



World Bank  
Hitotsubashi University  
Ministry of Finance  
*Closing the Coverage Gap:  
The Role of Social Pensions*  
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# Social pensions: experience in high-income countries

Mark Pearson

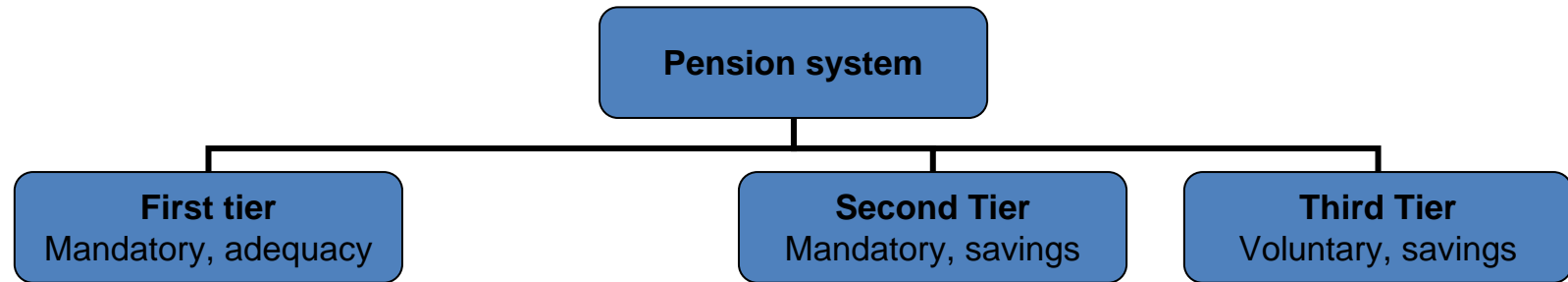
Social Policy Division, OECD



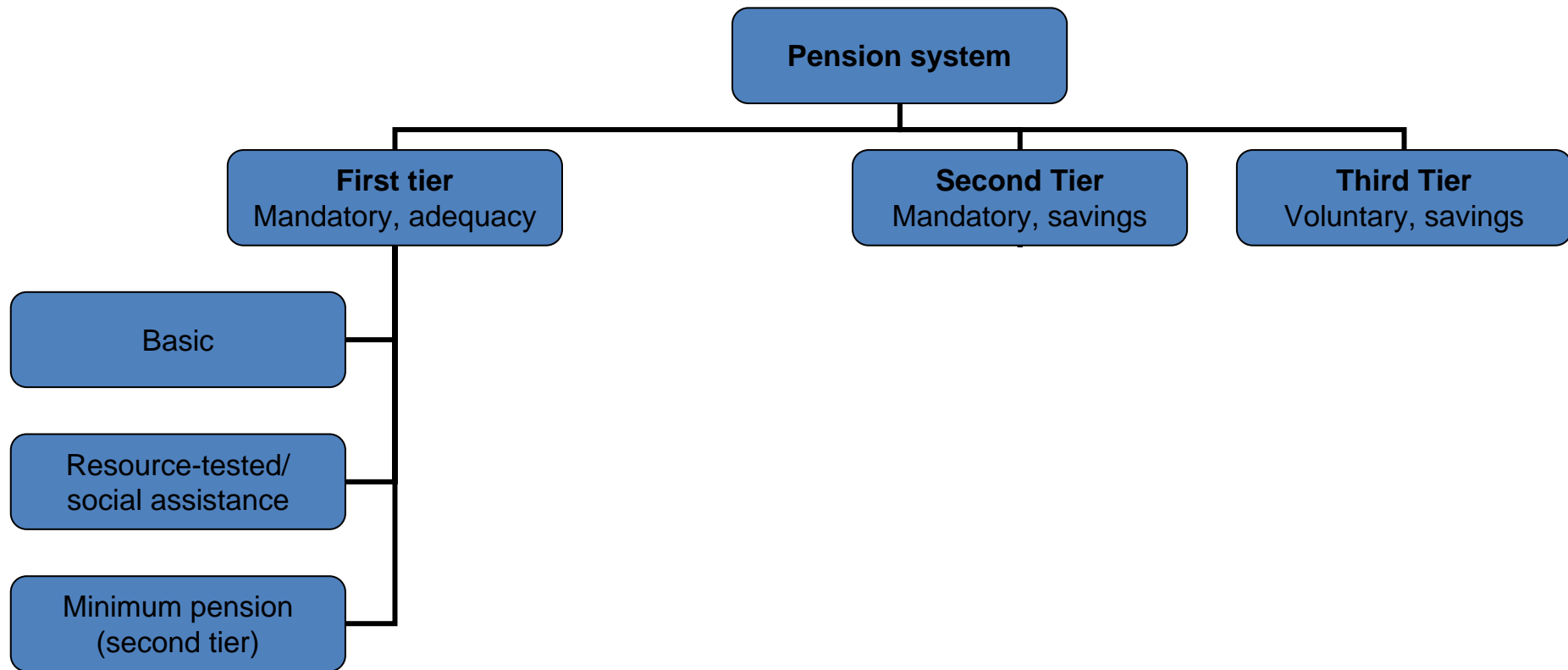
# Agenda

- Taxonomy: what are social pensions?
- Structure: what social pensions do countries have?
- Levels: what incomes do they provide?
- Reforms: how were social pensions affected?

