bills. However, these extra payments are not considered when calculating next year's pensions. For these and other reasons, inequality among pensioners and the share of poor pensioners will increase dramatically in the future, raising concerns about inter- and intra-generational fairness.

Citation:
European Commission (2020): Country Report Hungary 2020. SWD(2020) 516 final, Brussels, 24 (https://ec.europa.eu/info/sites/info/files/2020-european-semester-country-report-hungary-en.pdf).

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 2019 was €335.84. 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. In 2017, 50.4% of the citizens aged 65 and over were at risk of poverty.

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 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 progressive taxation of personal income, including pensions. In addition, the nontaxable 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 and 2019, 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.

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2. Central Statistical Bureau (2017) At-risk-of-poverty rate by occupational status, sex and age (%) (Database) Available at (in Latvian): https://data1.csb.gov.lv/pxweb/lv/sociala/sociala__nabadz_nevienl__monetara_nab/NIG040.px/, Available at: 02.11.2019

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Romania

Score 4

Since 2008, Romania has operated under a three-pillar pension system, with the first pillar a mandatory pay-as-you-go scheme, the second mandatory and privately-managed, and the third consisting of voluntary individual savings. The year under review witnessed substantial changes to the first two pillars, with uncertain long-term effects.

A pension reform law took effect in July 2019, with initial changes coming into effect in September. The pension point value used to calculate social insurance, old-age, and disability pensions has increased from 1,100 lei to 1,265 lei, with plans for continued increases in September 2020 and 2021 and further automatic adjustments from 2022 onwards. While these changes sought to improve pension adequacy, there have been widespread concerns about fiscal sustainability, with the IMF warning the reform could double Romania's fiscal deficit while significantly raising external financing needs. The budgetary implications of the legislation have yet to be spelled out by the government. Another change eliminates the use of the standard full contributory period, effectively removing different contribution periods between men and women as well as between newer and older cohorts of pensioners. Replacing this is a minimum contribution period of 15 years (excluding those with certain disabilities), linking pension benefits more closely with contributions. While these more restrictive conditions might help quell concerns about the system's sustainability, they also risk worsening the gender pension gap due to women's shorter contribution periods, further undermining the law's aims of pension equity.

Simultaneously, the second pension pillar has been significantly weakened. In December 2018, the government made the second pillar optional after five years of contributions, increased the minimum capital requirements for management companies, and reduced the allowed level of administration fees. These changes have prompted concerns about future pension adequacy, the local capital market, and the economy's long-term financing. These changes, combined with those to the first pillar, call the Romanian pension system's capacity to realize poverty prevention, intergenerational equity, and fiscal sustainability into question.

Citation:
Urse, D. (2019): Romania's new law on pensions: addressing inequities or deepening gaps? European Social Policy Network, ESPN Flash Reort 2019/14, Brussels.

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