



World Bank
Hitotsubashi University
Ministry of Finance
*Closing the Coverage Gap:
The Role of Social Pensions*
Tokyo, 20-22 February 2008

The role of social pensions in the retirement-income package

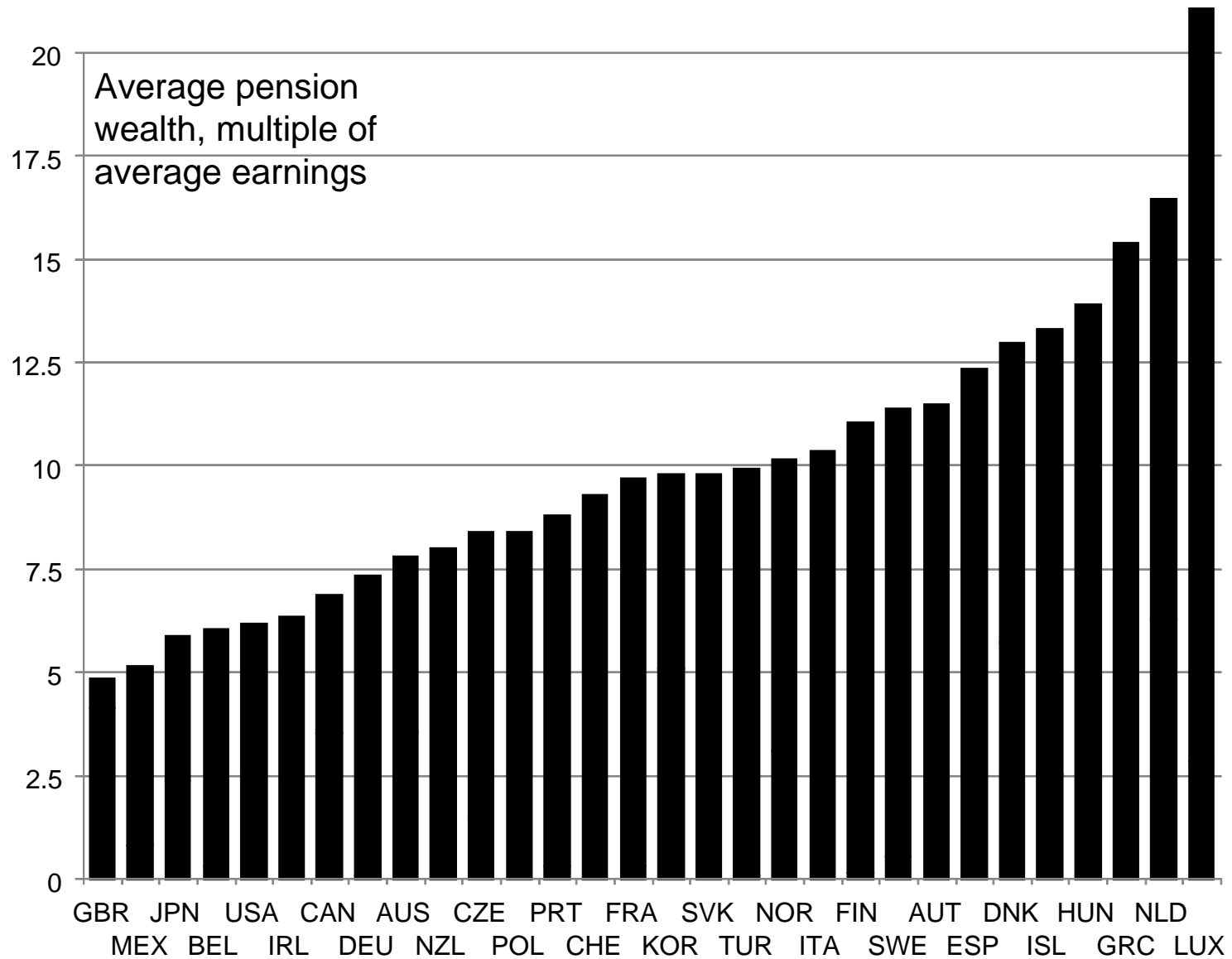
Edward Whitehouse
Social Policy Division, OECD