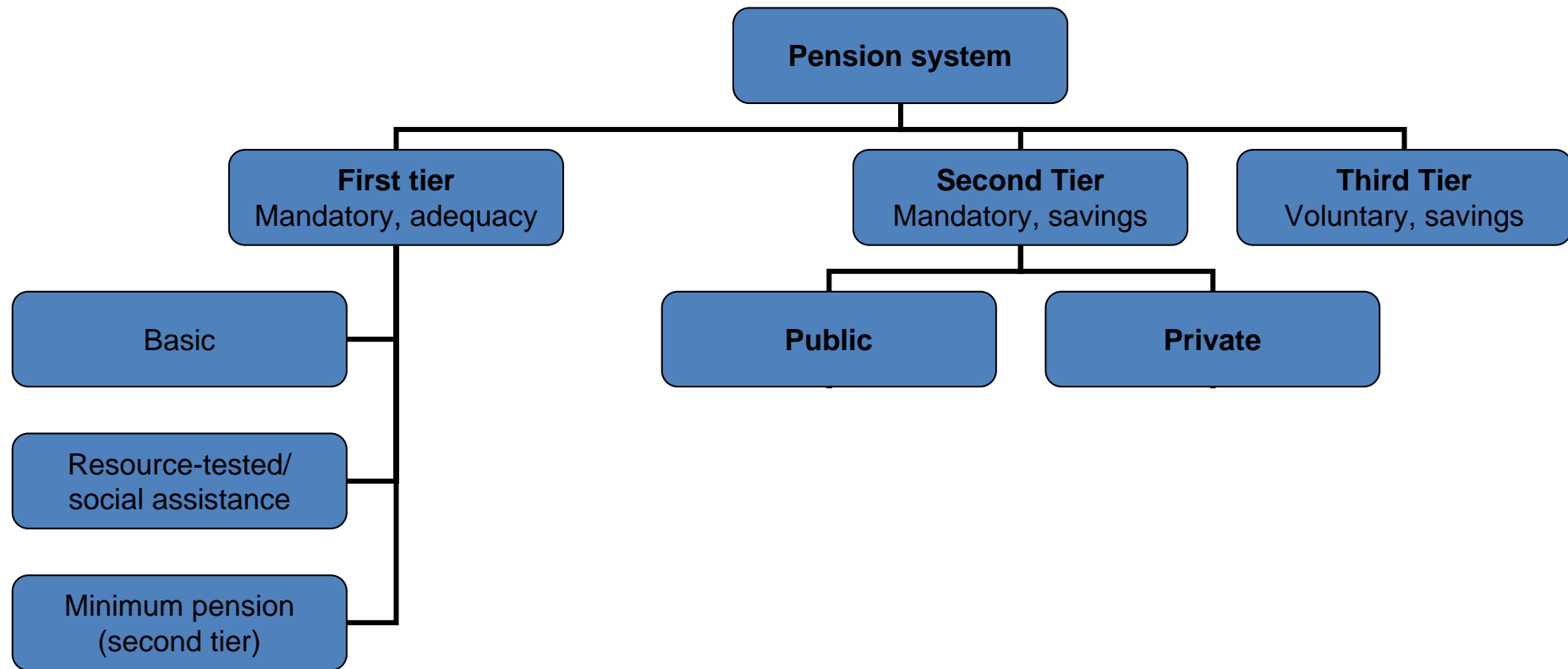
# Taxonomy of pension schemes



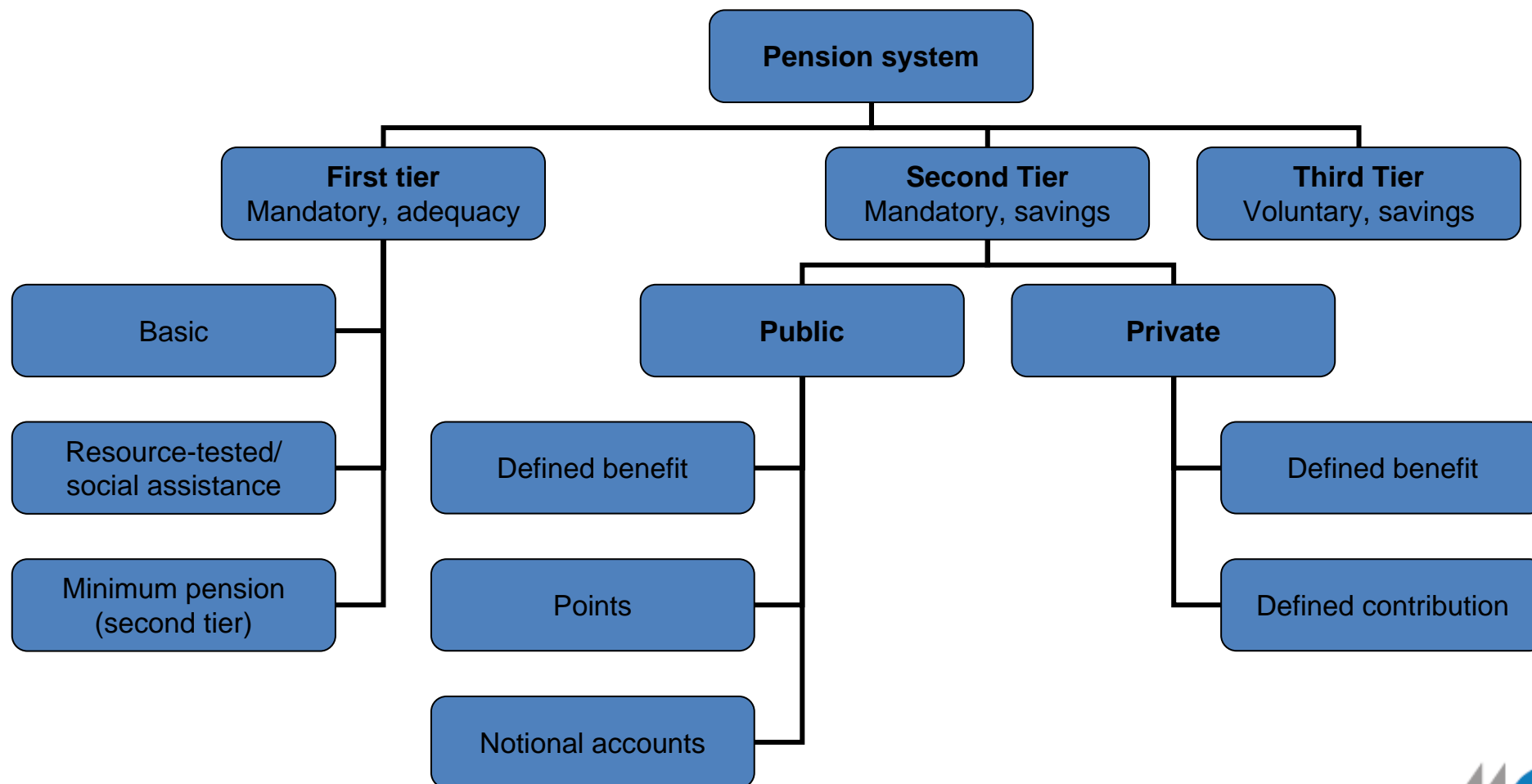
# Taxonomy of pension schemes



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# Structure of retirement-income systems

	Resourc e	Basic	Minimum		Resourc e	Basic	Minimum
Australia	X						
Austria	X						
Germany	X						
Italy	X						
				United States	X		

# Structure of retirement-income systems

	Resourc e	Basic	Minimum		Resourc e	Basic	Minimum
Australia	X			Korea		X	
Austria	X						
				Netherlands		X	
				New Zealand		X	
Germany	X						
Italy	X						
Japan		X		United States	X		



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	Resourc e	Basic	Minimum		Resourc e	Basic	Minimum
Australia	X			Korea		X	
Austria	X						
				Netherlands		X	
				New Zealand		X	
Finland			X	Poland			X
Germany	X			Slovak Republic			X
Hungary			X	Sweden			X
Italy	X						
Japan		X		United States	X		

# Structure of retirement-income systems

	Resourc e	Basic	Minimum		Resourc e	Basic	Minimum
Australia	X			Korea		X	
Austria	X						
Belgium	X		X				
				Netherlands		X	
				New Zealand		X	
Finland			X	Poland			X
France	X		X	Portugal	X		X
Germany	X			Slovak Republic			X
Greece	X		X	Spain	X		X
Hungary			X	Sweden			X
				Switzerland	X		X
				Turkey	X		X
Italy	X						
Japan		X		United States	X		

# Structure of retirement-income systems

	Resourc e	Basic	Minimum		Resourc e	Basic	Minimum
Australia	X			Korea		X	
Austria	X						
Belgium	X		X				
Canada	X	X		Netherlands		X	
				New Zealand		X	
Denmark	X	X					
Finland			X	Poland			X
France	X		X	Portugal	X		X
Germany	X			Slovak			X
Greece	X		X	Spain	X		X
Hungary			X	Sweden			X
Iceland	X	X		Switzerland	X		X
Ireland	X	X		Turkey	X		X
Italy	X						
Japan		X		United States	X		

