

Pension schemes for civil servants and public-sector workers

Options for reform

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Agenda



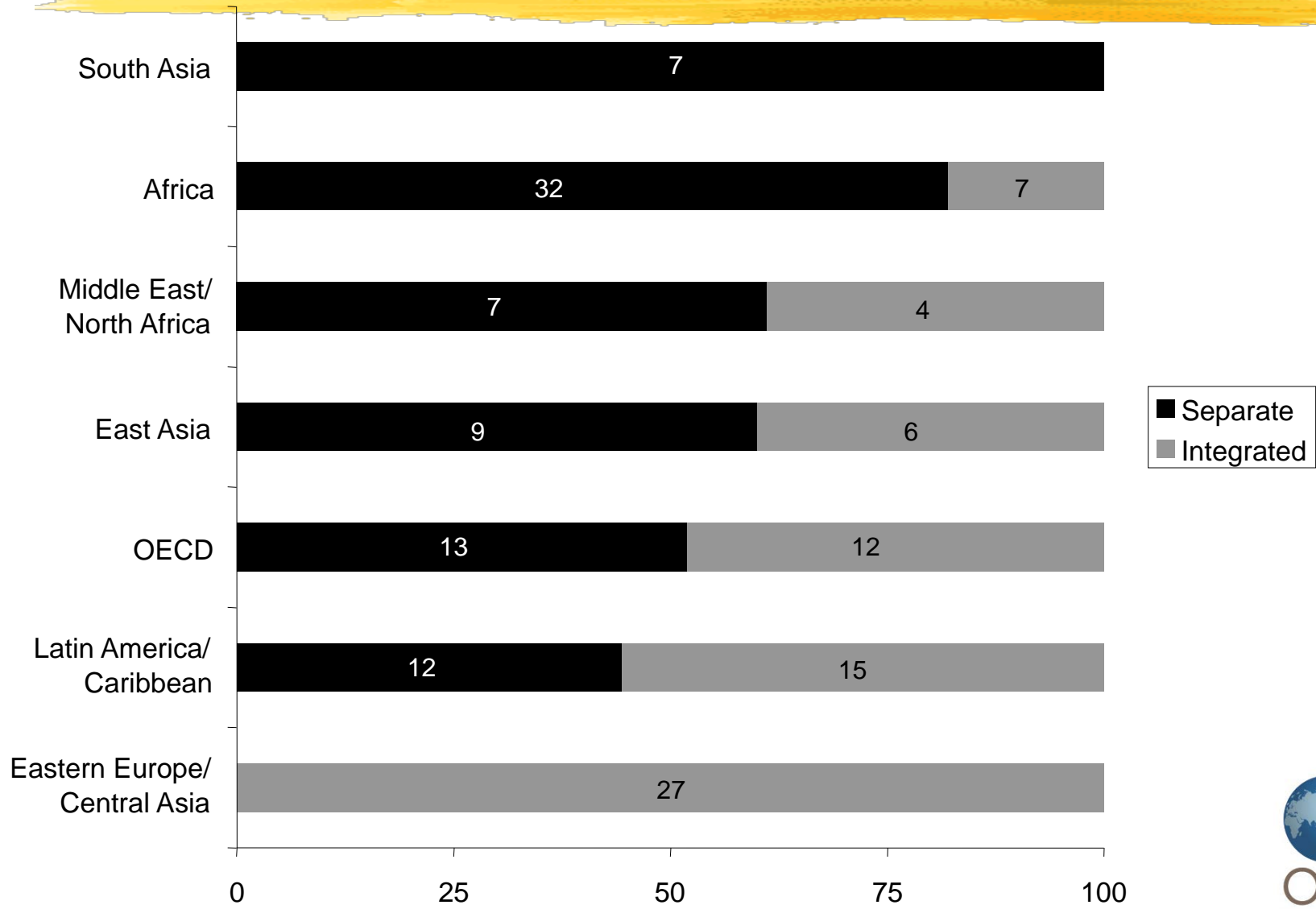
- Institutional arrangements for public-sector workers' pensions
- Demographic pressures
- Flexibility and portability of civil-service pensions

Origins



- Civil-service pension schemes usually set up before national programmes
 - independence of civil servants
 - make working for the public sector attractive
 - shift the cost of remunerating civil servants into the future
- Separate schemes then often persisted after national schemes established: 'dualism'

Institutional arrangements around the world



Institutional arrangements

Fully Integrated

 Estonia
 Hungary
 Latvia
 Lithuania
 Slovak R.
 Slovenia
 Czech R.
 Poland

Separate but similar benefits

 Denmark
 Finland
 Iceland
 Netherlands
 Sweden

Fully integrated with top-up

 Canada
 Spain
 United States
 Ireland
 Japan
 Norway
 Switzerland

 Italy
 New Zealand

Partially integrated with top-up

 Australia
 United Kingdom

Entirely separate

 Germany
 Austria
 Belgium
 Korea
 France
 Greece
 Luxembourg
 Portugal
 Turkey

Dualism



- Arguments against
 - Integration gives civil servants direct, personal interest in the plan being well managed
 - Economies of scale
 - Mobility and portability
 - Equity
 - Transparency
- Long-term goal should therefore probably be integration of civil-service and national pension plans

