Pensions at a Glance 2011

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Launch of Pensions at a Glance 2011 report

What’s new?

• More countries
  – four new OECD members
  – other G20 economies (Argentina, Brazil, China, India, Indonesia, Russia, Saudi Arabia, South Africa, EU27)

• More indicators

• Five special chapters
  – pensionable age and life expectancy, 1950-2050
  – trends in retirement and in working at older ages
  – pension incentives to retire
  – helping older workers find and retain jobs
  – linking pensions to life expectancy
Agenda: four key objectives and principles

• Financial sustainability
• Work incentives
• Security in the face of risk and uncertainty
• Benefit adequacy and coverage

Financial sustainability
Public pension spending

Public expenditure on old-age and survivors’ benefits, per cent of GDP

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Demographic (in)determinism

Public expenditure on pensions, per cent of GDP

Dependency ratio: percentage of adult population aged 65+

Note: 2050 for Australia
Demographic (in)determinism

Public expenditure on pensions, per cent of GDP

Dependency ratio: percentage of adult population aged 65+

2010
$R^2=0.586$

2050
$R^2=0.112$
Work incentives

Trends in pensionable ages

Pensionable age, OECD average, years

- Low point
- Today

- Men
- Women
Normal pension age: long-term rules

Number of OECD-34 countries

Normal pensionable age, years

Trends in life expectancy at age 65

Additional years of life expectancy at age 65, OECD average
Life expectancy at pensionable age

Additional years of life expectancy at normal pension age

- Men UK
- Men OECD
- Women UK
- Women OECD

Pension incentives to work/retire

- **Change** in pension wealth from working an additional year
  - age 60-65: main retirement window
  - express as proportion of individual earnings: implicit tax or subsidy
Pension incentives to work/retire

- **Change** in pension wealth from working an additional year
  - age 60-65: main retirement window
  - express as proportion of individual earnings: implicit tax or subsidy

- **Level** of pension wealth already accrued
  - at age 60: beginning of retirement window
  - express as a multiple of individual earnings

Change in pension wealth from working an additional year, between ages 60 and 65, per cent of annual earnings
## Retirement incentives summary

<table>
<thead>
<tr>
<th>Change in pension wealth from age 60 to 65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
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<tr>
<td>Middle</td>
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<tr>
<td>High</td>
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<table>
<thead>
<tr>
<th>Low</th>
<th>Middle</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Mexico</td>
<td>Germany, Ireland, Sweden, <strong>UK</strong>, US</td>
</tr>
<tr>
<td>Middle</td>
<td>Australia, Belgium, Canada, Estonia</td>
<td>Denmark, Finland, New Zealand</td>
</tr>
<tr>
<td>High</td>
<td>Greece, Italy, Luxembourg, Portugal, Slovenia, Turkey</td>
<td>France, Hungary, Spain</td>
</tr>
</tbody>
</table>

**Level of pension wealth at age 60**

- **Low**: Mexico
- **Middle**: Australia, Belgium, Canada, Estonia
- **High**: Greece, Italy, Luxembourg, Portugal, Slovenia, Turkey

### Security
Diversification

• ‘It is the part of a wise man to keep himself today for tomorrow, and not venture all his eggs in one basket’ (Miguel de Cervantes, 1605, Don Quixote)
• Pay-as-you-go public pensions:
  – sustainable rate of return = earnings growth + employment growth
• Funded pensions
  – rate of return in capital market directly or indirectly affects pension value
• Think of pension package as a ‘portfolio’ of different ‘assets’

Diversification

• Benefits of diversification depend on correlation between returns
**Diversification**

- Benefits of diversification depend on correlation between returns

### Correlation between real earnings growth and real return on ‘balanced’* portfolio

<table>
<thead>
<tr>
<th>Investment portfolio</th>
<th>Canada</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Japan</th>
<th>Sweden</th>
<th>United Kingdom</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>21.2</td>
<td>-9.7</td>
<td>-8.6</td>
<td>-22.0</td>
<td>8.3</td>
<td>12.4</td>
<td>-28.2</td>
<td>3.5</td>
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<td></td>
<td>(34.4)</td>
<td>(66.9)</td>
<td>(76.1)</td>
<td>(38.1)</td>
<td>(69.2)</td>
<td>(58.2)</td>
<td>(15.3)</td>
<td>(86.1)</td>
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<tr>
<td>OECD-8</td>
<td>16.3</td>
<td>-26.0</td>
<td>-14.6</td>
<td>1.9</td>
<td>-15.2</td>
<td>8.8</td>
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<td>4.8</td>
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<tr>
<td></td>
<td>(47.0)</td>
<td>(24.2)</td>
<td>(60.3)</td>
<td>(93.4)</td>
<td>(50.0)</td>
<td>(69.7)</td>
<td>(60.8)</td>
<td>(83.3)</td>
</tr>
</tbody>
</table>

Note: ‘Balanced’ portfolio comprises 50% equities, 50% government bonds. ‘Domestic’ includes only home capital markets, OECD-8 diversifies investments between all countries shown.

### Incomes in old age

**Sources of income of over 65s, per cent of total**

- **Public transfers**
- **Work**
- **Capital**

<table>
<thead>
<tr>
<th>Country</th>
<th>Public transfers</th>
<th>Work</th>
<th>Capital</th>
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</thead>
<tbody>
<tr>
<td>France</td>
<td></td>
<td></td>
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</tbody>
</table>

**Sources of income of over 65s, per cent of total**
Adequacy and coverage
What is adequacy?

- Narrow definition: **absolute** standard of living
- Broad definition: **relative** standard of living

- Analytical tools:
  - income-distribution data
  - simulation of pension entitlements

### Income poverty

![Income poverty graph showing the relationship between old-age poverty rate and population poverty rate across different countries.](image-url)
Future (mandatory) replacement rates

Net replacement rate, per cent

Average earner

Future (mandatory) replacement rates

Net replacement rate, per cent

Average earner

Low earner (50% of average)
Coverage of private pensions

Conclusions
# General policy direction

- Balancing objectives of benefit adequacy and financial sustainability  
  - challenges of crisis and ageing  
  - need to achieve both  
- Improving the terms of the trade off  
  - working longer  
  - private pensions  
  - targeting

# Implications for the United Kingdom

- Public scheme financially **sustainable**  
- Retirement provision well **diversified** (public/private, PAYG/funding)  
- Pension system provides strong **work incentives**  
  - but continuing problem of other benefit pathways into early retirement, such as disability benefits  
- **Adequacy** of benefits and degree of private-pension saving remain a challenge
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RETIREMENT-INCOME SYSTEMS IN OECD AND G20 COUNTRIES

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