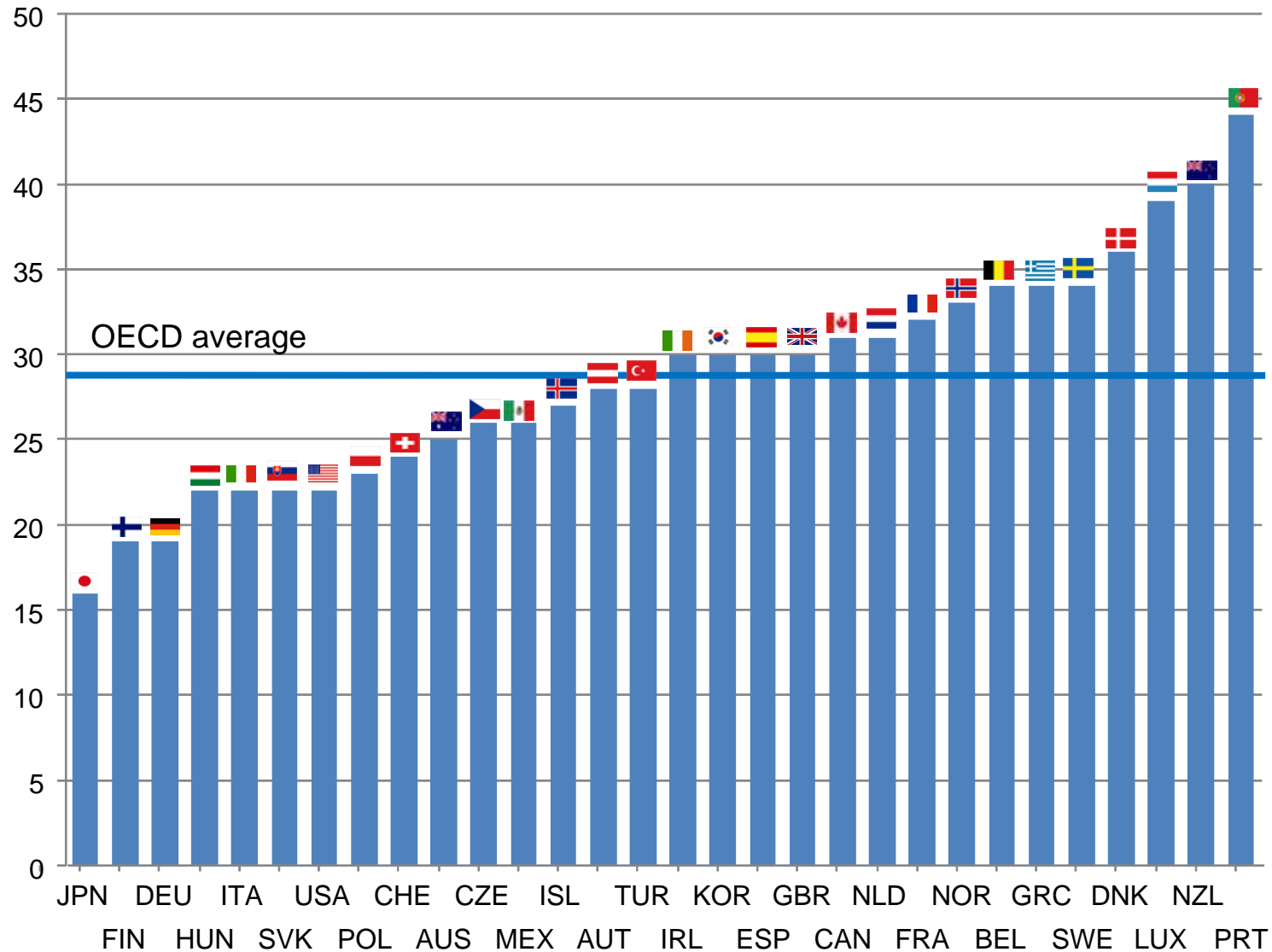
# Structure of retirement-income systems

	Resourc e	Basic	Minimum		Resourc e	Basic	Minimum
Australia	X			Korea		X	
Austria	X			Luxembourg		X	X
Belgium	X		X	Mexico		X	X
Canada	X	X		Netherlands		X	
Czech Republic		X	X	New Zealand		X	
Denmark	X	X		Norway		X	X
Finland			X	Poland			X
France	X		X	Portugal	X		X
Germany	X			Slovak Republic			X
Greece	X		X	Spain	X		X
Hungary			X	Sweden			X
Iceland	X	X		Switzerland	X		X
Ireland	X	X		Turkey	X		X
Italy	X						
Japan		X		United States	X		

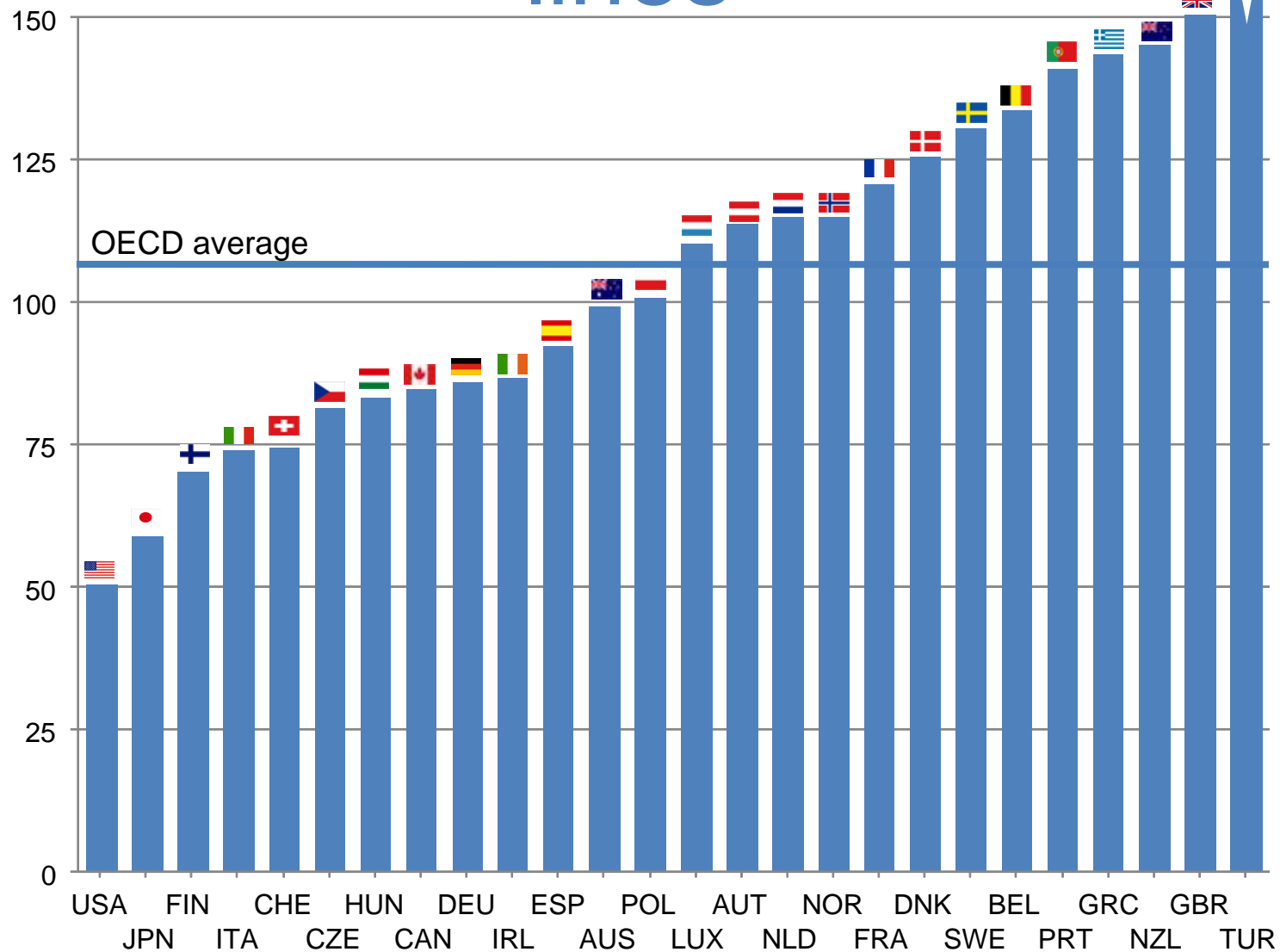
# Structure of retirement-income systems

