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# Encouraging private-pension coverage: Experience in OECD countries



Conference on Matched  
Defined-Contribution Plans,  
Washington, June 2011



# Agenda

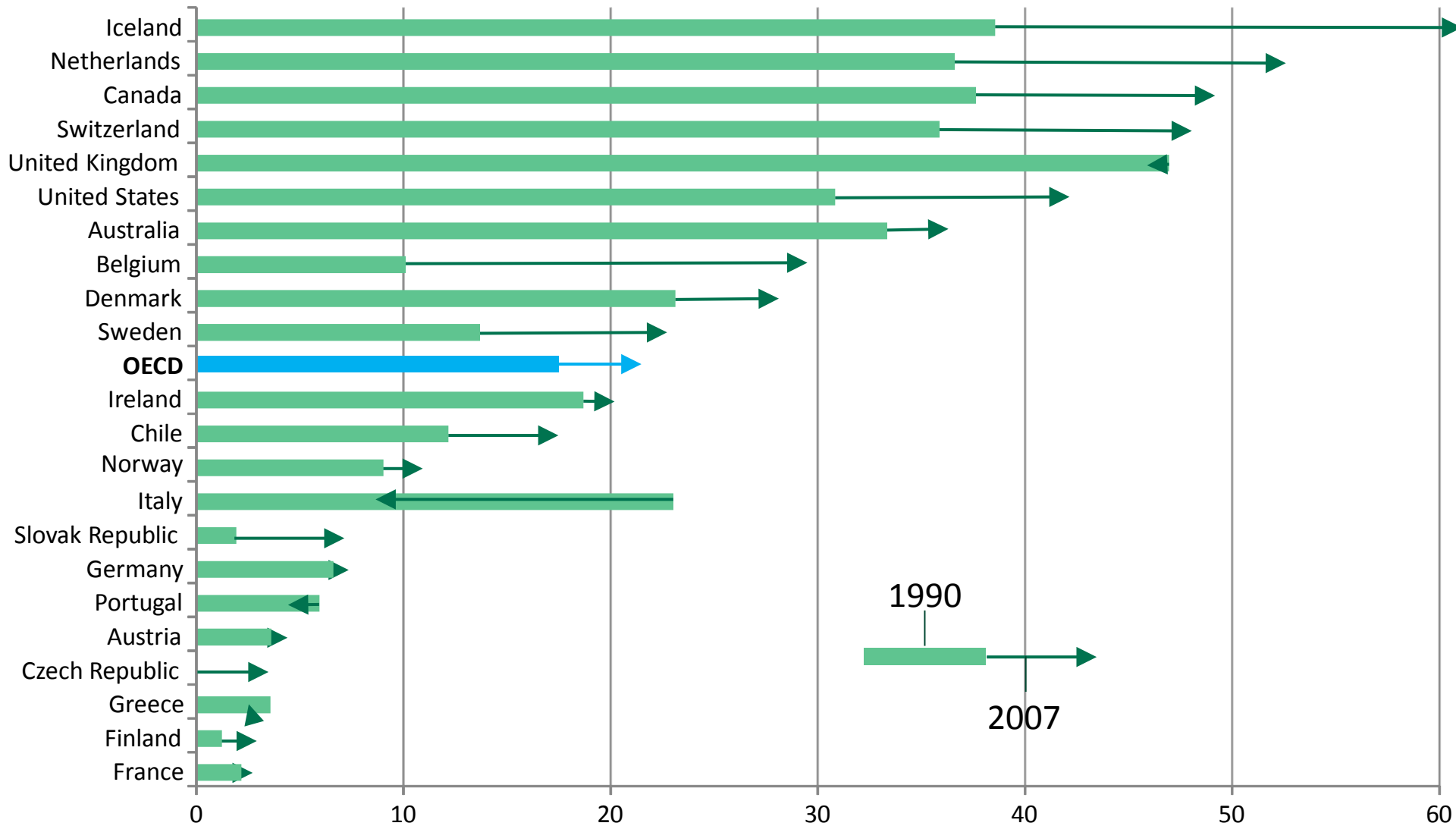
- Changing role of private pensions
- Coverage of private pensions
- Range of policies to encourage coverage:
  - Compulsion
  - Taxes and matches
  - Soft compulsion
  - Workplace access
  - Financial education