Demographic pressures



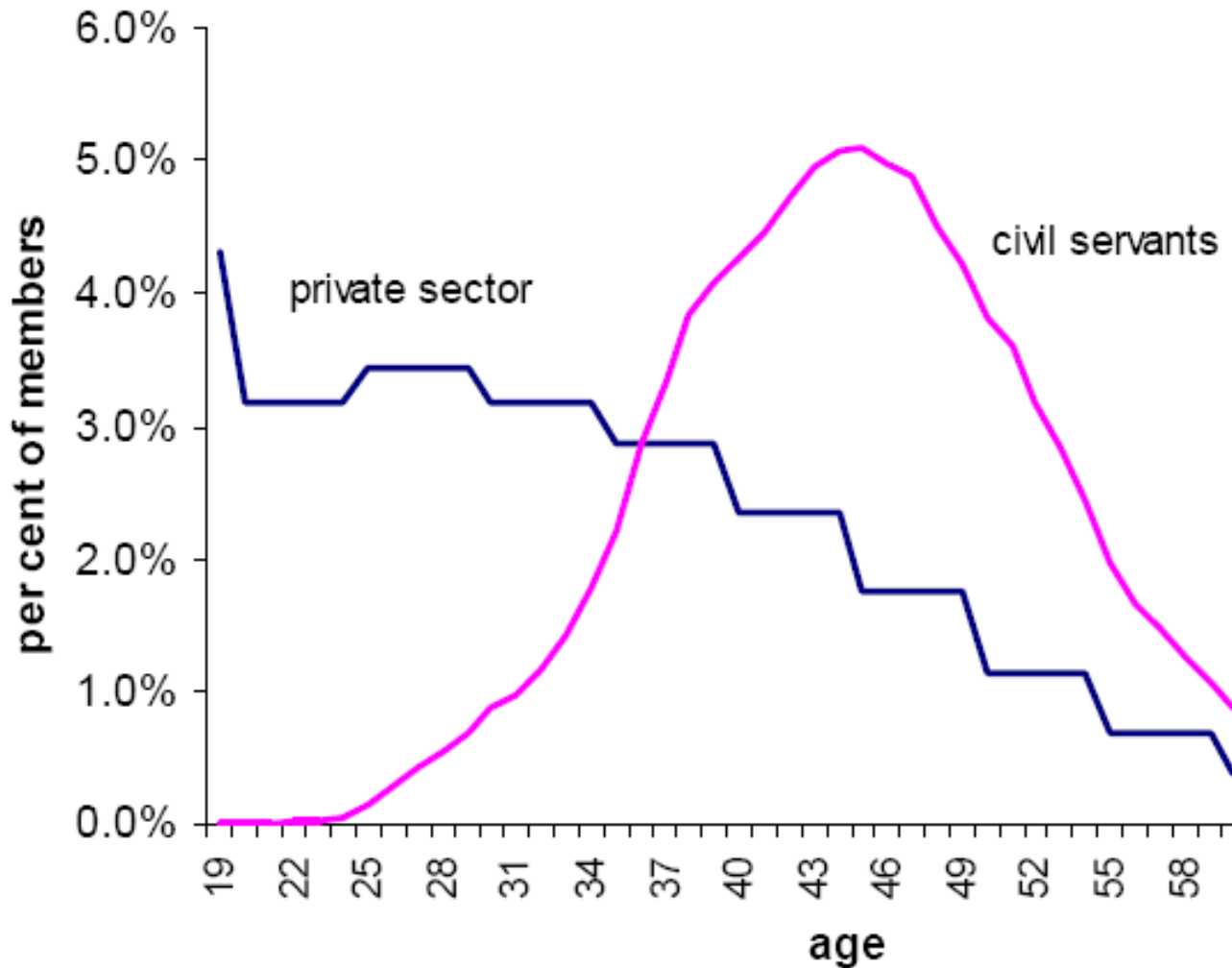
- Civil service schemes have a different demography from the population
- 'Ageing' will affect civil service schemes earlier because of past recruitment policy
 - civil services expanded rapidly in the 1960s and 1970s
 - growth has slowed and sometimes come to a halt in the 1980s and 1990s