	Resourc e	Basic	Minimum		Resourc e	Basic	Minimum
Australia	X			Korea		X	
Austria	X			Luxembourg		X	X
Belgium	X		X	Mexico		X	X
Canada	X	X		Netherlands		X	
Czech Republic		X	X	New Zealand		X	
Denmark	X	X		Norway		X	X
Finland			X	Poland			X
France	X		X	Portugal	X		X
Germany	X			Slovak Republic			X
Greece	X		X	Spain	X		X
Hungary			X	Sweden			X
Iceland	X	X		Switzerland	X		X
Ireland	X	X		Turkey	X		X
Italy	X			United	X	X	X
Japan		X		United States	X		

# Old-age safety-nets and earnings



# Old-age safety nets and poverty lines



# Reforms and social pensions

## Stronger social pensions

FRA: new, higher minimum income  
IRE: increase basic pension relative to earnings  
KOR: new universal basic pension  
MEX: new minimum pension  
SWE: replace basic pension with pension-tested benefit at much higher level  
GBR: higher minimum

## No direct effect

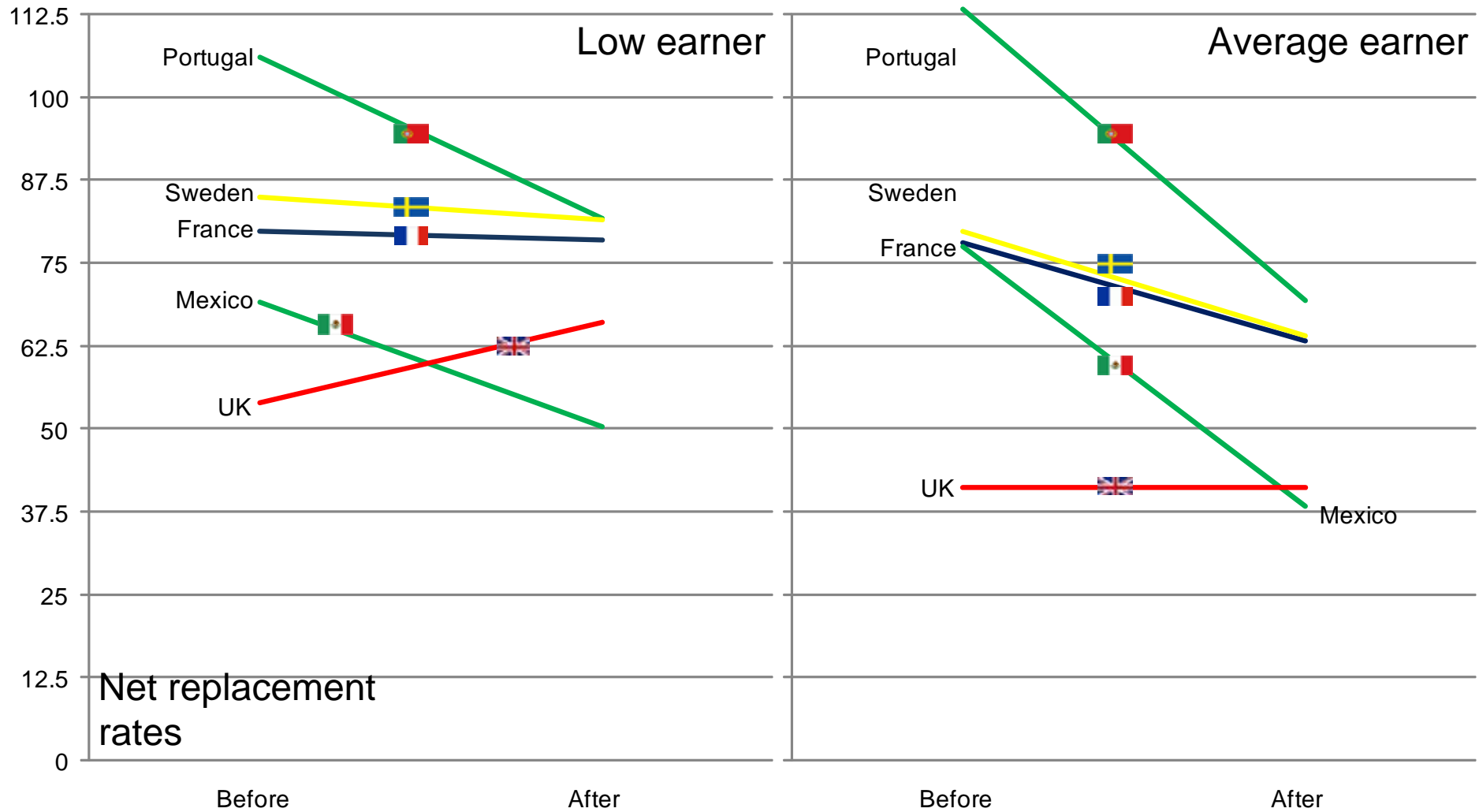
AUT: cuts in earnings-related pension  
GER: cuts in earnings-related pension  
JPN: cuts in basic and earnings-related  
NZL: increase in pension age  
PRT: cuts in earnings-related pension