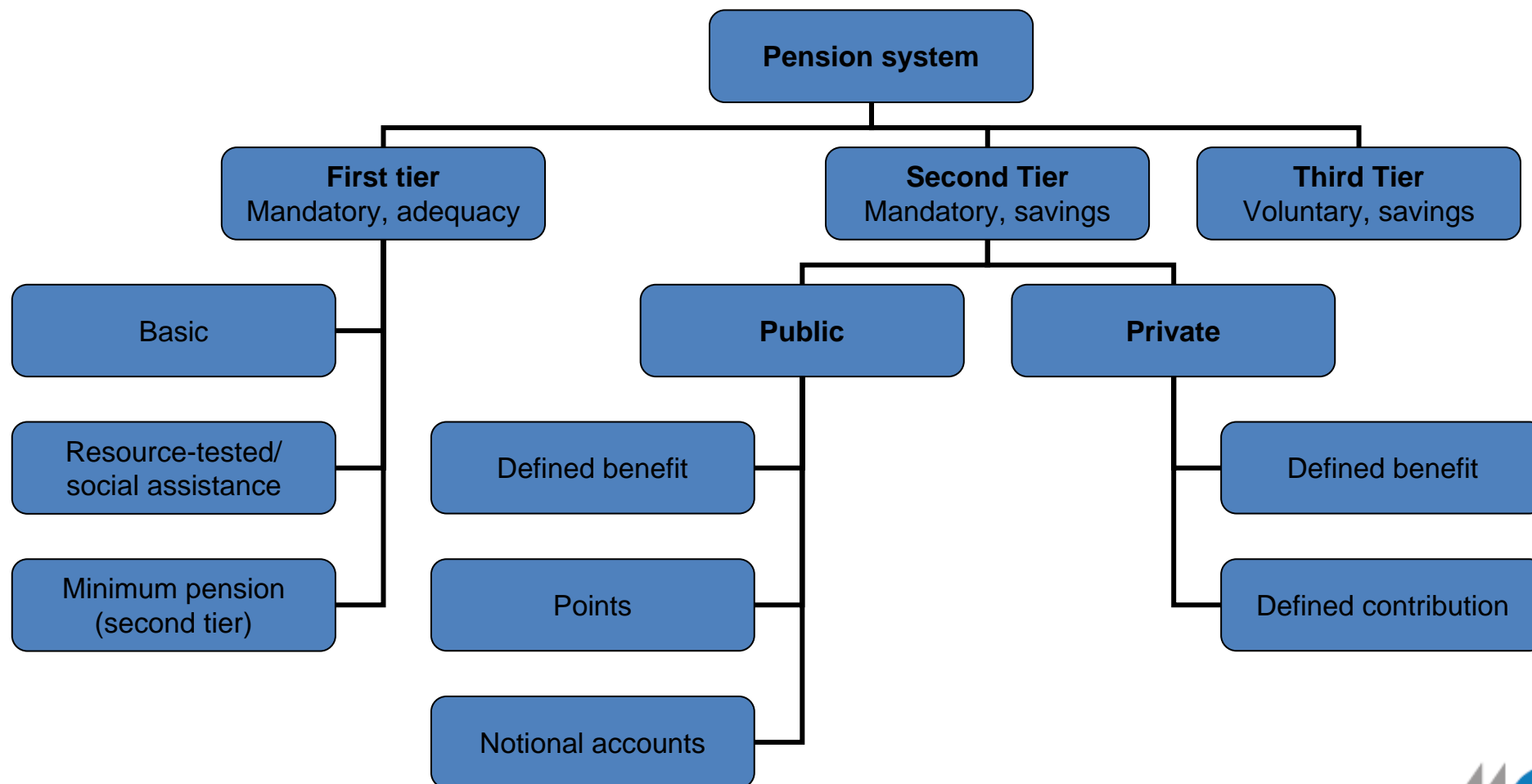
Agenda

- How large are retirement-income packages?
- How are the packages made up?
- How many people receive social pensions?
- How progressive are retirement-income systems?
- How did reform affect this?