Central government employment

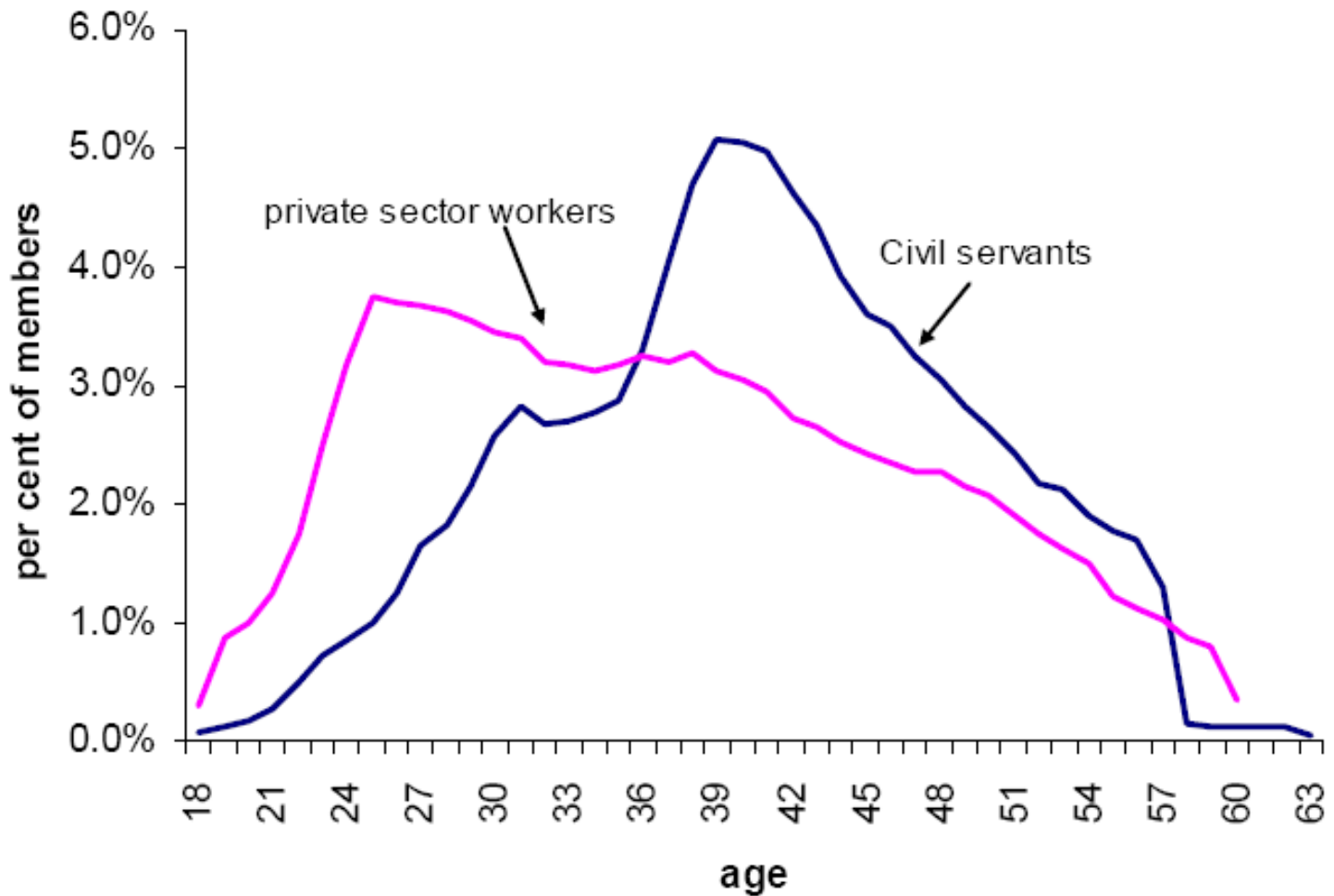
per cent of total population

	early 1980s	early 1990s
Africa	1.8	1.1
Asia	2.6	1.1
Latin America	2.4	1.5
All developing countries	2.2	1.2
OECD	2.9	1.9