# Private pensions: A growing role



# Expenditure trends

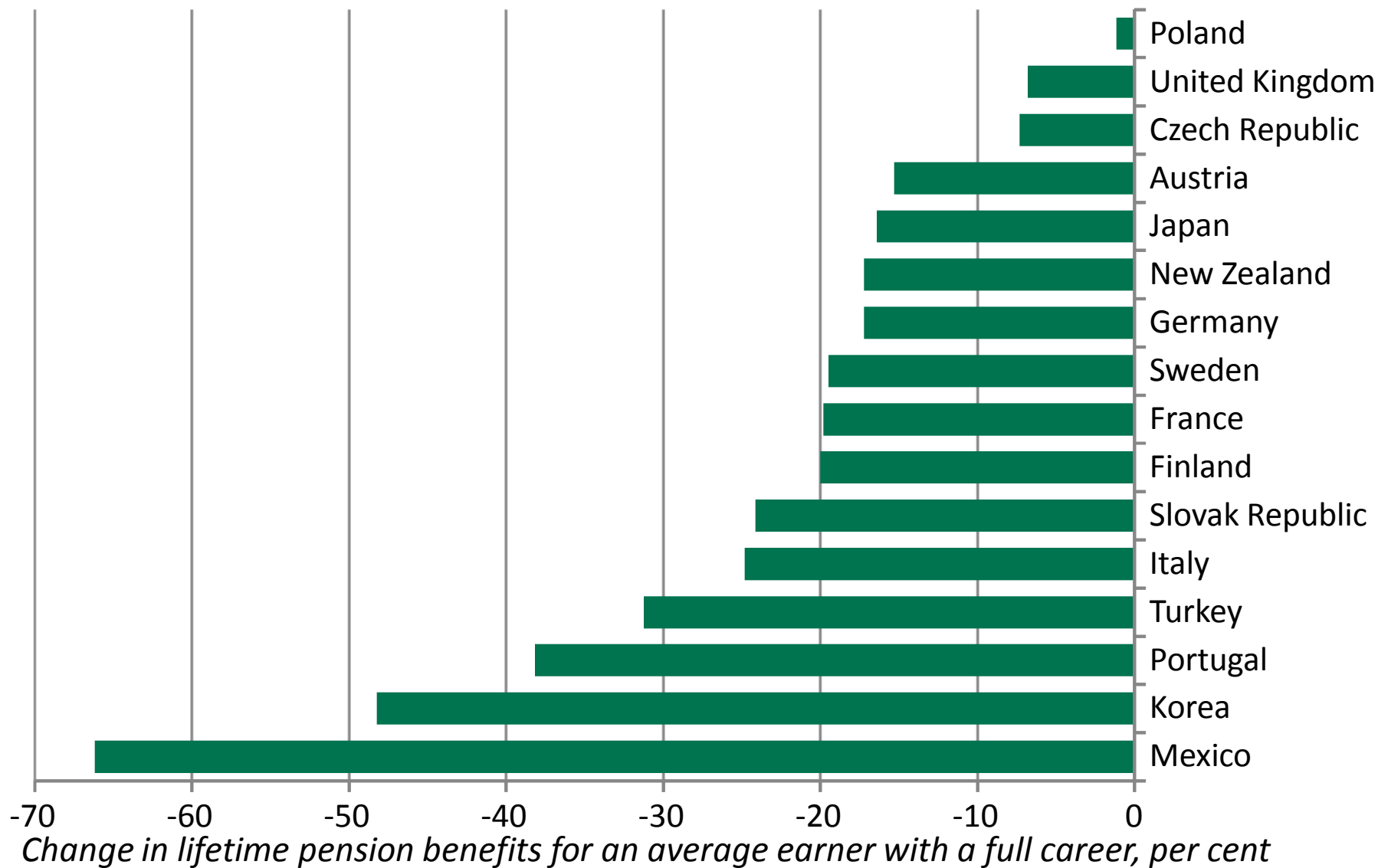


*Private pension expenditures, percentage of total (public and private)*

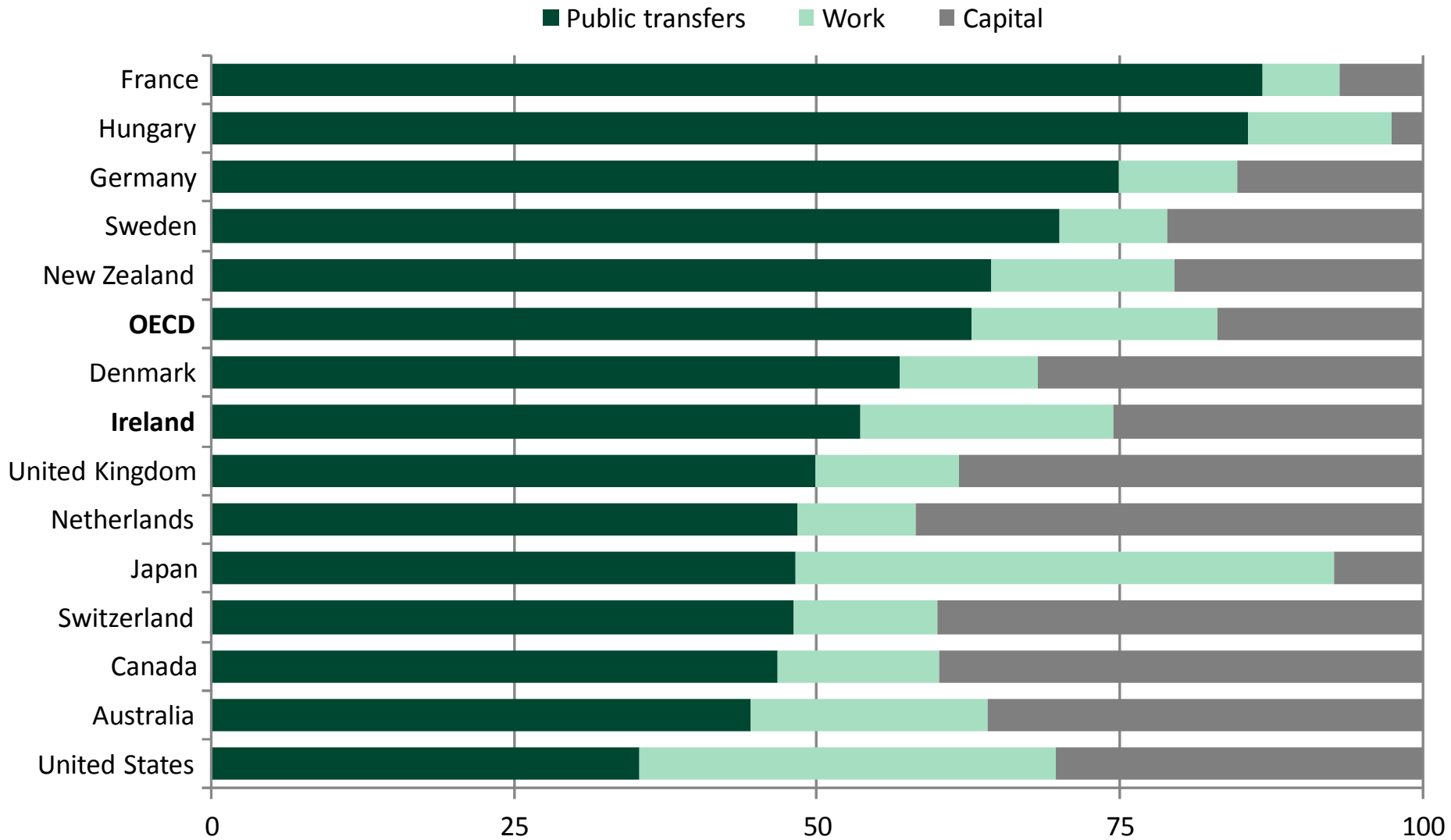
# Explanations

- Explicit privatisation: private-pension carve outs
  - Chile, Estonia, Mexico, Poland, Slovak Republic, Sweden
- Private-pension add-ons
  - Australia, Israel, Norway, Switzerland
- ‘Implicit’ privatisation: cuts in public benefits