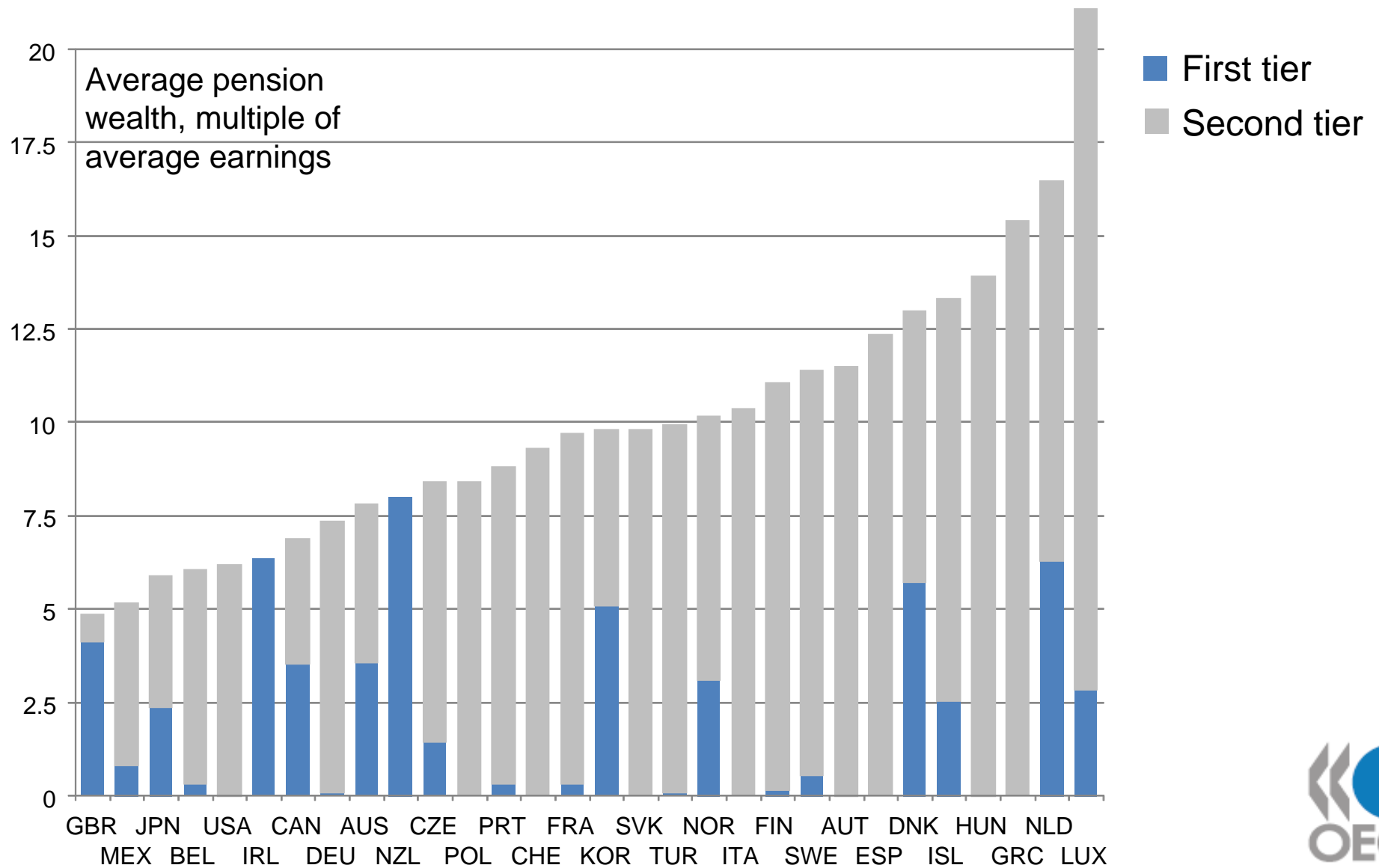
Pension wealth



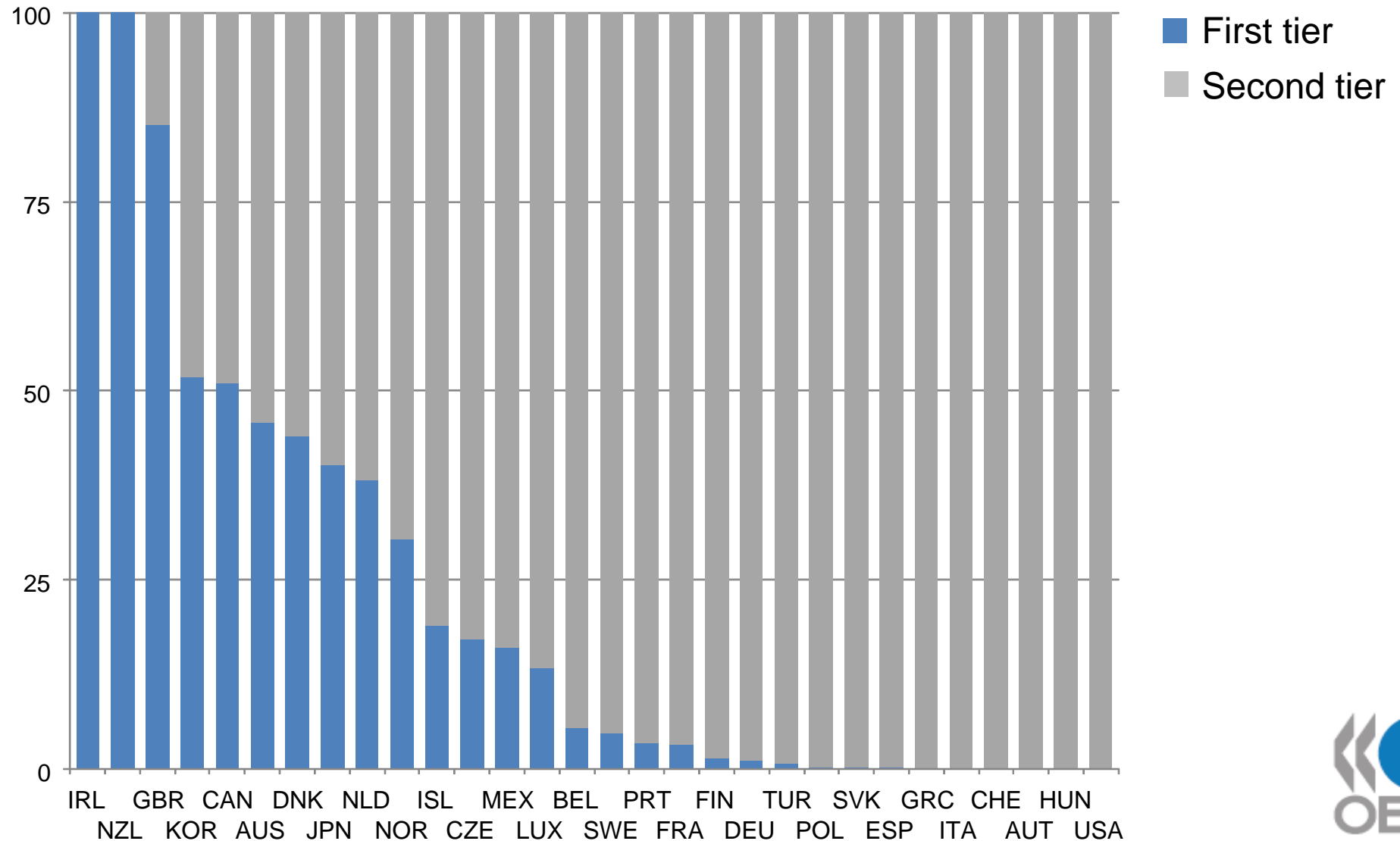
Taxonomy of pension schemes



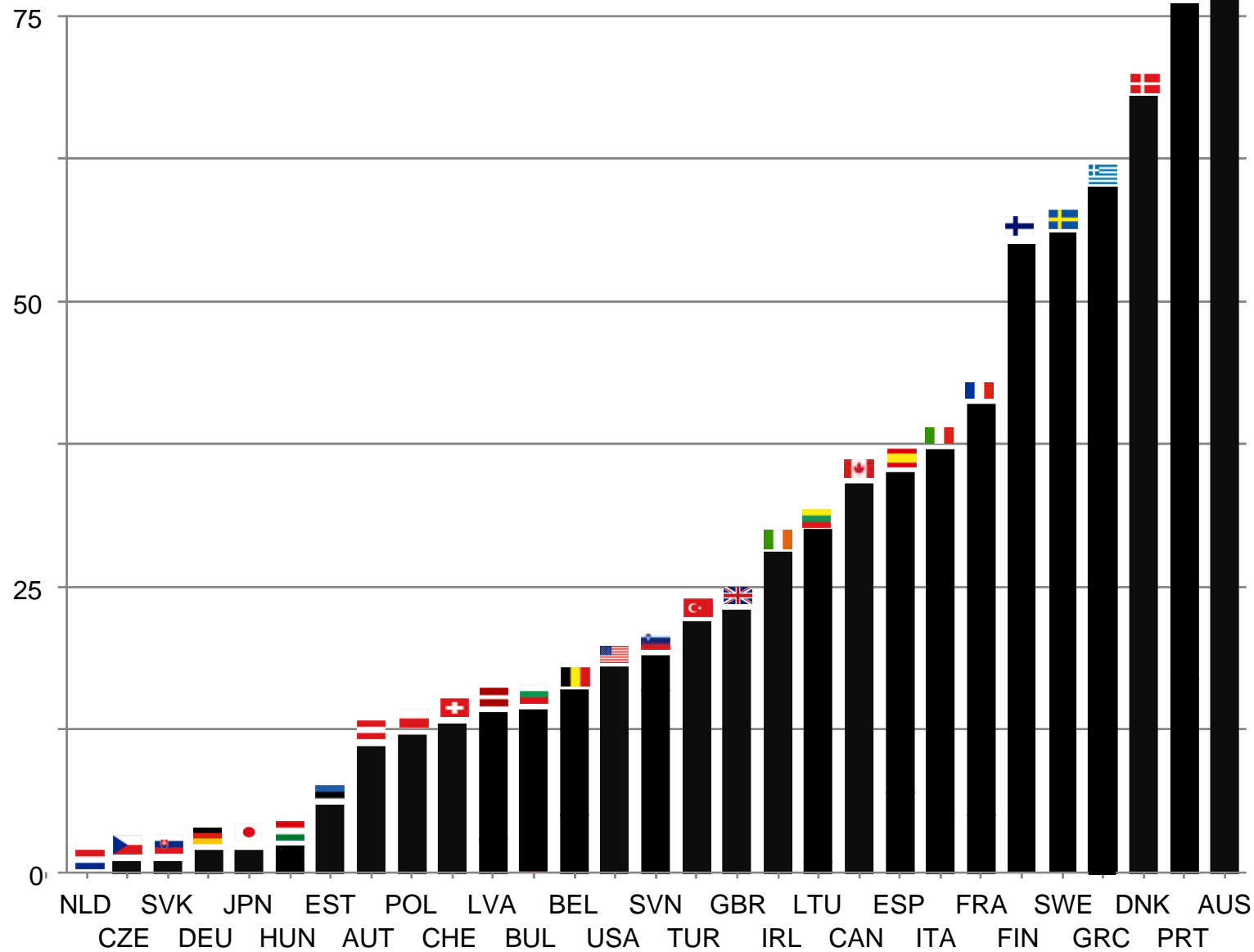