## Weaker social pensions

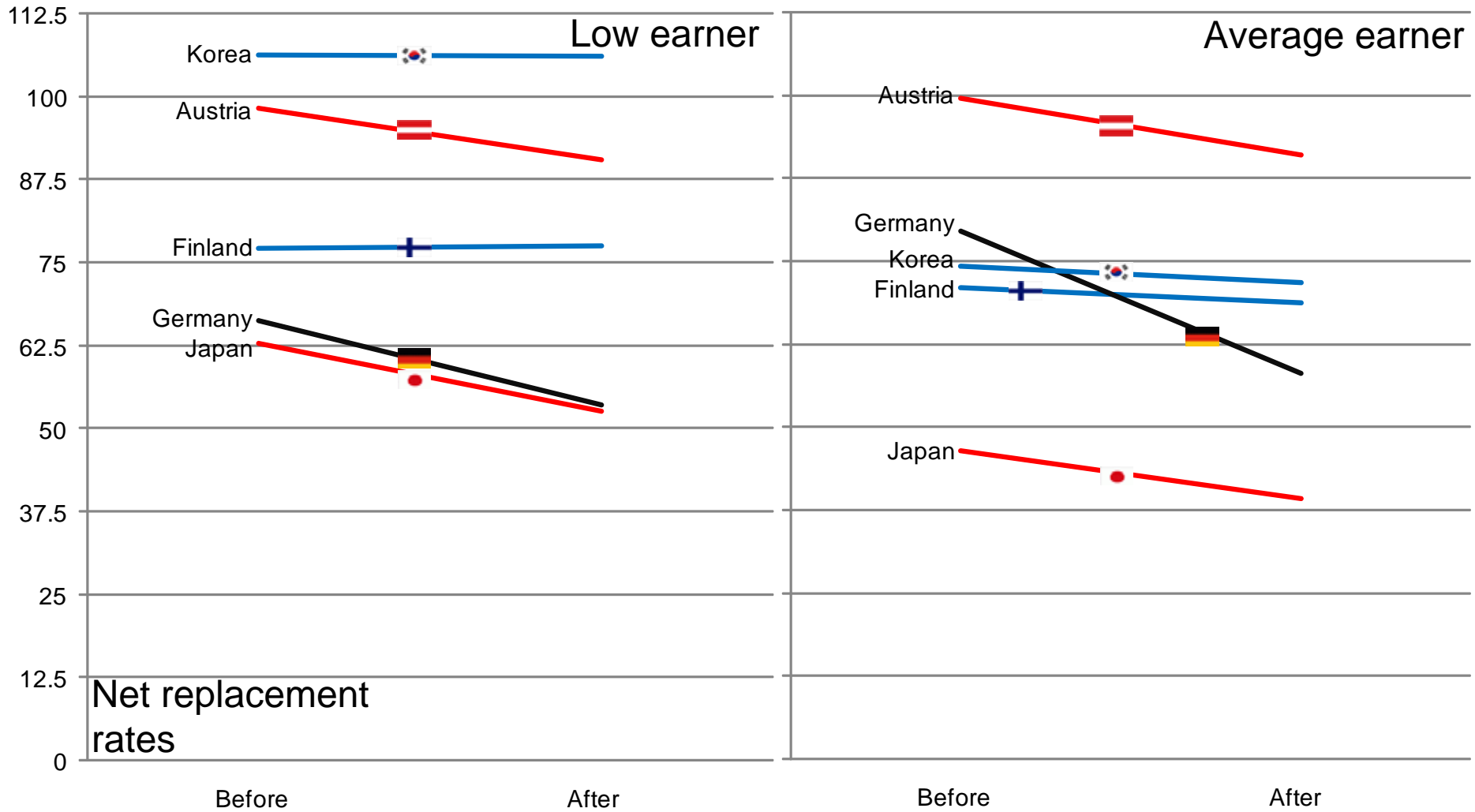
FIN: move from mixed basic/pension-tested benefit to pure pension-tested  
HUN: abolish minimum pension  
ITA: abolish minimum pension  
POL: abolish basic pension  
SVK: abolish minimum pension