# Impact of reforms on lifetime benefits



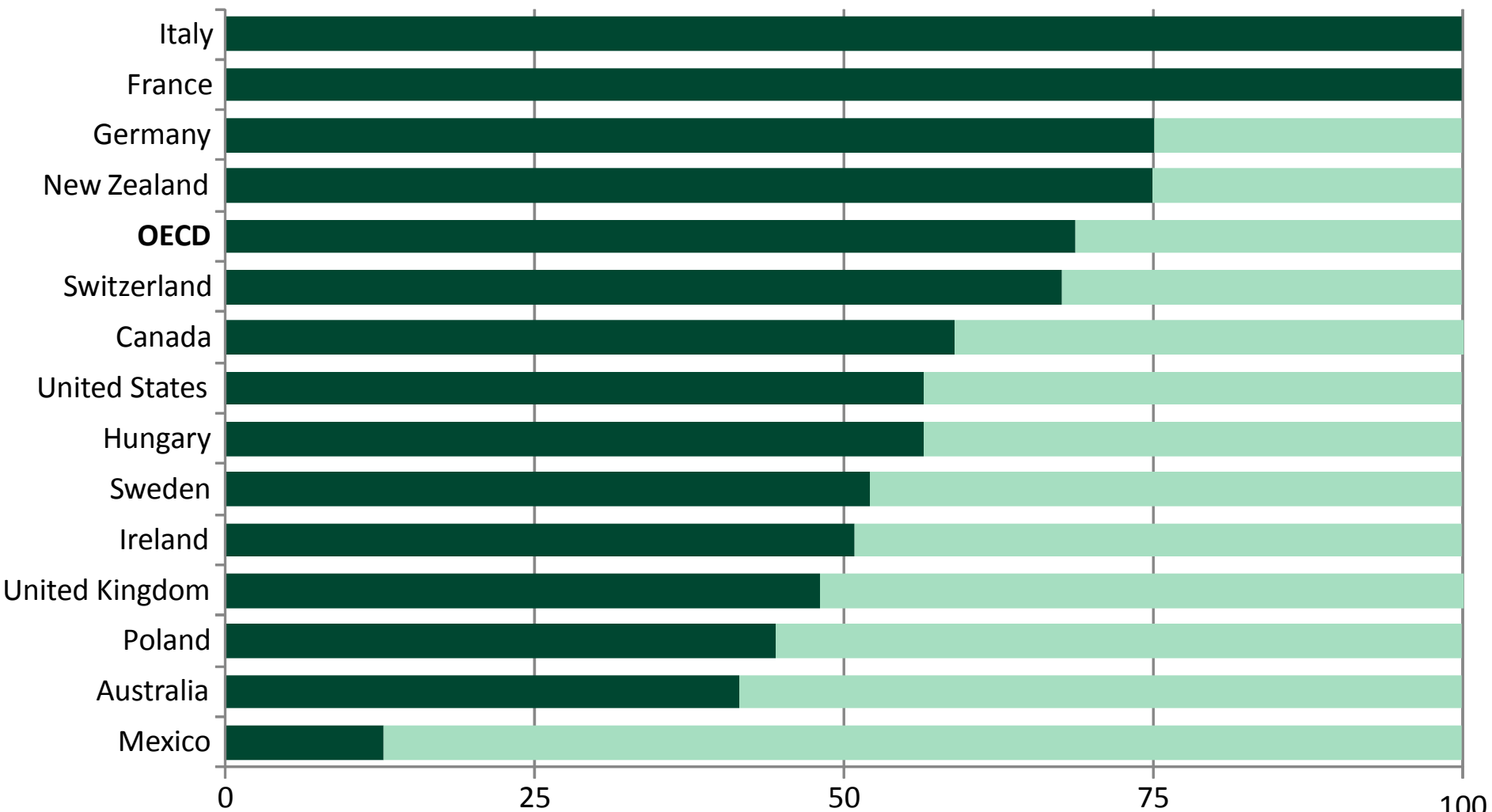
# Incomes in old age



*Sources of income of over 65s, per cent of total, mid-2000s*

# Retirement-income packages

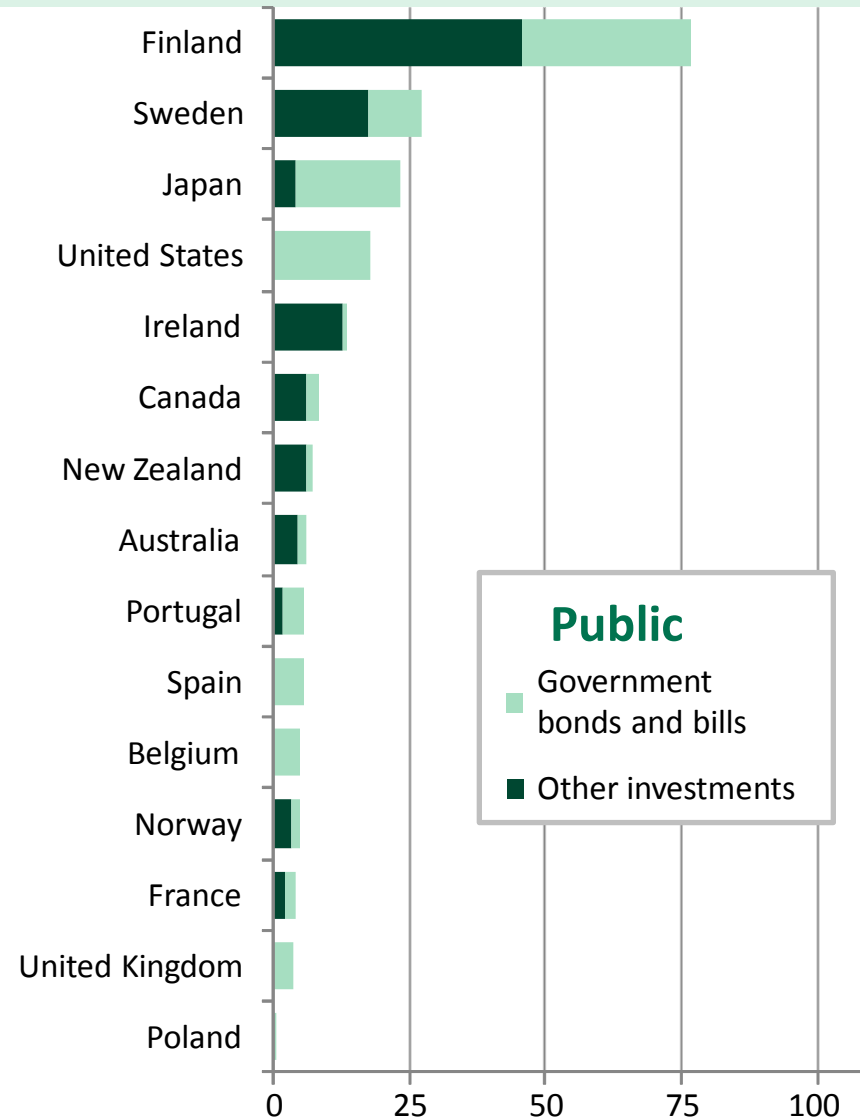
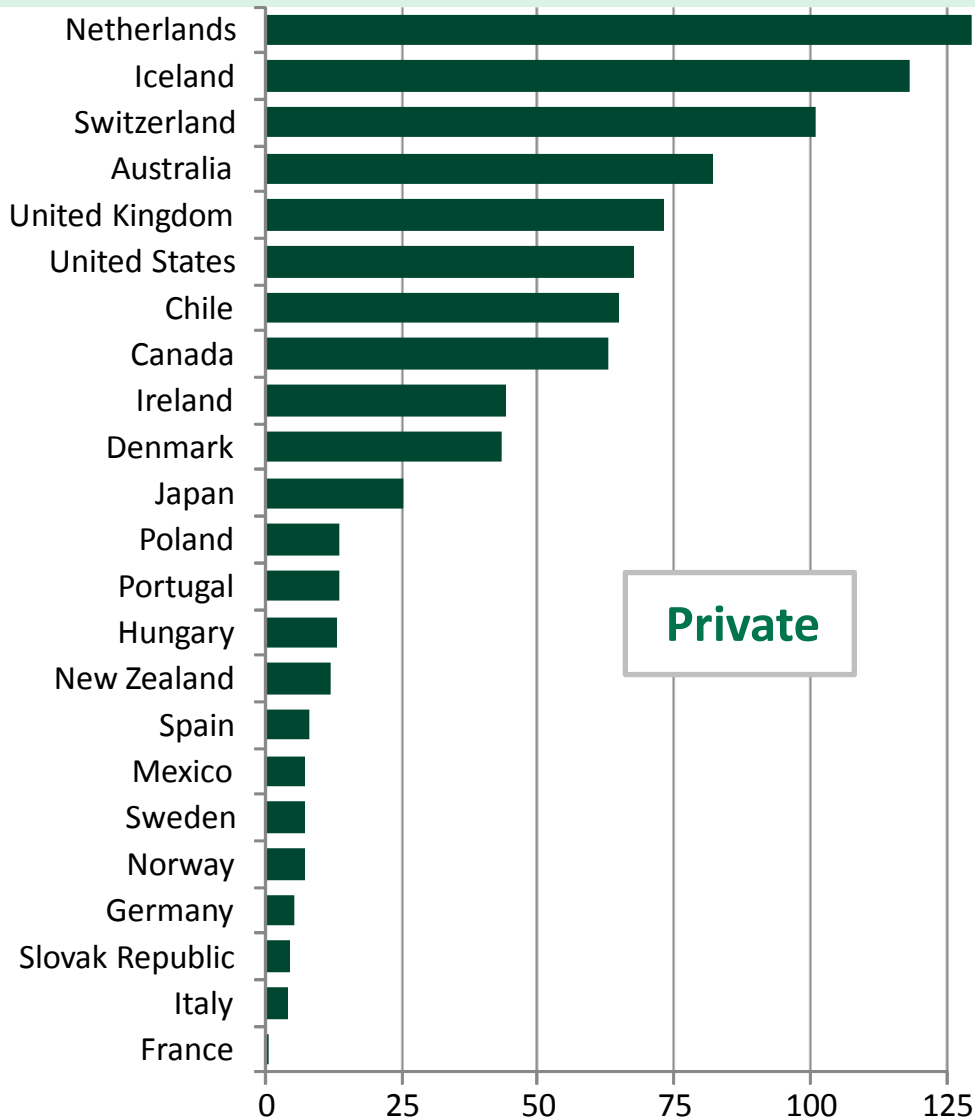
Public benefits Private benefits



