

Executive Summary

Controversies over pension reforms in general – and increases in pension age in particular – have never been far from the news headlines since the previous edition of *Pensions at a Glance* was published in June 2009. It is appropriate, therefore, that the theme of this 2011 edition is pensions, retirement and life expectancy and the links between them.

“Pensionable age and life expectancy, 1950-2050” is the first of five special chapters of Part I. It shows that around half of OECD countries have already begun increasing pension ages or plan to do so in near the future. Pension ages will increase in 18 countries for women and 14 countries for men. By 2050, the average pensionable age in OECD countries will reach nearly 65 for both sexes. This represents an increase in 2010 of nearly 2.5 years for men and 4 years for women.

Life expectancy has seen a near-continuous increase in the latter half of the 20th century. The result was an increase in the length of time people spent in retirement. Between 1960 and 1993, life expectancy at national pension ages grew from an average of 13.4 to 16.5 years. For women, the increase in expected duration of retirement from 1960 was 4.8 years, to reach 21.6 years in 1993. In part, this reflected the trend to longer lives. But one-third of the growth was a result of falling pension ages: between 1950 and 2010, ten OECD countries reduced pensionable age for men at some point and 13 did so for women.

Most forecasts show continued growth in life expectancy in the future. On the basis of the United Nations projections, life expectancy at normal pension ages will increase further to 20.3 years for men and 24.5 years for women in 2050. This is despite the increases in pension age that are planned for the future. Indeed, only five countries have increased pension ages enough to stabilise the length of time spent in retirement in the coming four decades for both men and women, while a further four will do so for women alone.

This analysis looks only at normal pension ages. But most people in most OECD countries retire before the normal pension age. This is shown in Chapter 2 on “Trends in retirement and in working at older ages”. The effective age at which people leave the labour market on average fell throughout the 1970s and 1980s. However, the long-term trend to earlier retirement ended for men in the mid-1990s and, for women, slightly later. Still, in 2002-07, the average age of leaving the labour market on OECD countries was 4-5 years lower than in the late 1960s, at about 63.5 years for men and 62.5 years for women. Simply to keep pace with the projected increase in life expectancy until 2050, effective retirement ages would need to increase to around 66.5 for men and nearly 66 for women. This is an indication of the scale of the challenge that governments face.

The policies that governments can pursue to extend working lives are the subject of the next two special chapters. The first of these looks at the “supply side”, presenting information on incentives to work and retire embedded in pension system. The second looks at the “demand side”, examining ways of ensuring that there are jobs for older workers.

There is overwhelming evidence that financial incentives affect retirement behaviour. “Pension incentives to retire”, discussed in Chapter 3, therefore matters for reasons of economic efficiency. But they also matter for reasons of equity. People who work more and contribute more *should* have higher pensions. Equally, those who are forced to drop out of employment early, perhaps through no fault of their own, need to have a reasonable standard of living.

Improving incentives to retire has therefore been a central plank of most pension reforms: around half of OECD countries have taken action in this area. These changes include tighter qualifying conditions for early retirement, greater benefit penalties for early retirees and greater pension increments for people retiring after the normal pension age. Chapter 3 shows that these reforms have been effective, and that only a few OECD countries still have pension systems that strongly encourage early retirement. However, there remain ways in which most countries could further improve the financial incentives in their pension systems. Nine policy recommendations that would reward people for working longer are set out.

If there are barriers to working longer on the demand side, pension reforms designed to improve work incentives may be less effective. Chapter 4 looks at a range of policies with the aim of “Helping older workers find and retain jobs”. On the part of employers, there are barriers in the form of ageist attitudes, particularly over the ability of older workers to adapt to change. Legislation against age discrimination and public-information campaigns have often (but not always) been effective. The high cost of employing older workers remains a problem in some countries. And employers sometimes use early retirement as a convenient way of adjusting the size of their workforces.

The employment opportunities for older workers can also be limited. Sometimes, their skills have become devalued and training remains targeted on younger workers. There is often a need for more help in finding jobs.

A recurring theme in the controversies over higher pension ages has been the claim that having more older workers in jobs reduces opportunities for younger workers. There is no evidence to support this view. Indeed, the employment rate of people in their early 20s is strongly and positively correlated with the employment rate of people in their late 50s. A survey of attitudes shows that more people are likely to support the view that older workers worsen the job prospects of youths in countries where the employment of either older or younger workers is relatively low.

Chapter 5 returns to the issues of pensions and life expectancy. Around half of OECD countries have elements in their mandatory retirement-income provision that provide an automatic link between pensions and a change in life expectancy. This represents a major shift in pension policy.

First, many have introduced mandatory defined-contribution schemes as a substitute for or in addition to public pension provision. Secondly, some have changed their pay-as-you-go public pension schemes into “notional accounts”. Thirdly, a couple have a link between benefit

levels or qualifying conditions for pensions and life expectancy. In addition to these changes, there has been a marked shift from defined-benefit to defined-contribution provision in voluntary, private pensions.

These changes have important implications for the way the cost of providing for pensions as life expectancy increases is shared. Increasingly, this will be borne by individual retirees in the form of lower benefits. Chapter 5 shows the degree of uncertainty inherent in projections of life expectancy and assesses policies “Linking pensions to life expectancy”. It goes on to show how pension entitlements would be affected by slower or faster improvements in life expectancy than the central forecast.

Together, the five special chapters of Part I set out and evaluate the full range of policies that OECD countries have adopted to deal with growing pressure of population ageing on government budgets. Increases in pension age – the most visible and widely understood parameter of the pension system – have tended to grab the headlines. But these are only a small part of the story of pensions, retirement and life expectancy.

Part II of the report updates the “Indicators of pension policies” from the previous three editions of *Pensions at a Glance* and provides an extra 18 indicators compared with the previous edition. Furthermore, where possible the analysis has been extended to G20 countries that are not currently members of the OECD: Argentina, Brazil, China, India, Indonesia, The Russian Federation, Saudi Arabia and South Africa.

It begins with a look at the design of retirement-income systems, providing taxonomy to describe highly diverse retirement-income systems (Part II.1). The main parameters and rules of pension systems are presented to facilitate cross-country comparisons.

These parameters and rules are then used to model pension entitlements for men and women at different levels of earnings (Part II.2). While most of the indicators look at mandatory pension provision, there is also an analysis of typical voluntary private pensions in countries where these have broad coverage. Close attention is paid to the tax treatment of pensions and pensioners and how this affects living standards in retirement relative to when working.

The analysis of pension entitlements is forward looking, in the sense that it considers the value of benefits for workers entering the labour market today. The indicators in Part II.3 look at the financial position of people of pension age currently: at average incomes, sources of incomes and risk of poverty.

Having analysed the position of individuals, Part II.4 examines the finances of retirement-income systems as a whole. Here are data on public and private expenditure on pensions, contribution rates for mandatory pensions and aggregate contribution revenues for public pension schemes.

The background and context in which retirement-incomes systems must operate is presented in Part II.5. These indicators include demographic measures – such as life expectancy and fertility – and average earnings. Finally, Part II.6 offers information specifically about private pensions and public-pension reserve funds.



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