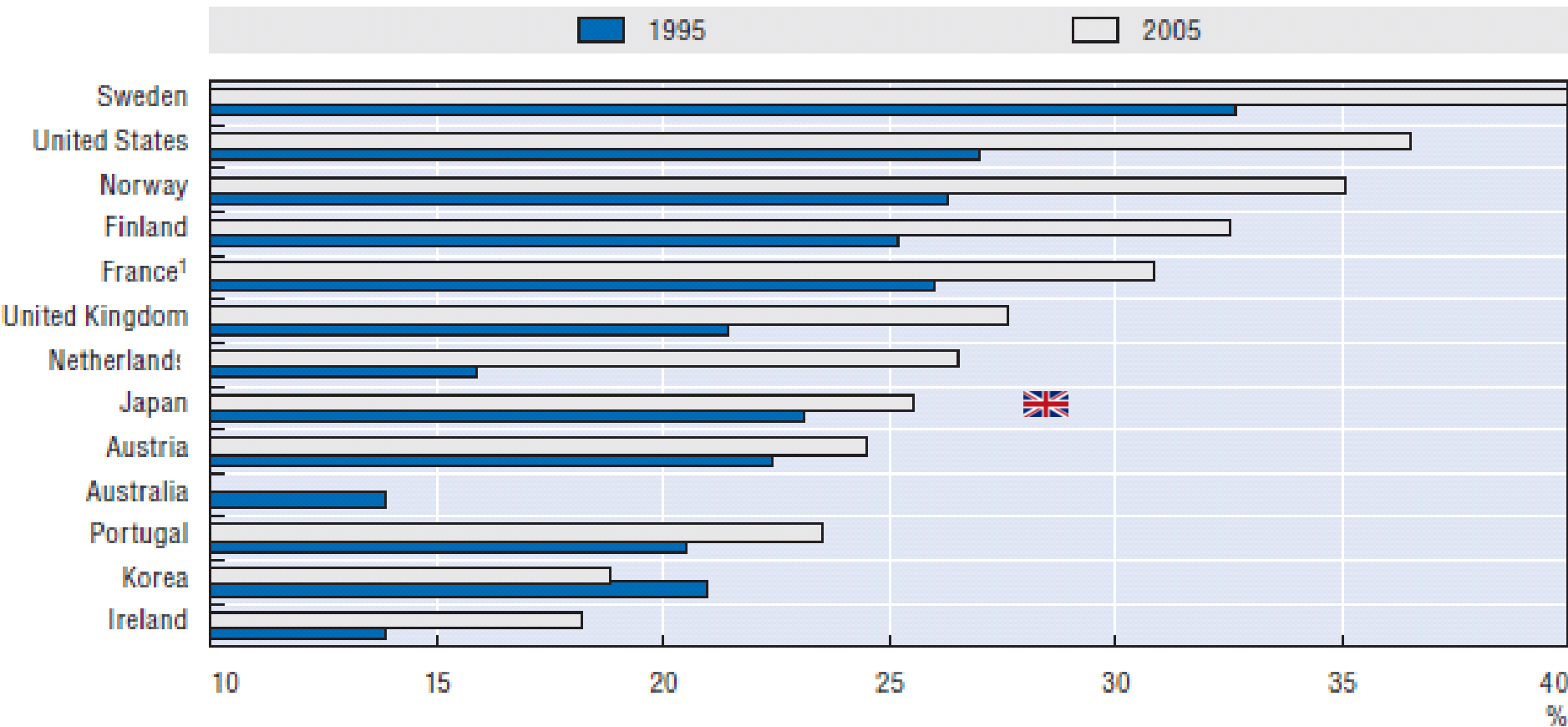
Example: Brazil



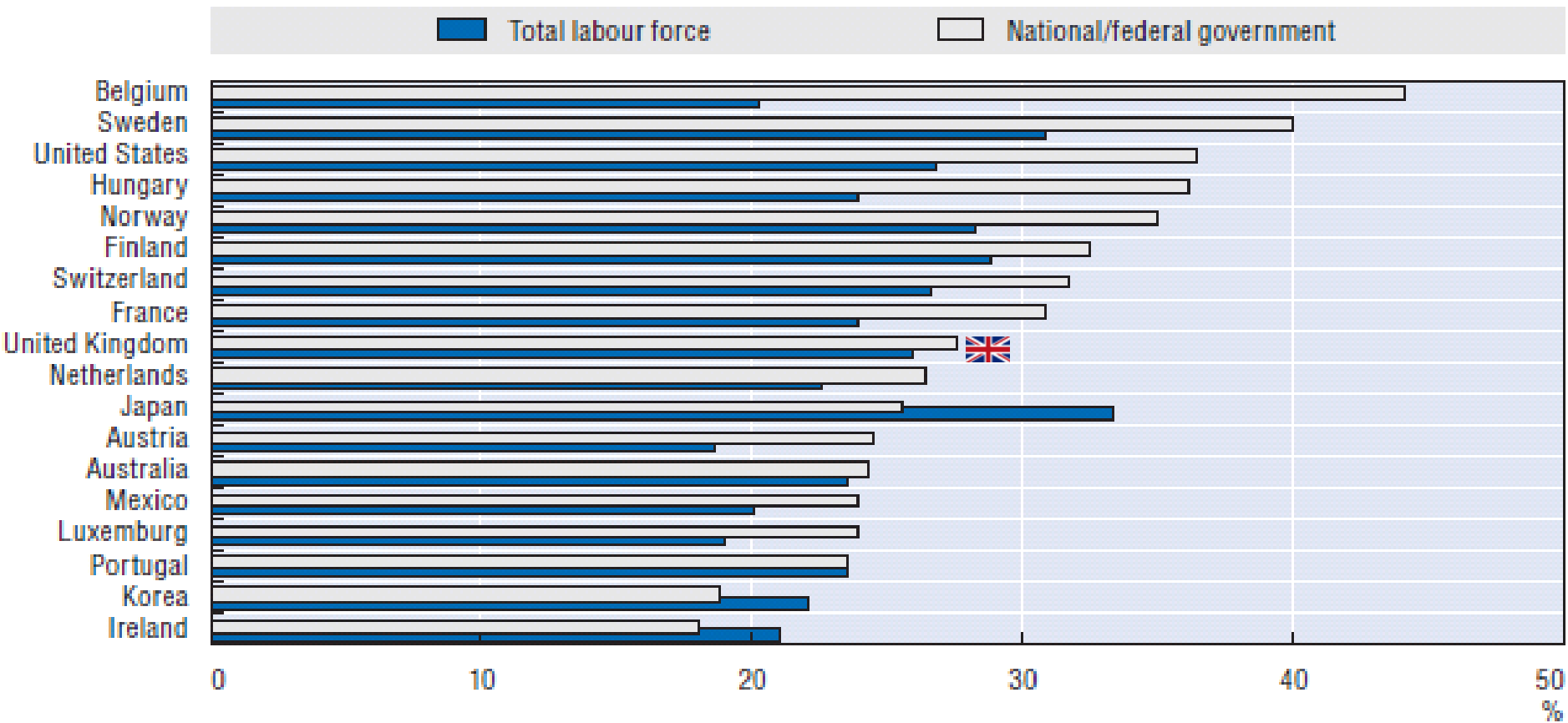
Example: Egypt



Demographics: Civil servants aged over 50



Demographics: Over 50s in the workforce



Reforms



- 'Parametric' reforms to defined benefit plans
 - reduce replacement rate
 - index pensions in payment to prices rather than civil-service earnings
 - introduce/increase member contributions
 - raise pensionable age
 - extend averaging periods for 'final' salary
- 'Systemic' reforms
 - introduce new system for new civil servants with some element of pre-funding of obligations
- Any reform must take account of all aspects of civil-service terms and conditions