*Weighted average pension entitlements,  
new entrants in 2008, per cent of total*



# Pension assets

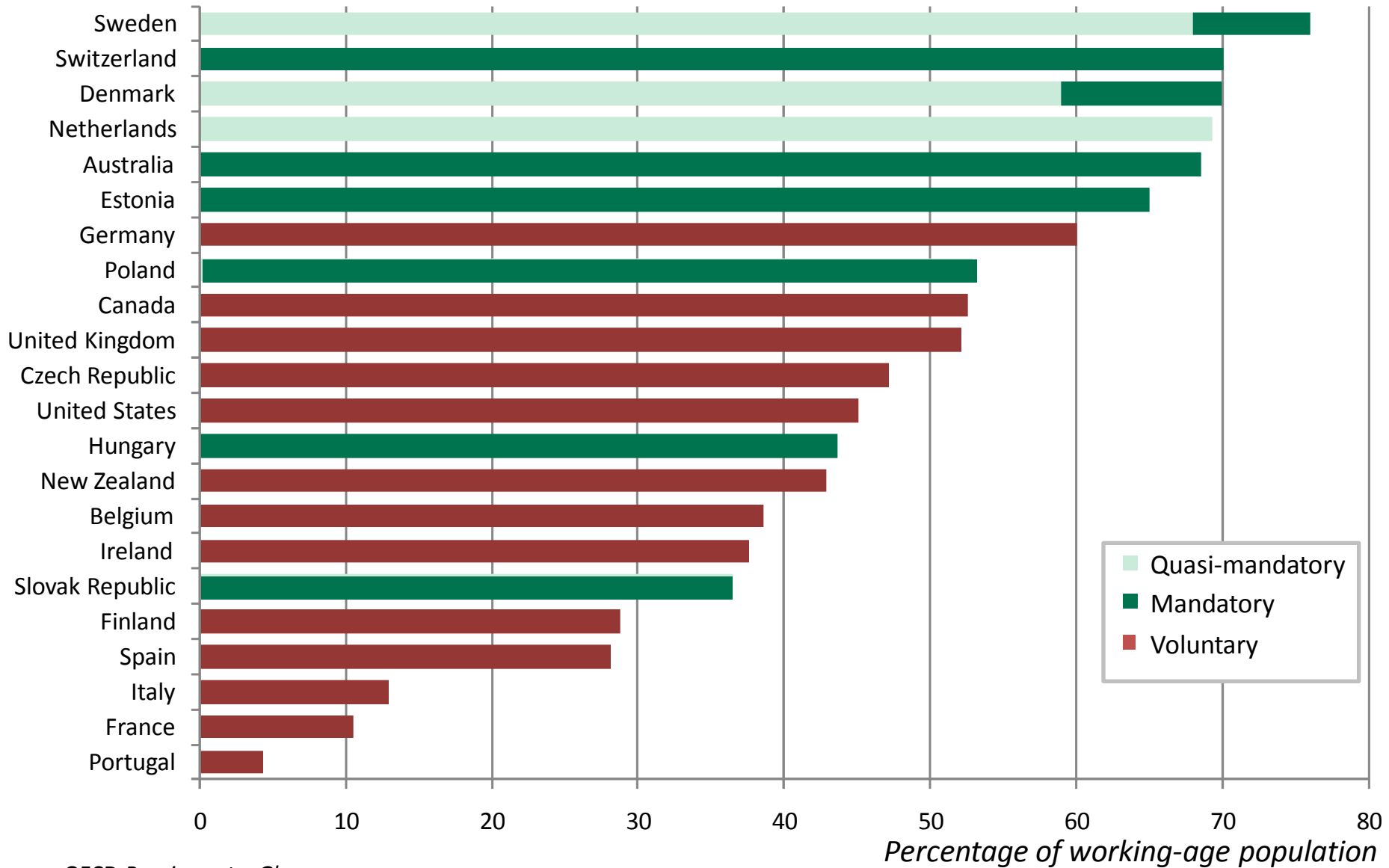




# Coverage of private pensions: Patterns and determinants

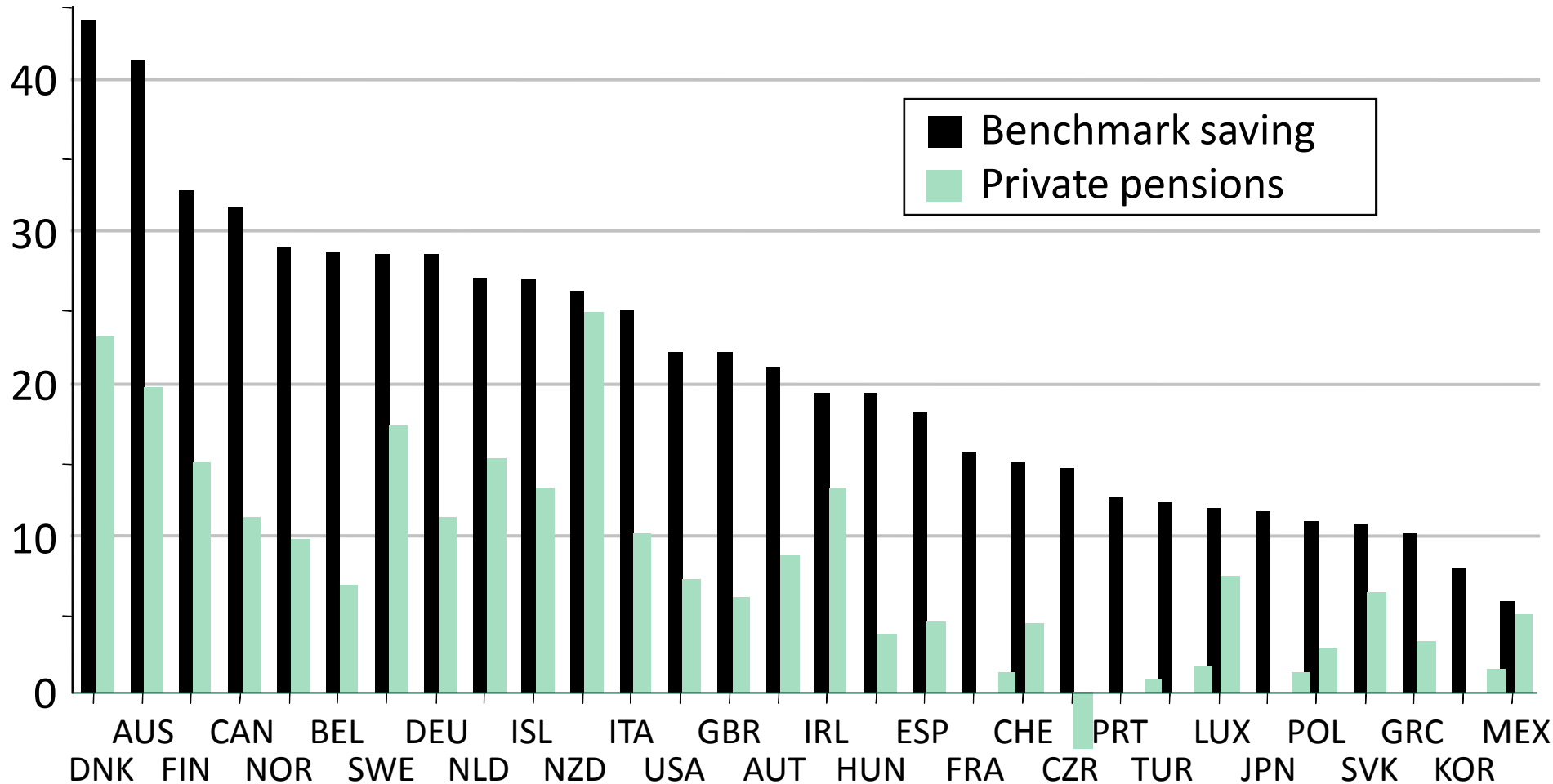