Pension wealth



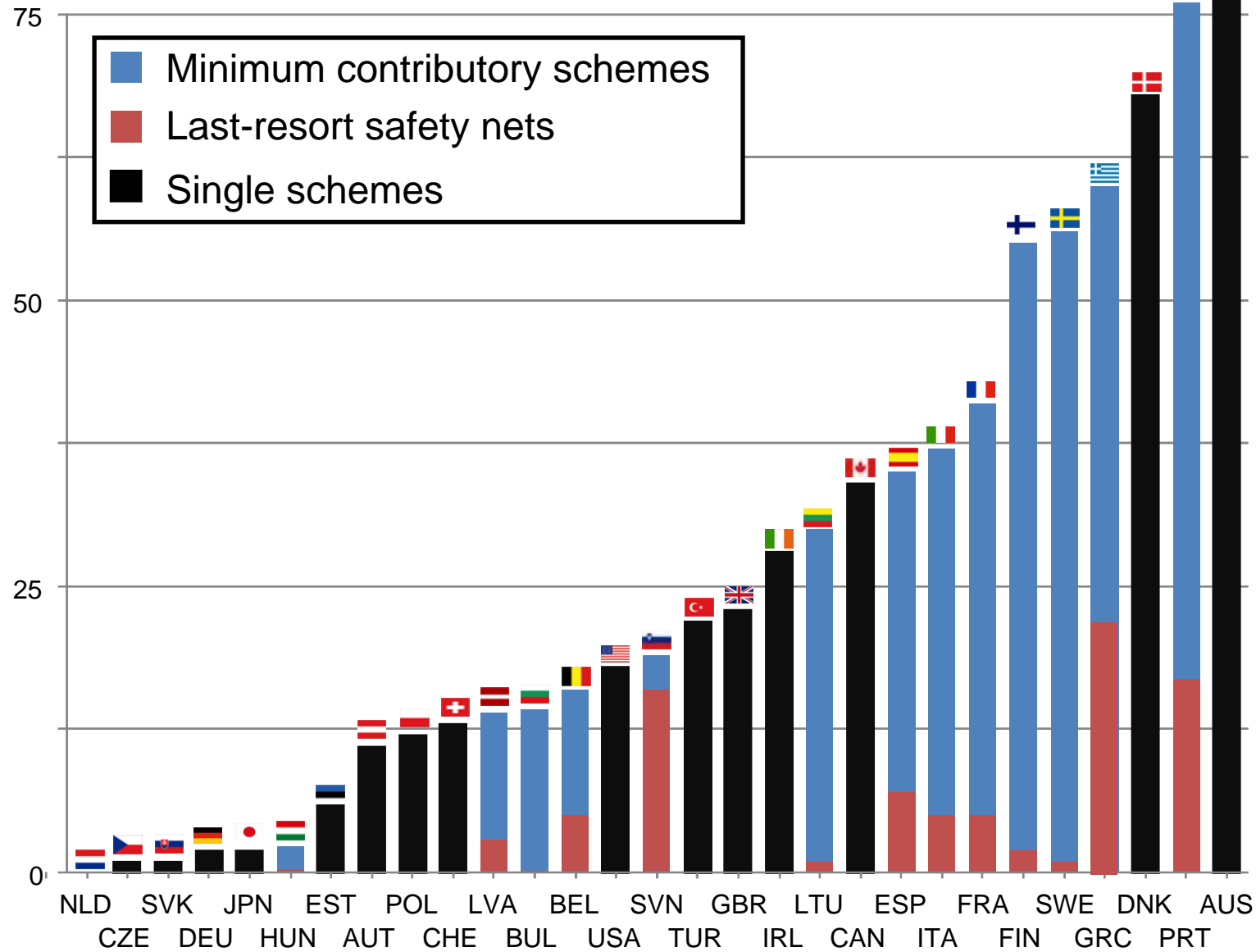
Retirement-income packages



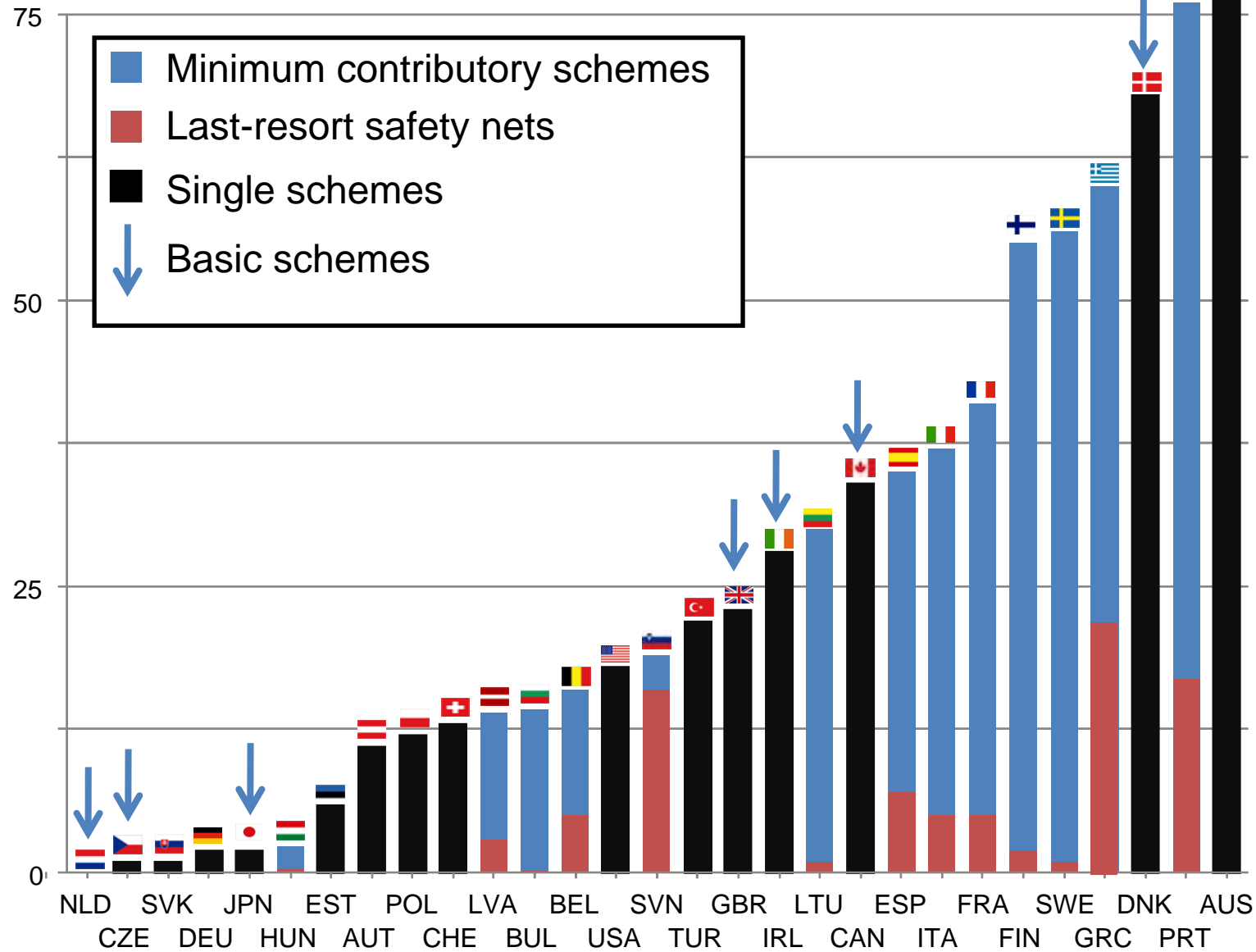
Coverage of social pensions