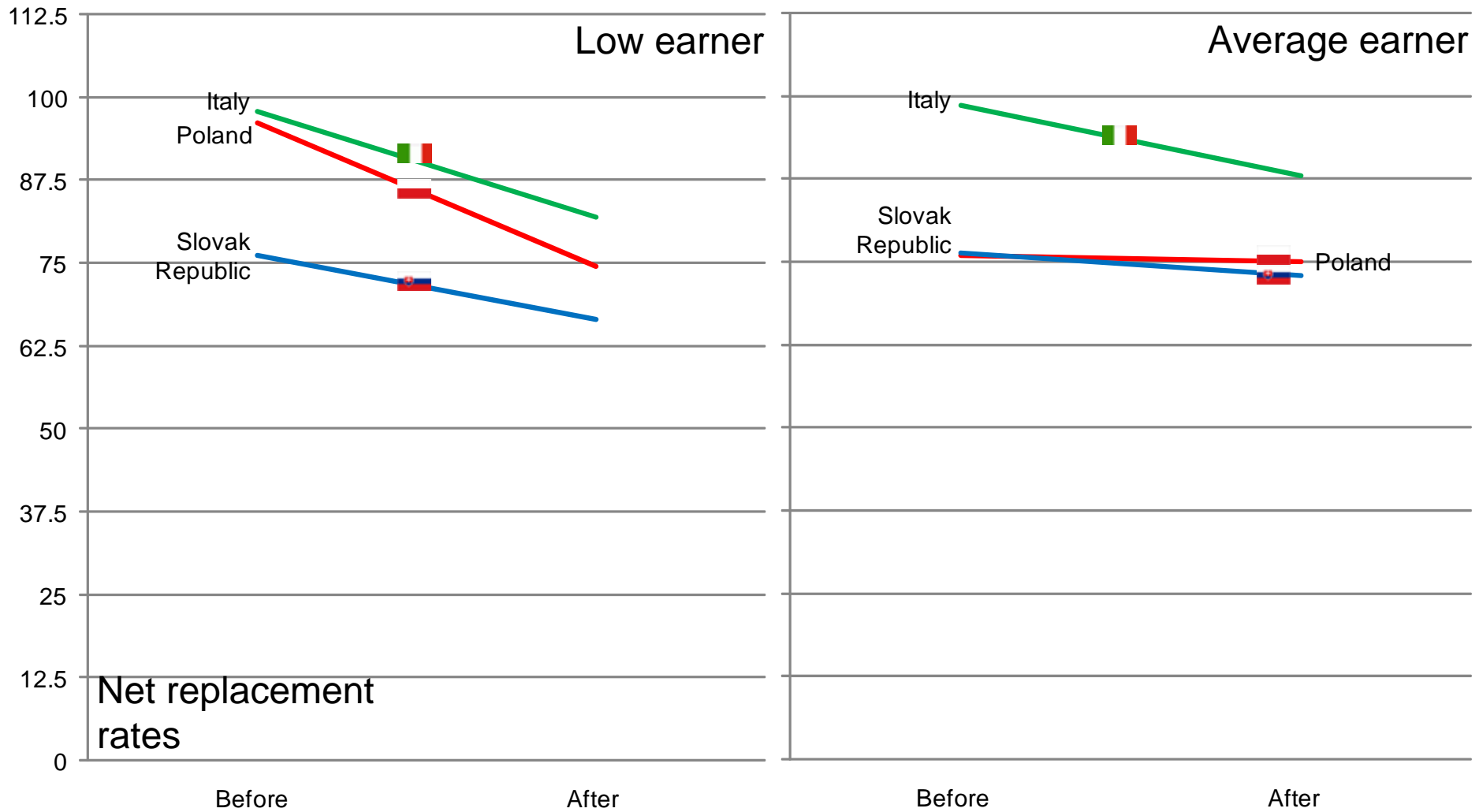
# Protecting low earners



# Across-the-board cuts



# Stronger pension-earnings links



# Conclusions

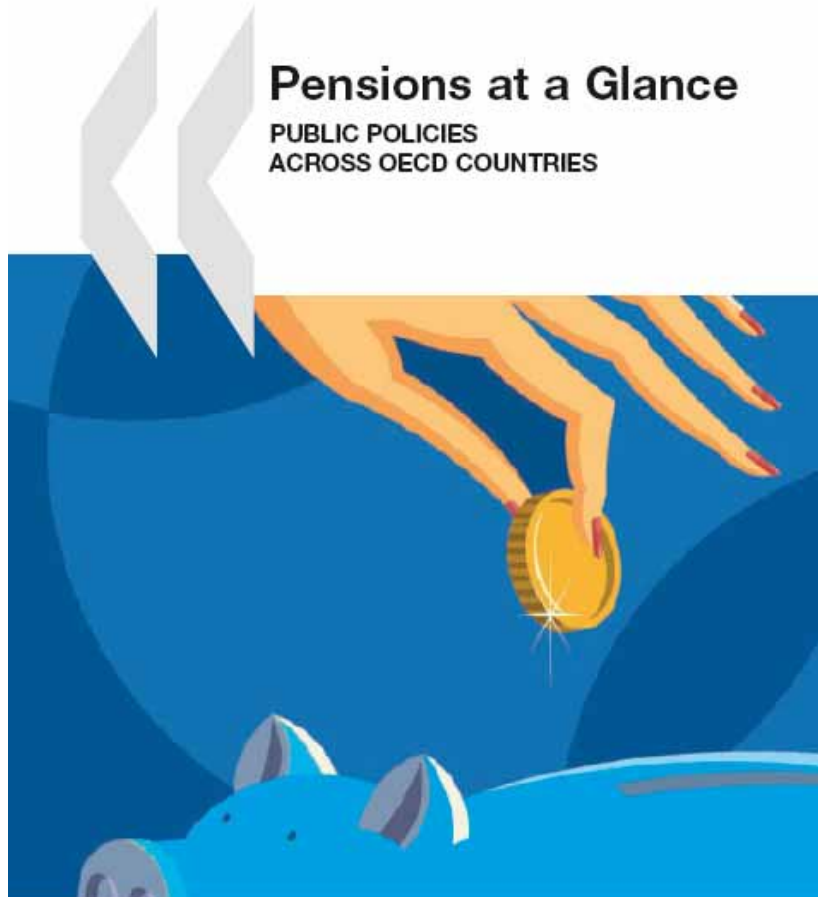
- Different ways of achieving the goal of minimum retirement incomes: do not restrict analysis to narrow last-resort social pensions
- Grouping around 25-35% average earnings in 2/3 OECD countries.
- No grouping around poverty line

# More conclusions

- 1/3 countries have strengthened role of social pensions
- 1/3 countries have weakened role of social pensions
- 1/3 countries have not touched social pensions
- ...but indirectly the role has grown because of cuts

# Further information

- [www.oecd.org/els/social/ageing/PA\\_G](http://www.oecd.org/els/social/ageing/PA_G)
- e-mail: [mark.pearson@oecd.org](mailto:mark.pearson@oecd.org)



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### Private pensions

#### A growing role

Private pensions play an important and growing role in OECD countries. In 11 of them – Australia, Denmark, Finland, Norway, Poland, the Slovak Republic, Sweden, Switzerland, the United Kingdom – the private sector delivers part of the mandatory old age. In addition, voluntary private pensions have been introduced in many OECD economies.

Three kinds of policy have increased the role of private pensions. First, Hungary, Mexico, Poland, the Slovak Republic and Sweden have recently introduced mandatory private pensions as a substitute for part of the public pension provision. Secondly, Australia and Norway have added a mandate for a private pension on top of existing public plans. Finally, many countries have scaled back their public pensions, leaving a greater role for voluntary private savings. These include – most notably – Germany and Japan.

**Who has a private pension?**  
Data on coverage of private pensions, unfortunately, can be very difficult to obtain and are often difficult to compare between countries due to institutional differences in the markets for long-term savings. Table 1 draws on a number of sources; the OECD is working to improve these preliminary data.

Table 1 shows coverage by type of scheme – personal or occupational – and by whether plans are voluntary or mandatory.