# Coverage of private pensions

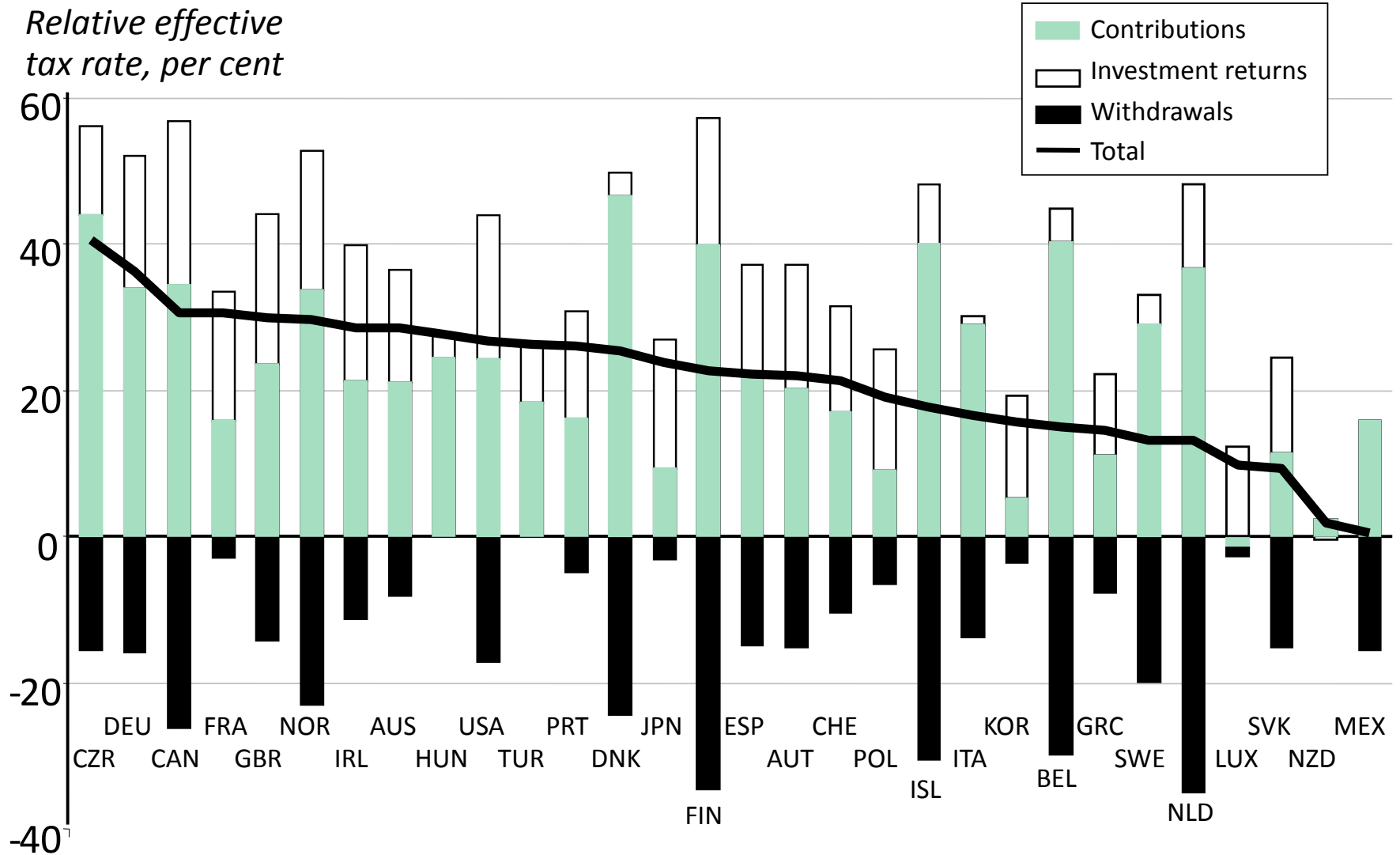


# Tax treatment of savings

Effective tax rate, per cent

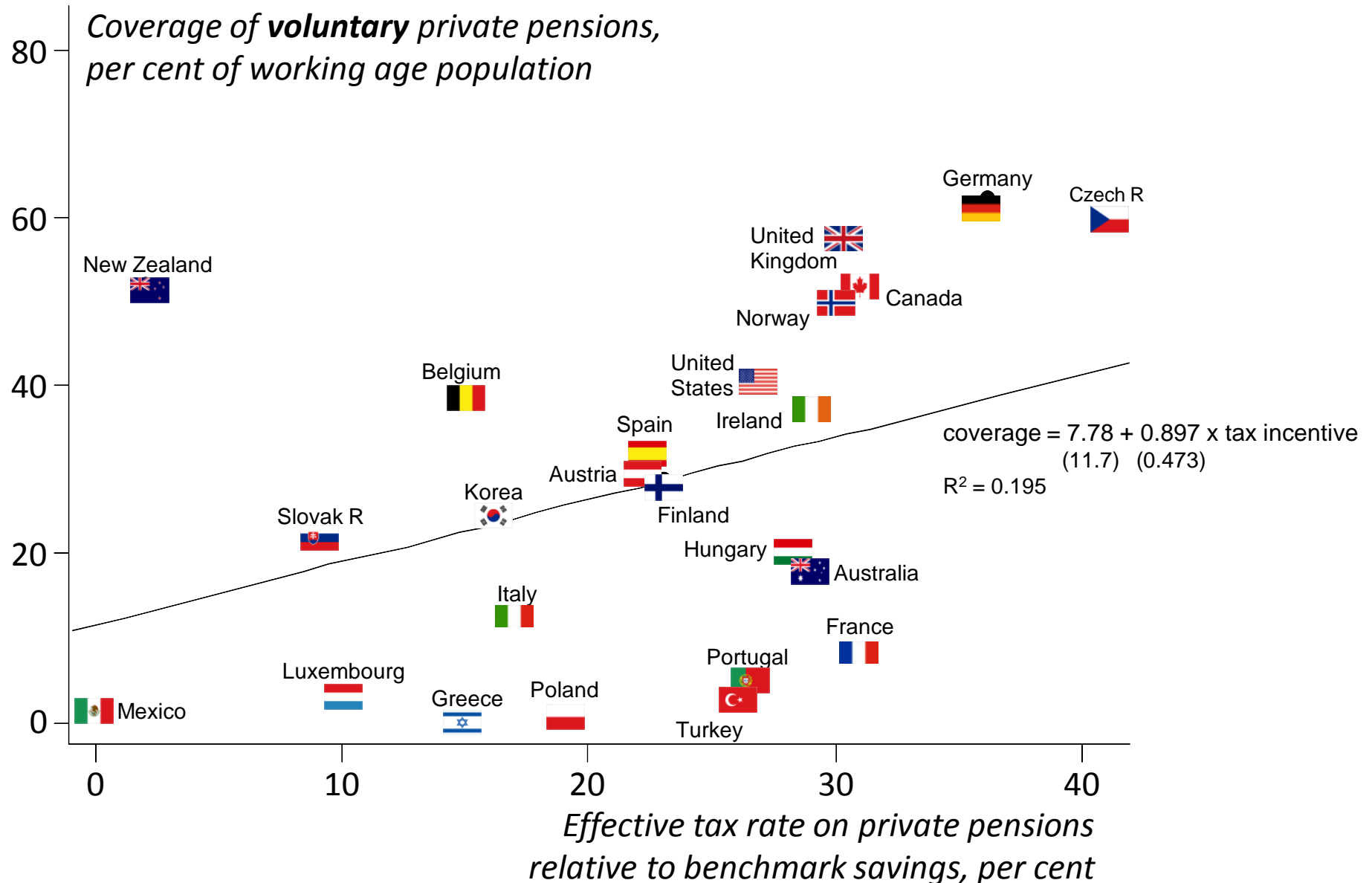