Coverage of social pensions



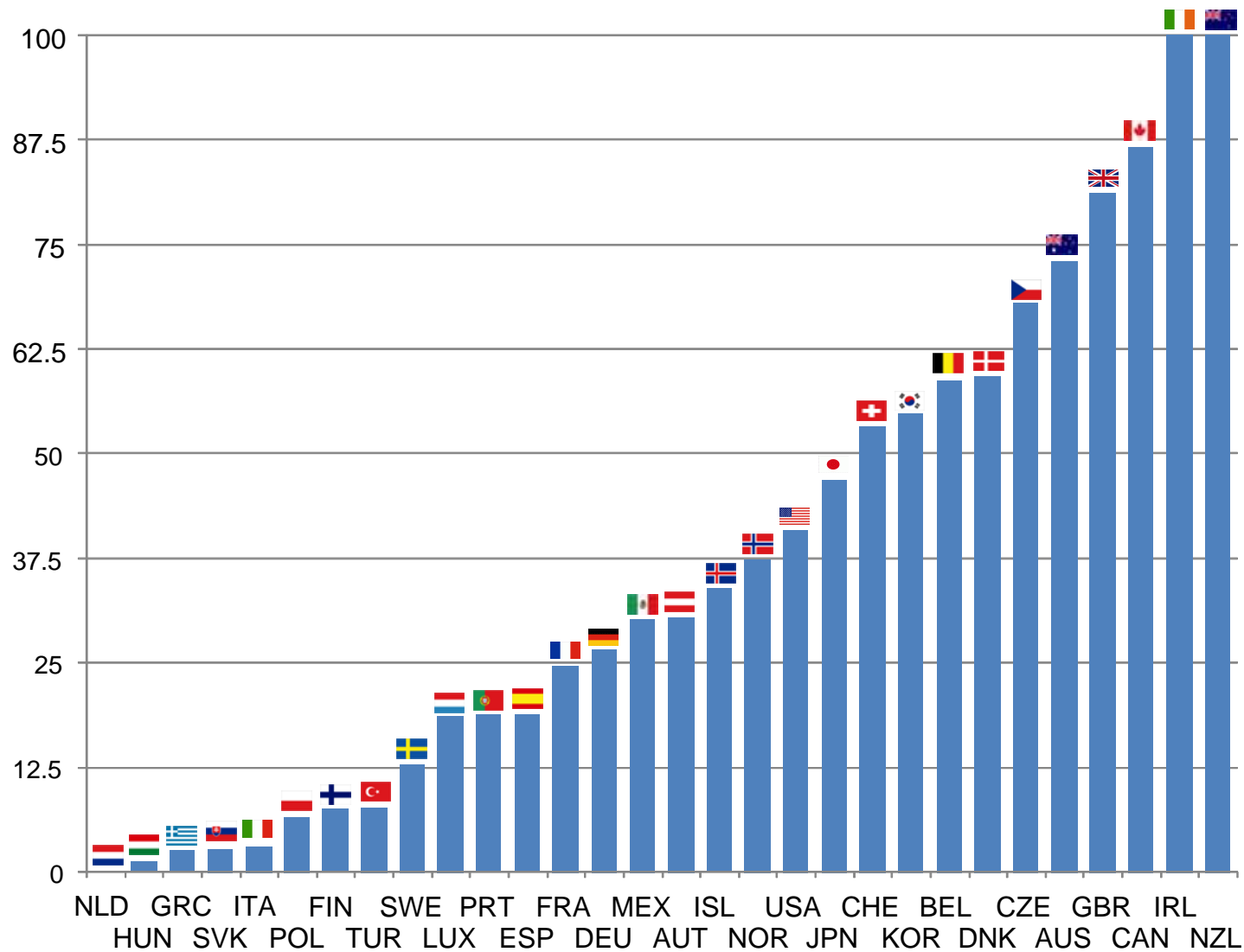
Coverage of social pensions



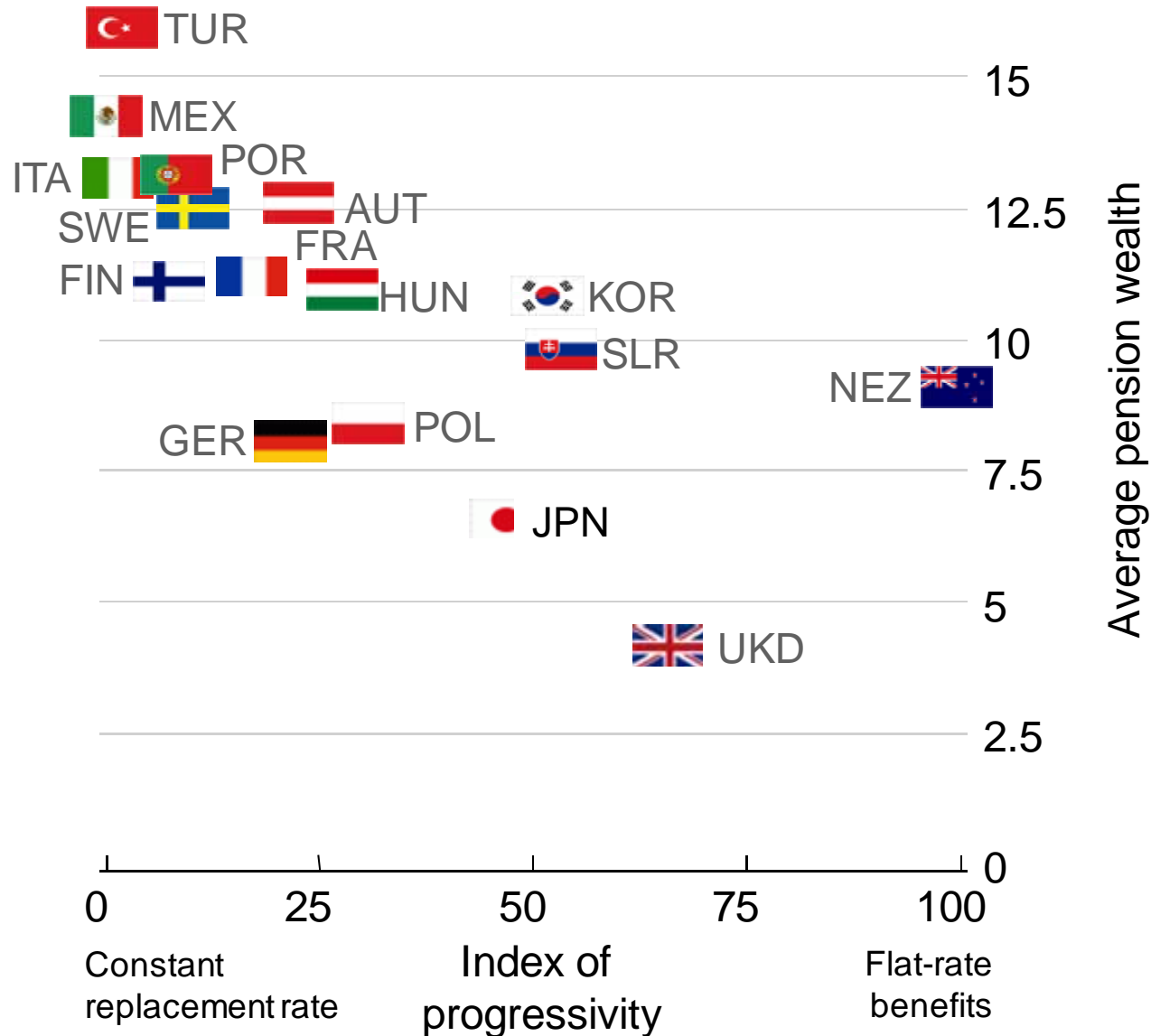
Other social provisions

- Progressive benefit formulae
 - Czech Republic, Portugal, Switzerland, United Kingdom, United States
- Minimum credits
 - Belgium, Slovak Republic, United Kingdom

