

Executive summary

This edition of *Pensions at a Glance* discusses the challenges of high inflation for pensions and reviews the pension measures legislated in OECD countries between September 2021 and September 2023. As in past editions, a comprehensive selection of pension policy indicators is included for OECD and G20 countries. Moreover, this edition provides an in-depth analysis of pension provisions for hazardous or arduous work.

Inflation and pensions

- The ongoing episode of high inflation reverses the standard way of thinking about pension indexation. In the short term, due to falling real wages, price indexation has become more favourable for pensioners than wage indexation. But it is more costly than initially anticipated for public finance or pension providers more generally.
- Over half of OECD countries protect pensioners fully from inflation trends over time. These countries index pensions to prices or to prices plus (part of) real-wage growth if positive.
- Frequent indexation is necessary to uphold pensioners' purchasing power. Loss of purchasing power can also be caused by delays when the indexation indicator is smoothed over long periods.
- Applying indexation rules consistently is key to build confidence in pensions. However, protecting pensioners against high inflation has been costly. It may be fair in exceptional times that high-income pensioners share some of the pain with the working-age population in terms of reduced benefit adjustments.

Life expectancy developments and main recent pension policy measures in OECD countries

- Life expectancy at older ages bounced back from 2021 after a drop of about half a year in 2020 on average. However, since about 2012, the trend in life expectancy gains at age 65 has slowed down.
- The Netherlands passed a systemic reform of private pensions from defined benefit to defined contribution. Spain formally removed the automatic adjustment mechanisms previously legislated to address financial sustainability, including low indexation of pensions in payment, and reintroduced price indexation. Instead, contributions were raised especially for high earners. Costa Rica extended the reference period for past wages used to calculate pensions from 20 last years to 25 best years.
- The Slovak Republic reintroduced a one-to-one link between the retirement age and life expectancy. Sweden raised the retirement age and will link it to two-thirds of life-expectancy gains. Costa Rica, the Czech Republic (hereafter "Czechia") and France have tightened early or minimum retirement ages. Switzerland will close the gender gap in normal retirement ages, and Israel will reduce it.
- Normal retirement ages are set to increase in three-fifths of OECD countries. Only Colombia, Costa Rica, Hungary, Israel, Poland and Türkiye will still maintain a gender gap in normal retirement ages. The average normal retirement age will increase from 64.4 years for men retiring now to 66.3 years for those starting their career now. Future levels range from 62 years in

Colombia, Luxembourg and Slovenia to 70 years or more in Denmark, Estonia, Italy, the Netherlands and Sweden.

- Canada, Chile, Estonia, France, Italy, Lithuania, Spain, Sweden and Türkiye substantially increased first-tier pensions, which will particularly benefit retirees with low pensions.
- On average, full-career average-wage workers will receive a net pension at 61% of net wages. Future net replacement rates are at 40% or below in Australia, Estonia, Ireland, Japan, Korea, Lithuania and Poland; they exceed 90% in Greece, the Netherlands, Portugal and Türkiye. The future net replacement rate of workers earning half the average wage is higher at 73% on average.

Most issues raised by hazardous or arduous jobs require interventions at working age

- Workers in physically intensive jobs tend to have poorer health than other workers. There is convincing evidence of some working conditions negatively affecting health.
- OECD countries have special pension provisions for hazardous or arduous work based on different approaches and can be classified into four groups: 15 countries provide access for a large number of jobs considered hazardous or arduous; 8 countries provide early retirement options to a limited number of jobs; 4 countries cover only public safety and security jobs traditionally considered as hazardous; and, 11 countries provide no early retirement options within mandatory pensions for such jobs.

The issues raised by hazardous or arduous work should primarily be dealt with by policies outside the realm of old-age pensions.

- The first priority is to improve working conditions through health and safety regulations to limit exposure to risky factors, hardship and health risks.
- Communicating about the risks involved in working in hazardous or arduous jobs is essential as a moral imperative and to help workers weigh different job opportunities and ask to be compensated.
- Incapacity to work in a *specific job* until the minimum retirement age that apply to all workers is not enough to justify granting special *old-age* pension provisions for hazardous or arduous work.
- A reskilling and upskilling framework has to be put in place to facilitate career transitions and provide workers with the skills needed to prolong careers in different jobs. The permanent withdrawal from the labour market, sometimes at very early ages, is an inefficient solution.
- When job-related risks materialise and impair workers' health, long-term sickness benefits and disability insurance should be fit for purpose, accessible, efficient and responsive; on top of cushioning income consequences, they should help prevent permanent labour market withdrawal.
- Special pension schemes covering workers in hazardous or arduous jobs have been reduced in scope in many countries. Some of these schemes have included jobs in which hardship is questionable, resulting in serious mistargeting.
- As any delayed health impacts of some job characteristics (e.g. physical strain, noise or uncommon working-time patterns) are typically not covered by disability or sickness insurance schemes, some special pension provisions might complement these schemes, backed by solid evidence.
- For jobs generating health and safety risks at older ages (e.g. firefighters, police officers and military), there is a stronger case for special pension provisions. Still, age-management policies should strive as much as possible to prepare for a career shift at some point.
- Over the last two decades, some countries, including Finland and France, have improved the design of pension schemes covering hazardous or arduous jobs. These innovations link eligibility to some job characteristics, such as working at night, rather than based on occupations. In Austria, the special scheme allowing individuals working at night to retire earlier is highly targeted and imposes additional contributions on employers to help finance the scheme and limit such activities.



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