Raising retirement age

- Civil service schemes are 'closed' systems
 - so increasing retirement age has different effects than it does in national schemes
 - labour supply effect in national schemes
 - Increase in retirement age cuts duration of benefit payments, but
 - without downward adjustment of accrual rates to compensate, benefit values increase
 - people might retire on higher pay if earnings continue to grow with age
 - affects both pay and pension bills

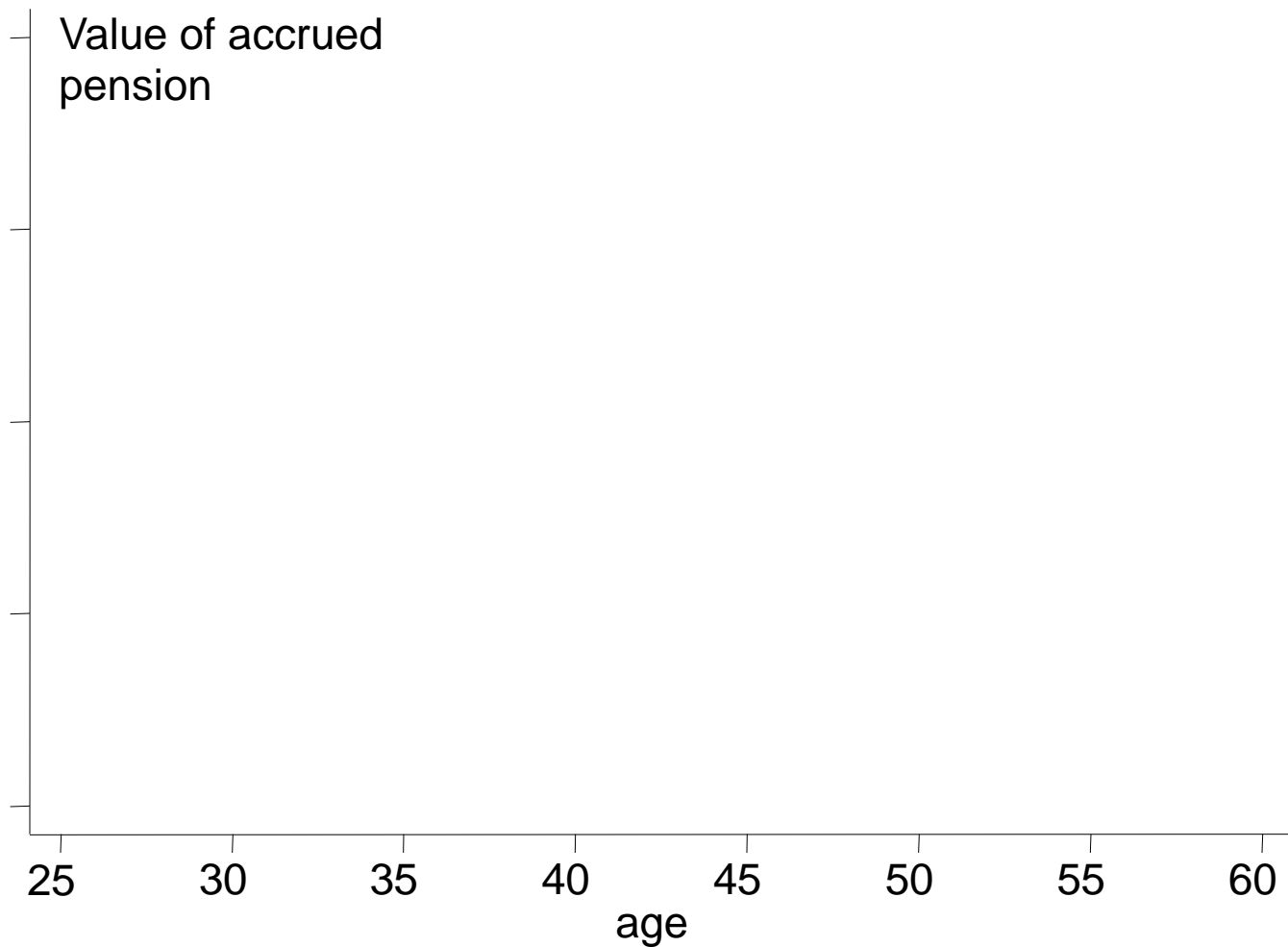
Flexibility and portability

- Civil service schemes are inflexible: ill designed to deal with people without full careers
- But flexible schemes are increasingly important
 - 'revolving doors': cross-fertilisation between public and private sectors
 - transfer of employees due to privatisation or contracting out

Penalties to moving jobs

- Vesting periods: when individual qualifies for a pension
 - <1 year in Finland, Netherlands, Sweden, Switzerland, UK
 - 5 years in Belgium, Germany, Ireland, Italy
 - 15yrs in Austria, France, Spain, Mauritius, Senegal
 - people can leave with nothing
- Treatment of 'early leavers': what happens to the benefit between leaving the job and claiming the pension?
 - full transferability (Finland, Netherlands, Sweden)
moves to occupational plan with same benefits in private sector
 - full preservation (France)
accrued rights uprated in line with civil-service earnings
- In other countries, a pension cost to moving jobs