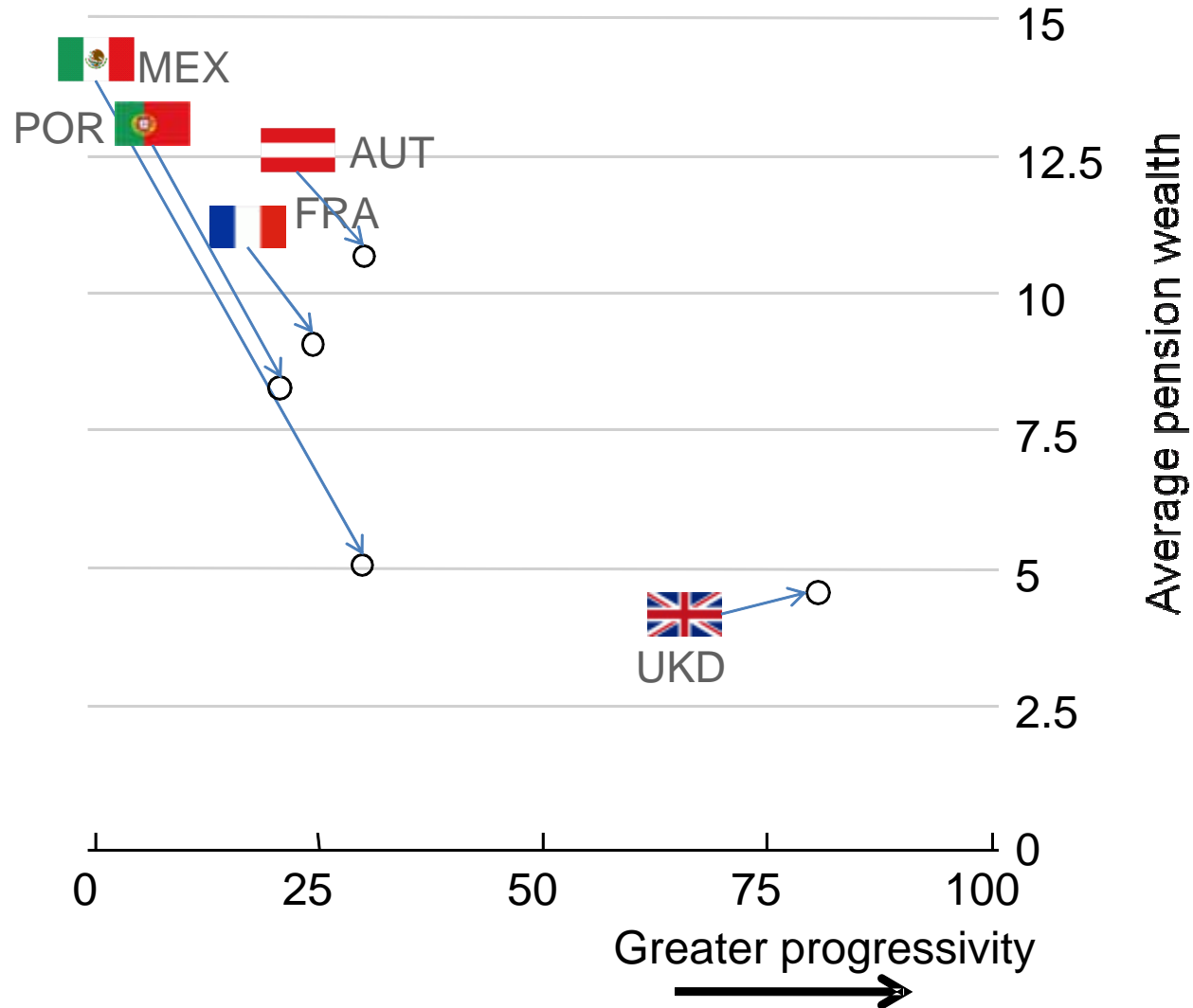
Progressivity of pension benefits



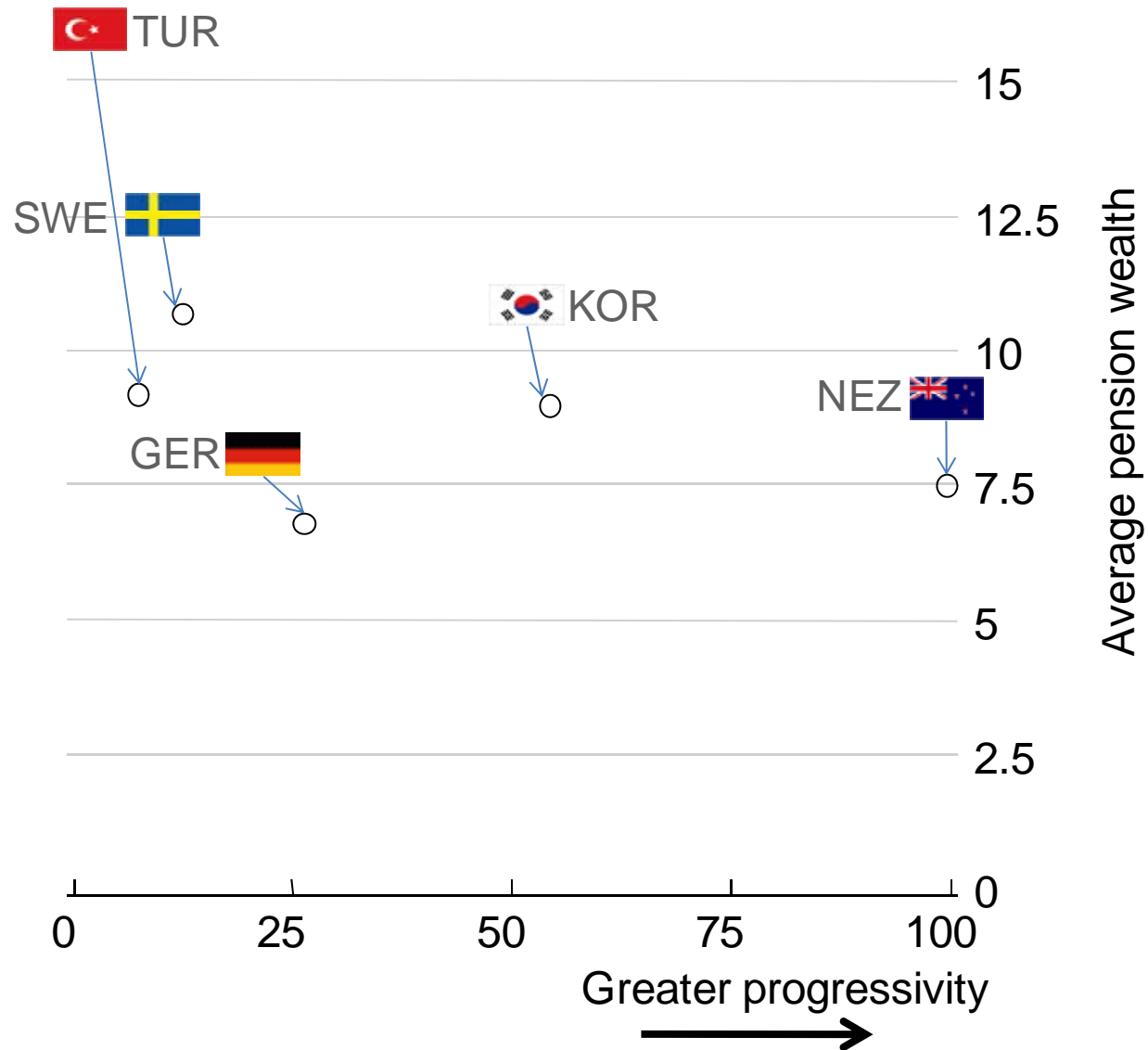
Benefits and progressivity



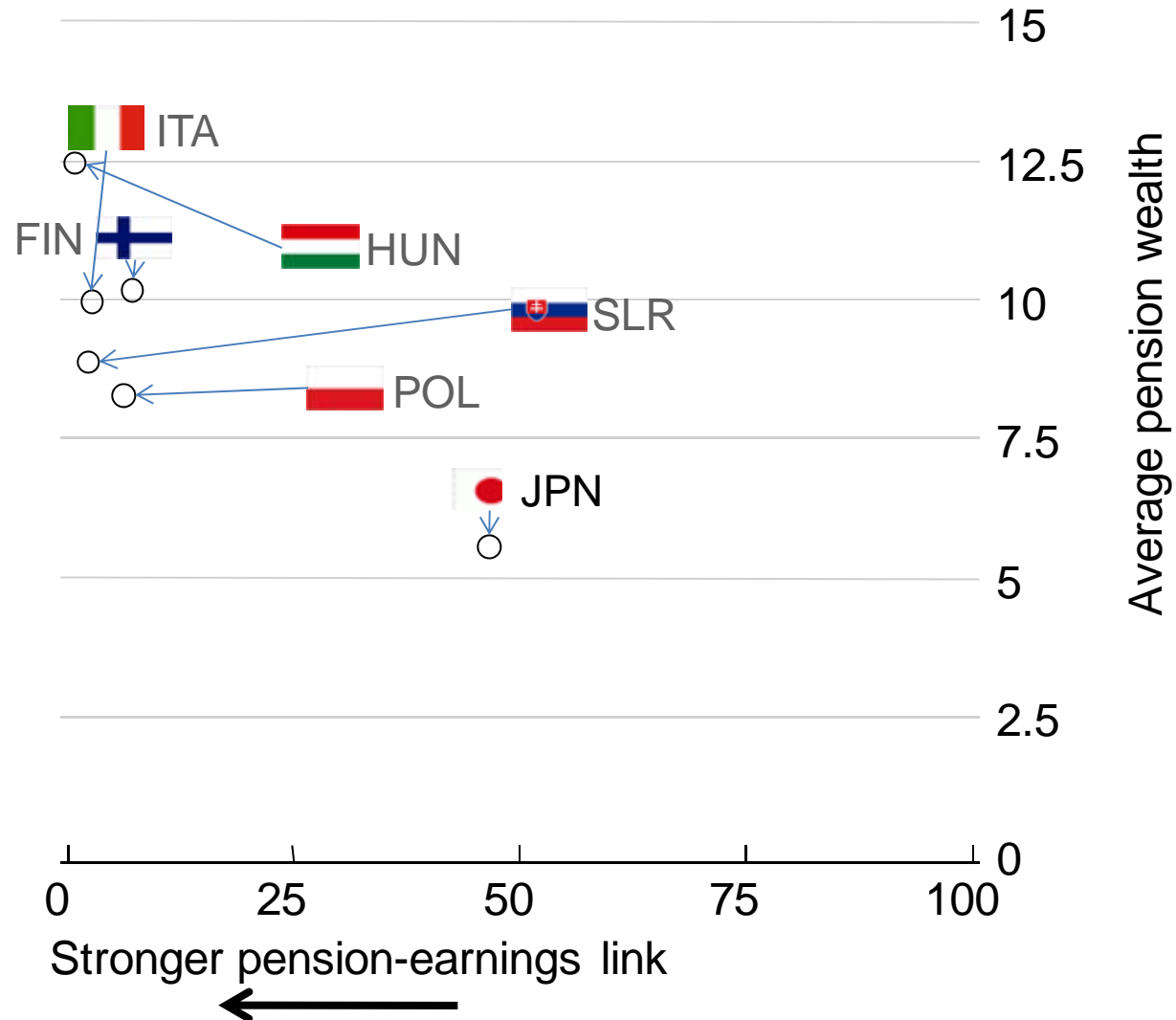
Impact of reform



Impact of reform



Impact of reform

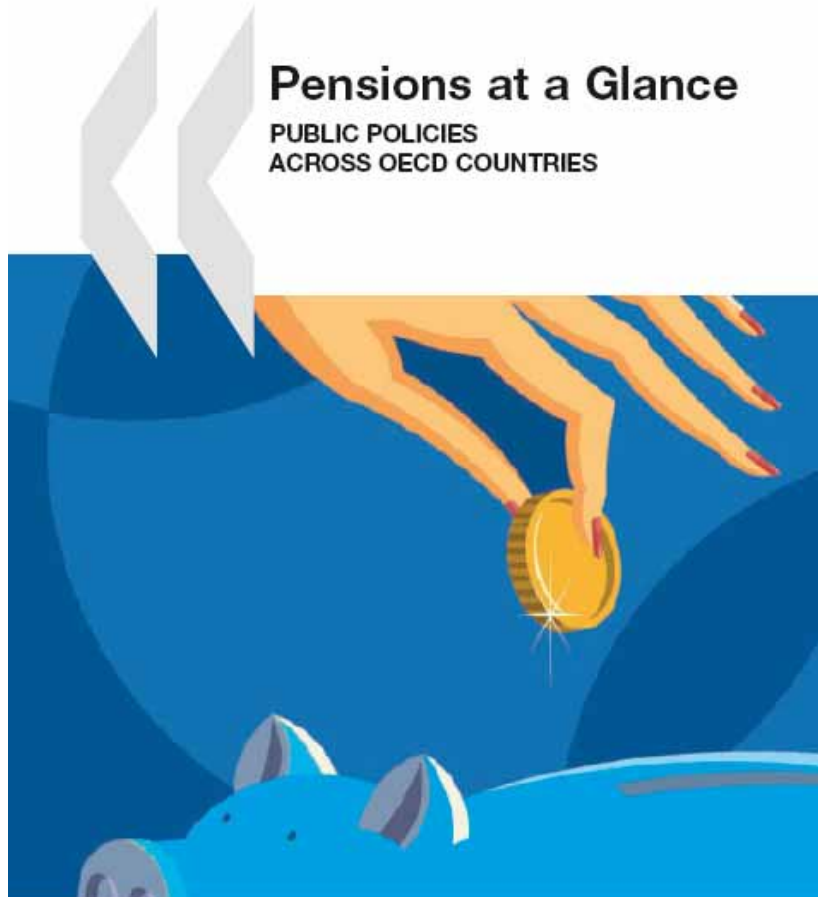


Conclusions

- Social pension dominate some retirement-income systems
 - Australia, Belgium, Czech Republic, Denmark, Canada, Ireland, New Zealand, United Kingdom
- Coverage of social pensions among retirees is high in some others
 - Finland, France, Greece, Italy, Portugal, Spain, Sweden

Further information

- www.oecd.org/els/social/ageing/PA
- edward.whitehouse@oecd.org

The image shows two overlapping pages from the report 'Pensions at a Glance'. The top page is titled 'Private pensions: A growing role' and discusses the importance of private pensions in OECD countries. The bottom page is titled 'Pension reforms: Early birds and laggards' and discusses the challenges of pension reforms. Both pages feature the OECD logo and a stylized illustration of a hand holding a gold coin.

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 state pension. In addition, voluntary private pensions have become an important part of 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 have a choice as to whether to

take out a private pension. The OECD is working to improve data on this issue.

This briefing is part of a series of briefings on pension reform. It is available on the OECD website.

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 15 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 least 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.

Pensions at a Glance
PUBLIC POLICIES
ACROSS OECD COUNTRIES

This media briefing is one of a pair prepared for the launch of the second edition of OECD Pensions at a Glance in Paris on 7 June 2007.