Coverage is naturally higher when private pensions are mandatory (Australia, Iceland, Norway, Switzerland), in Hungary, Poland and the Slovak Republic, coverage of private pensions is only mandatory for younger workers and/or new labour-market entrants, while others had a choice as to whether to

### Pension reforms

#### Early birds and laggards

Reforming pensions has loomed large over the policy agenda of OECD countries. It is often said in the United States and elsewhere that reforming public pensions is the “third rail” of politics: touch it and you die. Pension policy involves long-term decisions in the face of numerous short-term pressures. Before the long-term benefits of reform appear, most governments will have left office.

Nevertheless, much has been done since the early 1990s to make pension systems fit for the future; often, more than governments are given credit for. Nearly all the 30 OECD countries have made at least some changes to their pension systems in that period. In 16 of them, there have been major reforms that will significantly affect future benefits.

**Which countries reformed?**  
Six of the ten countries with the highest public expenditures on pensions as a percentage of national income in 1990 – Austria, France, Germany, Italy, Sweden and Finland (ordered from highest to lowest spending) – have undertaken major pension reforms since 1990. These reforms have cut benefits and will lead to lower pension spending in the future.

However, the ten OECD countries with the lowest pension expenditures in 1990 were almost equally active. This group of reformers, which includes Australia, Japan, Korea, Mexico and Turkey, currently has a low level of pension expenditure. Nevertheless, these countries will face significant financial challenges in the future which they are aiming to ease by acting now.

In Japan, the need for change to the pension system is driven by the pace and scale of population ageing. Pension expenditure in Japan almost doubled from

2% of gross domestic product (GDP) in 1990 to 9.2% in 2003.

In Korea, Mexico and Turkey, pension systems are less mature and populations in these countries are currently younger than in other OECD economies. There are still relatively few recipients of old-age pensions and so public pension spending is low. However, Korea is undergoing particularly rapid demographic change, moving from one of the youngest to one of the oldest populations in the OECD in the space of only one generation.