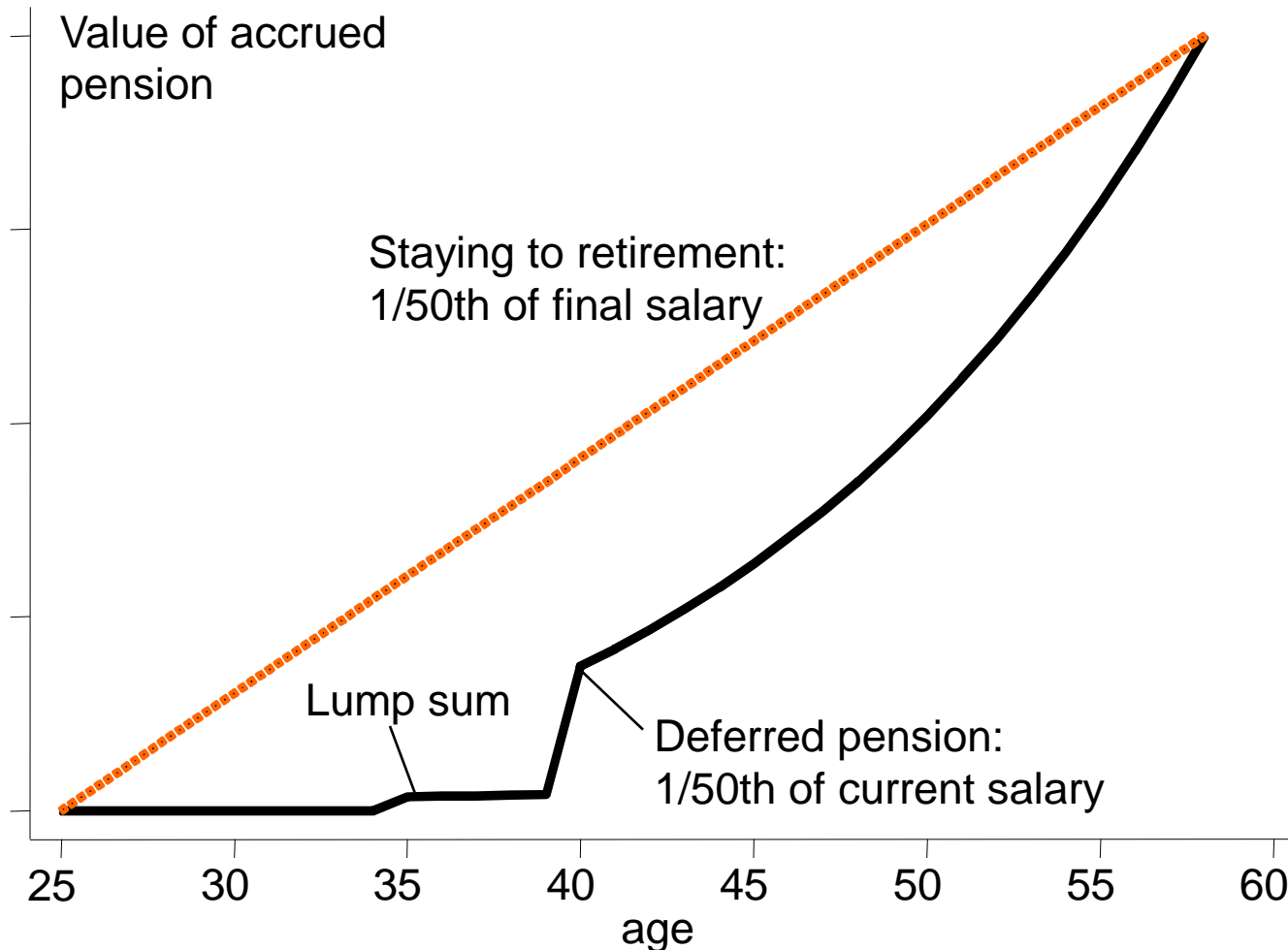
Example: Mauritius



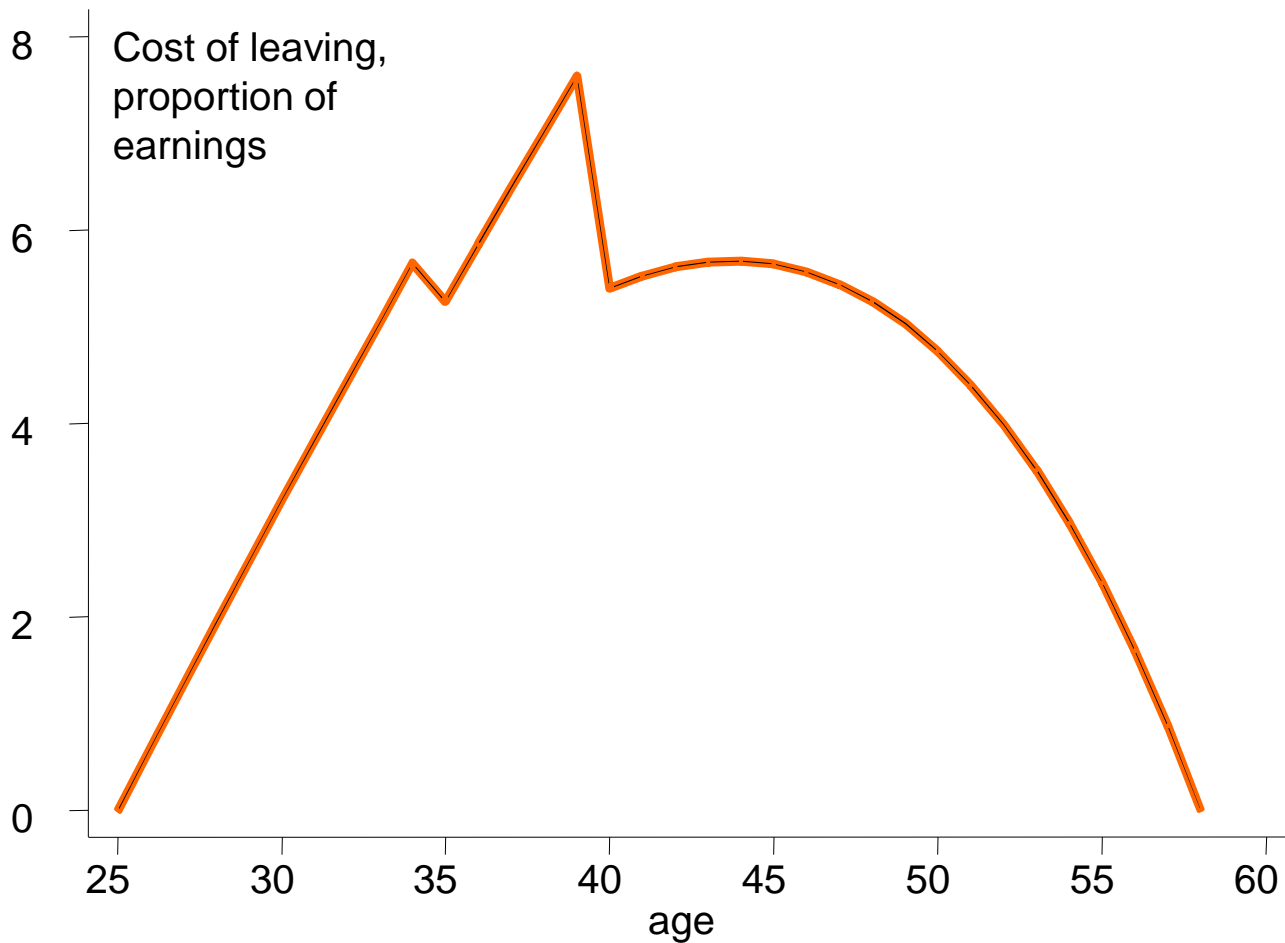
Example: Mauritius



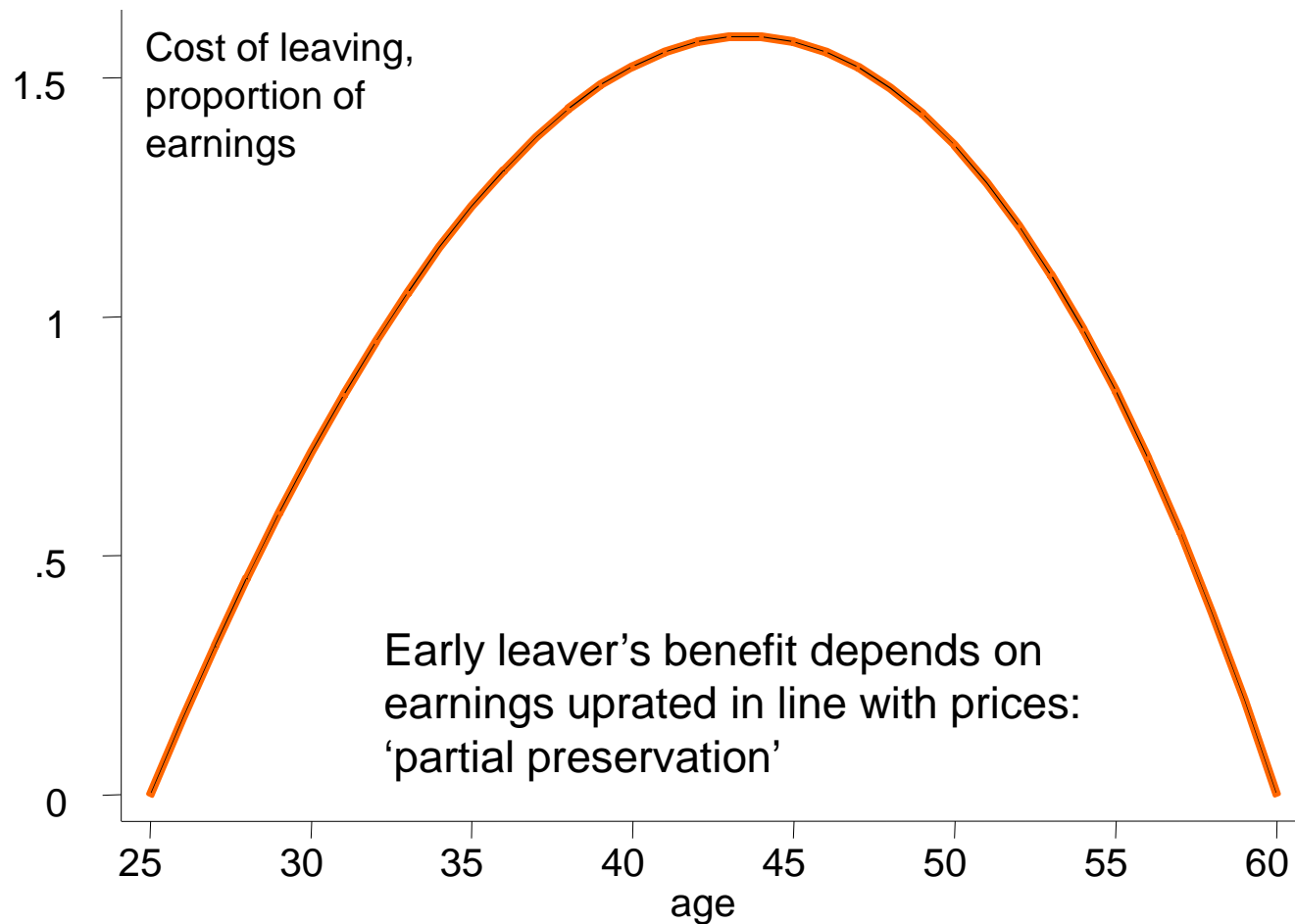
Example: Mauritius



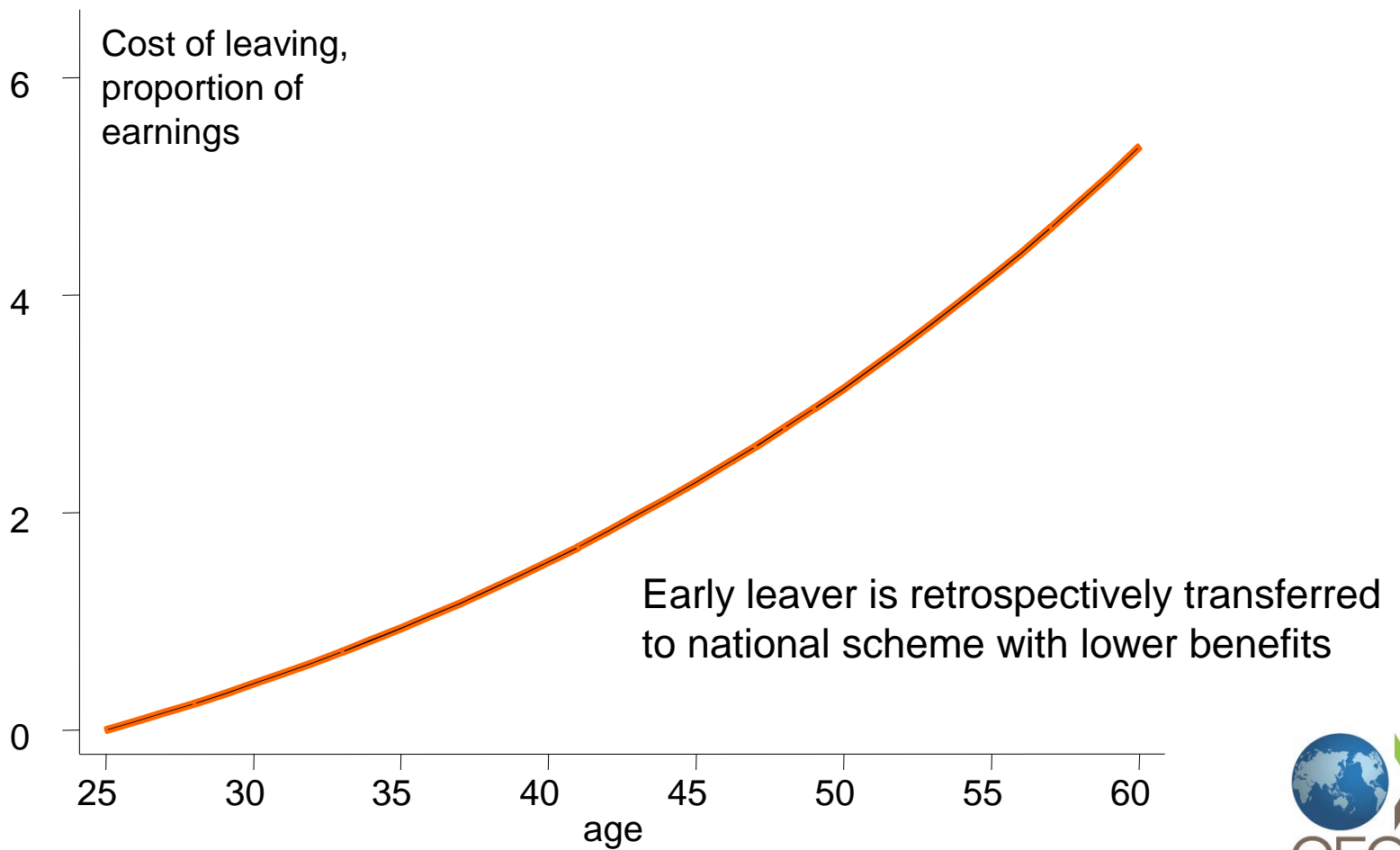
Example: Mauritius



Example: UK



Germany



Conclusions: reforms to improve portability

- Shorten vesting periods
- Preserve pension rights of early leavers
- Extend averaging period for 'final salary'
 - career average uprating eliminates the mobility problem
 - also deals with problems of incentives for abuse
 - but requires improvements in record-keeping
- Introduce a defined contribution scheme
 - fully portable
 - examples include Australia, UK, US
- Merge schemes for different public-sector workers
- Move to a single national scheme
 - equity as well as efficiency

Conclusions: reforms to improve finances



- Introduce or increase employee contributions
- Increase pension age: but take care
- Change incentives for early/late retirement
- Change indexation procedures
- Move to more targeted provision
- Link benefits to life expectancy