# Tax treatment of savings

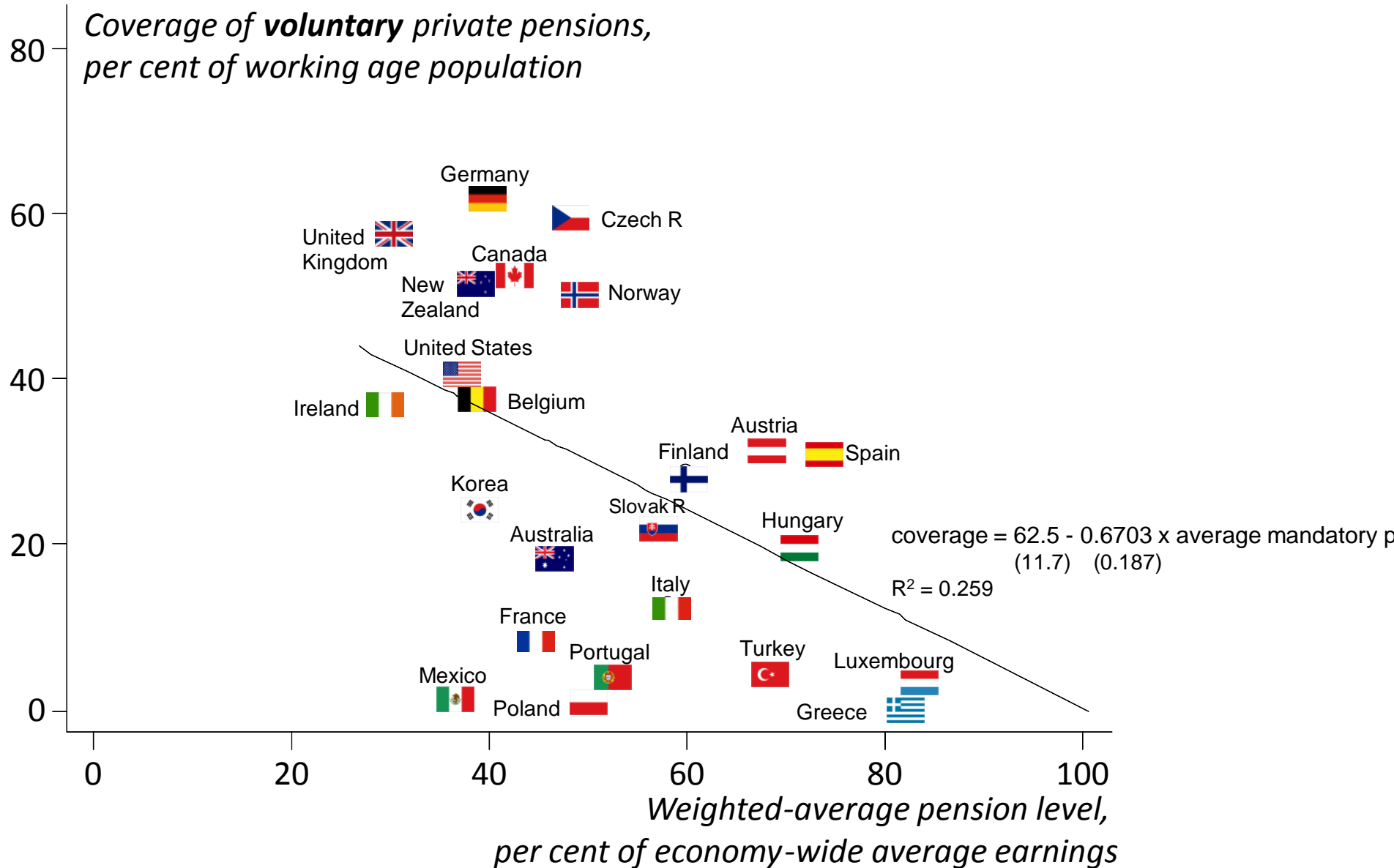


Source: Yoo, K.Y. and de A. Serres (2004), "Tax treatment of private pension savings in OECD countries", *OECD Economic Studies*, vol. 39, no. 2, pp. 73-110.

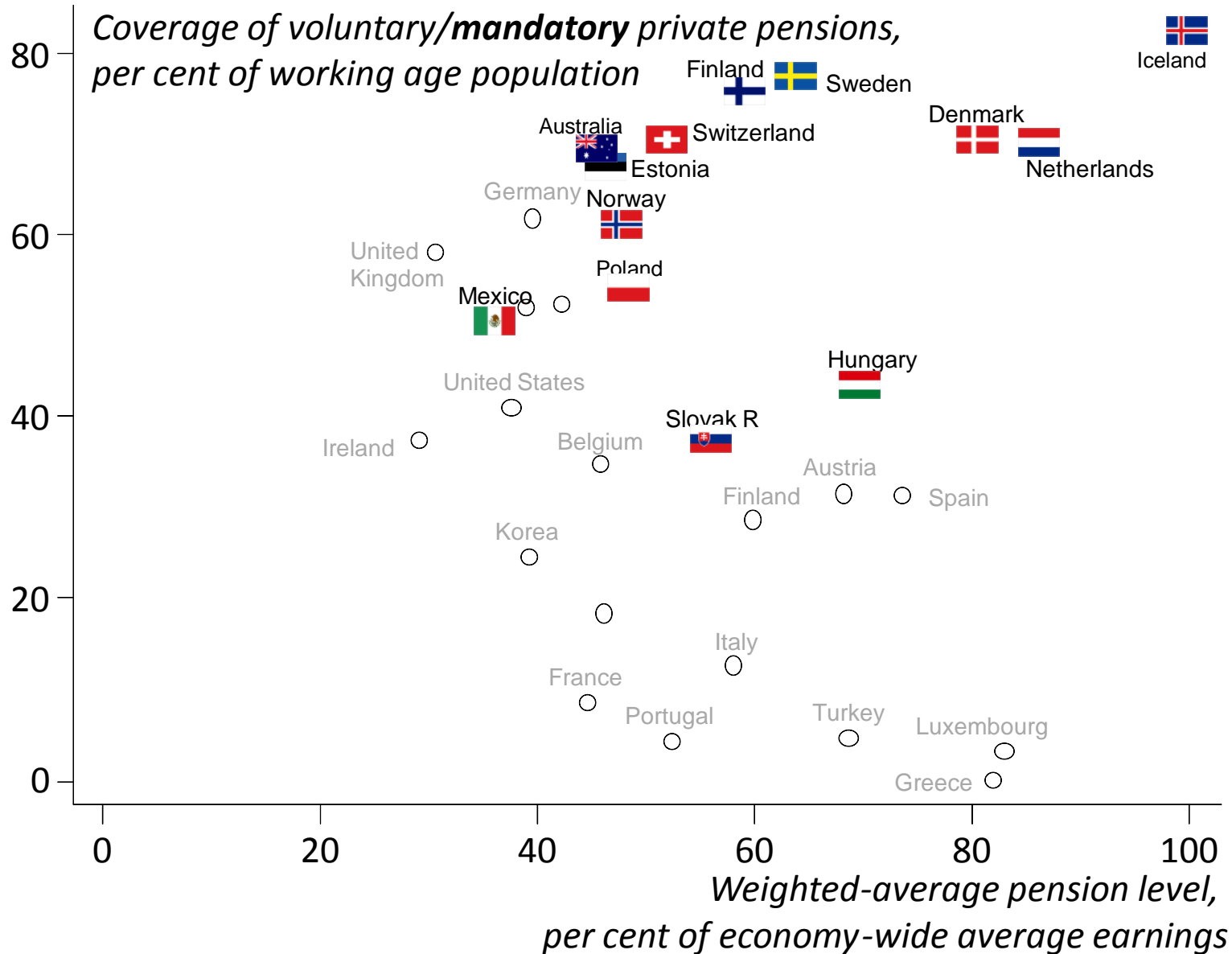
# Taxes and coverage



# Mandates and coverage

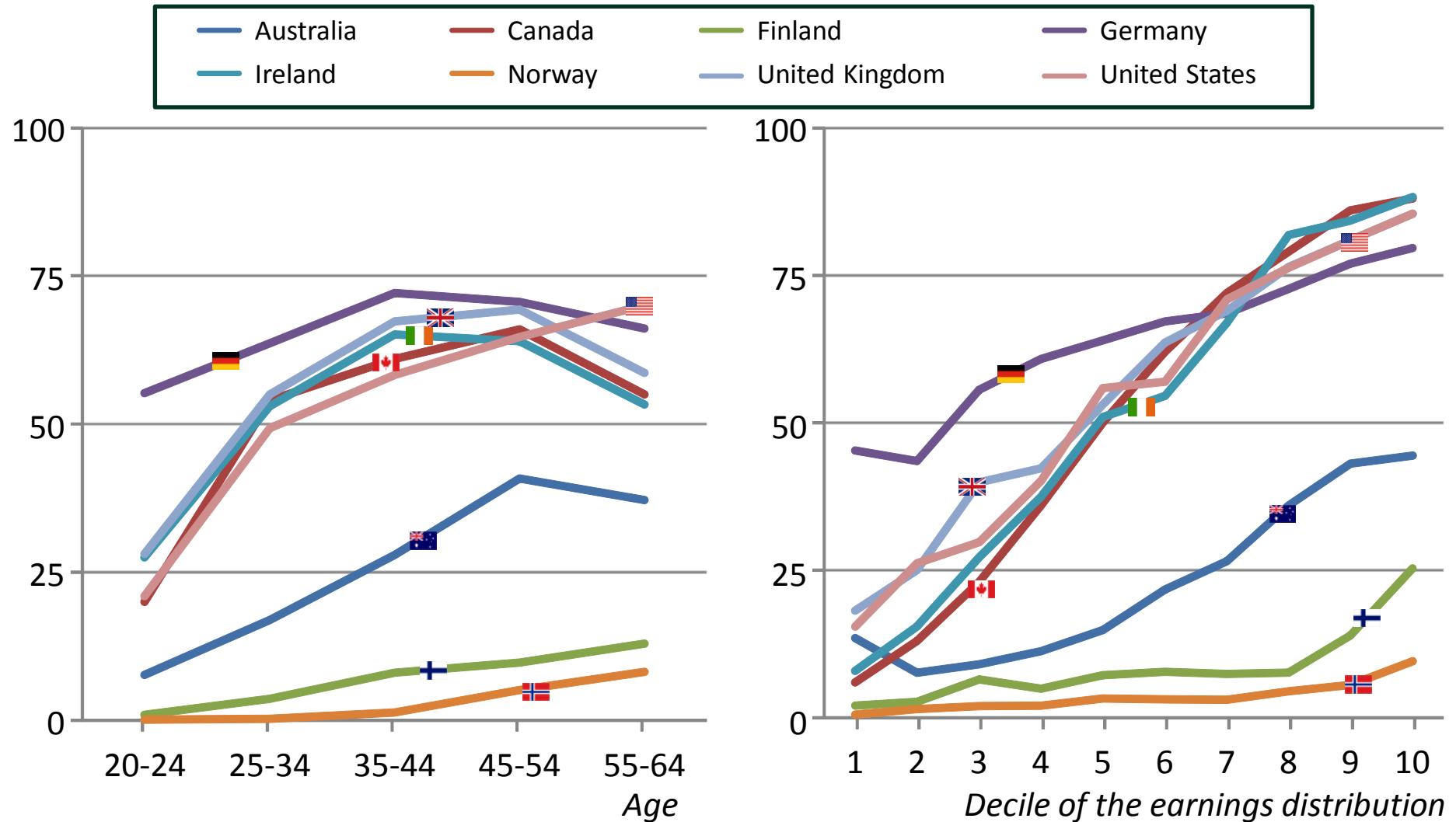


# Mandates and coverage





# Coverage patterns





# Policy initiatives and reform directions



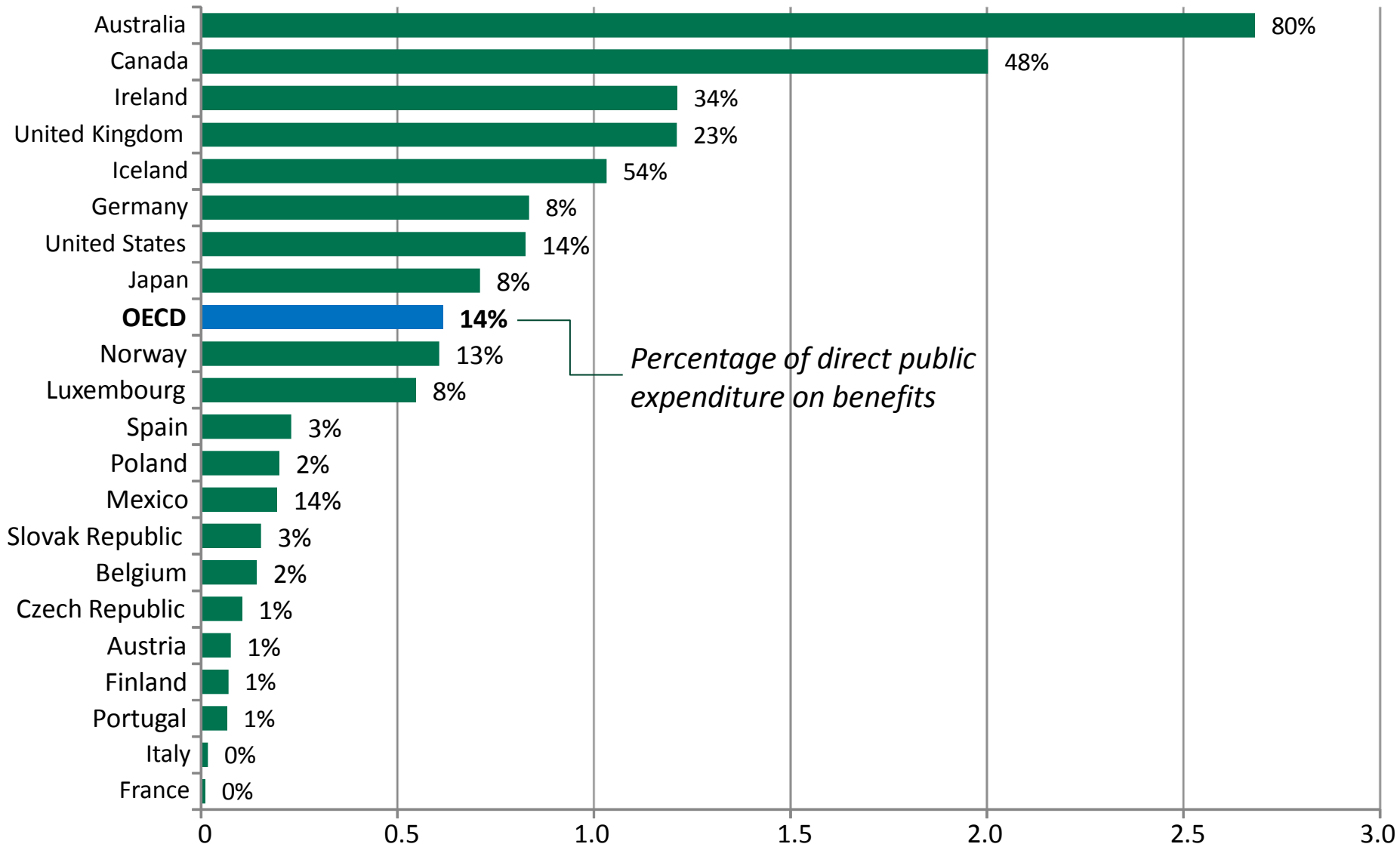
# Drivers of change

- Fiscal consolidation following financial and economic crisis
- Emerging fiscal cost of population ageing
- Lack of success in achieving objective of expanded coverage
  - gaps predominate among young and low earners
  - evidence of behavioural-economic analysis

# Taxes and matches

- Classical expenditure-tax treatment (EET) was most common
  - employee contributions deductible at individual marginal rate
  - employer contributions not taxed as a benefit in kind
  - investment returns accumulate free of tax
  - pensions in payment taxable
- Tax incentives focus on rich workers
  - Ireland: 80% to top quintile
  - United Kingdom: top 1.5% get 25% of value of reliefs

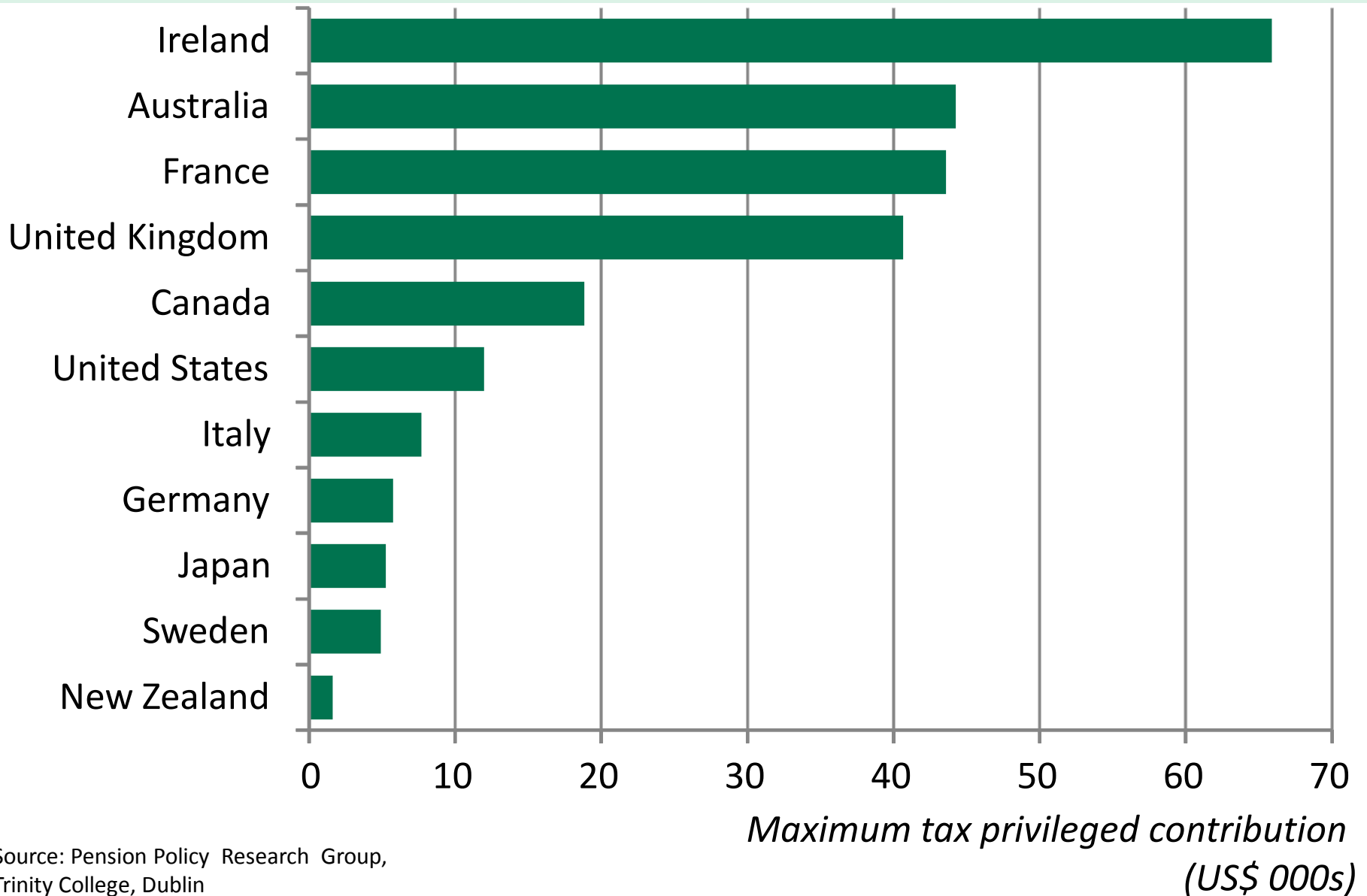
# Cost of tax incentives



*Percentage of direct public expenditure on benefits*

*Revenues foregone from tax breaks for private pensions, per cent of GDP, 2007*

# Ceilings on tax reliefs



# Taxes and matches

- Move away from deductibility of contributions at marginal rates
  - ceilings
  - standard-rate limits
  - matched contributions from governments
- Other revenue-raising measures
  - taxing investment returns
  - special levies
- Compulsory employer matches

# Automatic enrolment

- A 'third way'
  - compulsion: a tax, excess forced saving
  - voluntarism: myopia risk
  - use inertia to turn the reluctant into retirement savers
- Does it work?
  - employer schemes v. national scale
  - disentangling from tax-incentive/matched-contribution effect
  - long-term v. short-term effects, bringing forward
  - starting points
- Levelling down?



# Conclusions



# Policy directions

- Elements of the package:
  - reduction in/targeting of tax incentives
  - government co-contributions
  - mandatory employer co-contributions
  - automatic enrolment
- General policy direction involves some/all of these
- Compulsion remains a fail-safe option

Pensions  
at a Glance

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2009

Pensions at a Glance  
2011

RETIREMENT-INCOME SYSTEMS IN OECD  
AND G20 COUNTRIES

OECD



# Pensions at a Glance 2011

## RETIREMENT-INCOME SYSTEMS IN OECD AND G20 COUNTRIES

Published 17 March 2011

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