

# *Expanding Private Pensions Coverage – the Role of Research and the OECD in Promoting the Agenda*

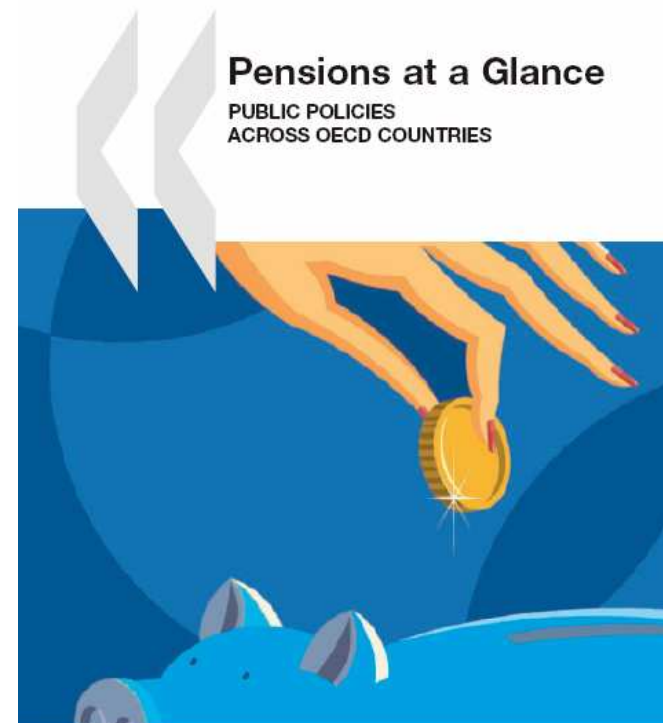
by  
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Dublin, 14 May 2008

# Structure of my presentation

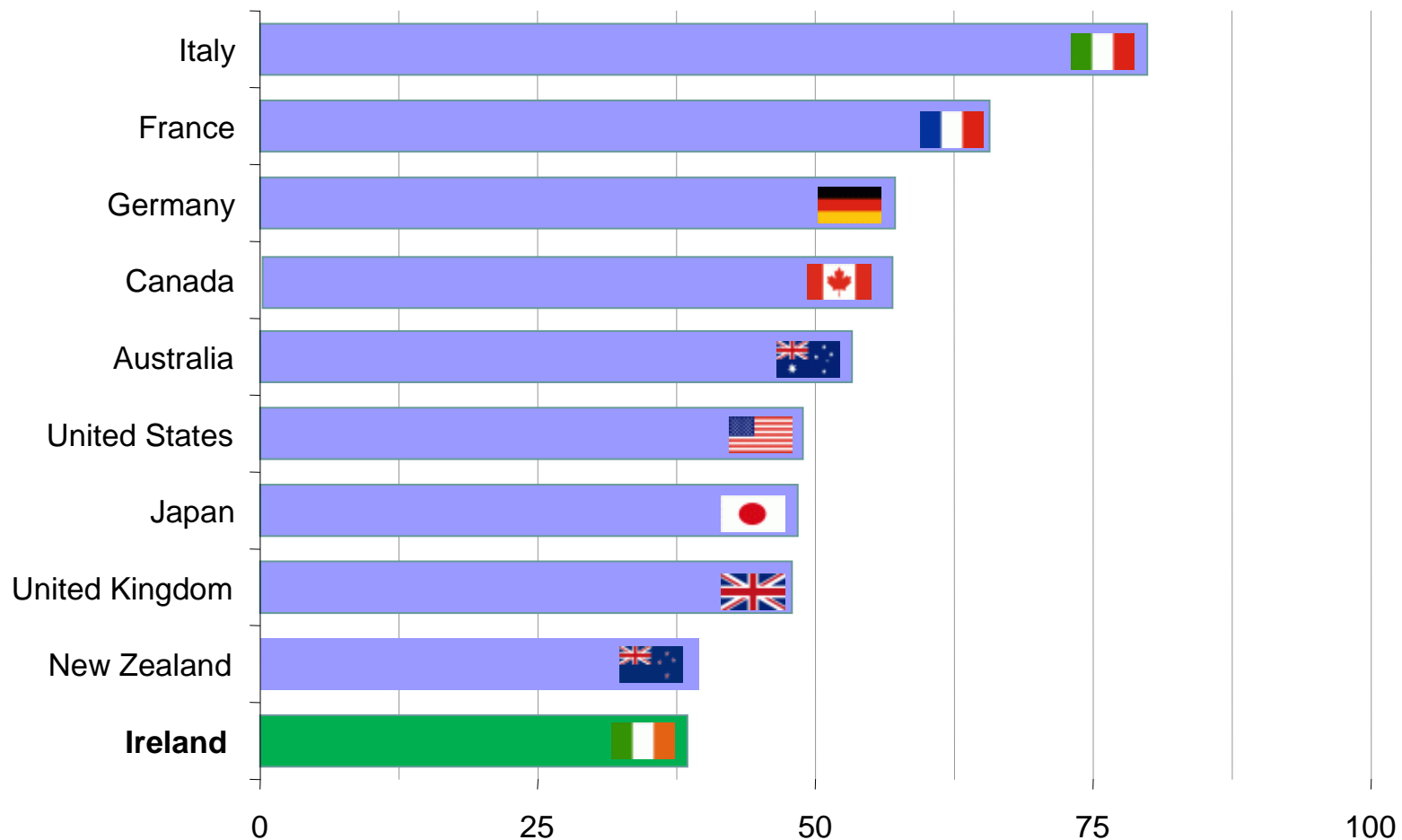
- How do public pensions compare across the OECD countries?
- Old-age poverty – position within OECD countries
- Pensions gap – how far do social pensions go?
- How can people be persuaded to save more for their retirement?

# Comparing pension promises

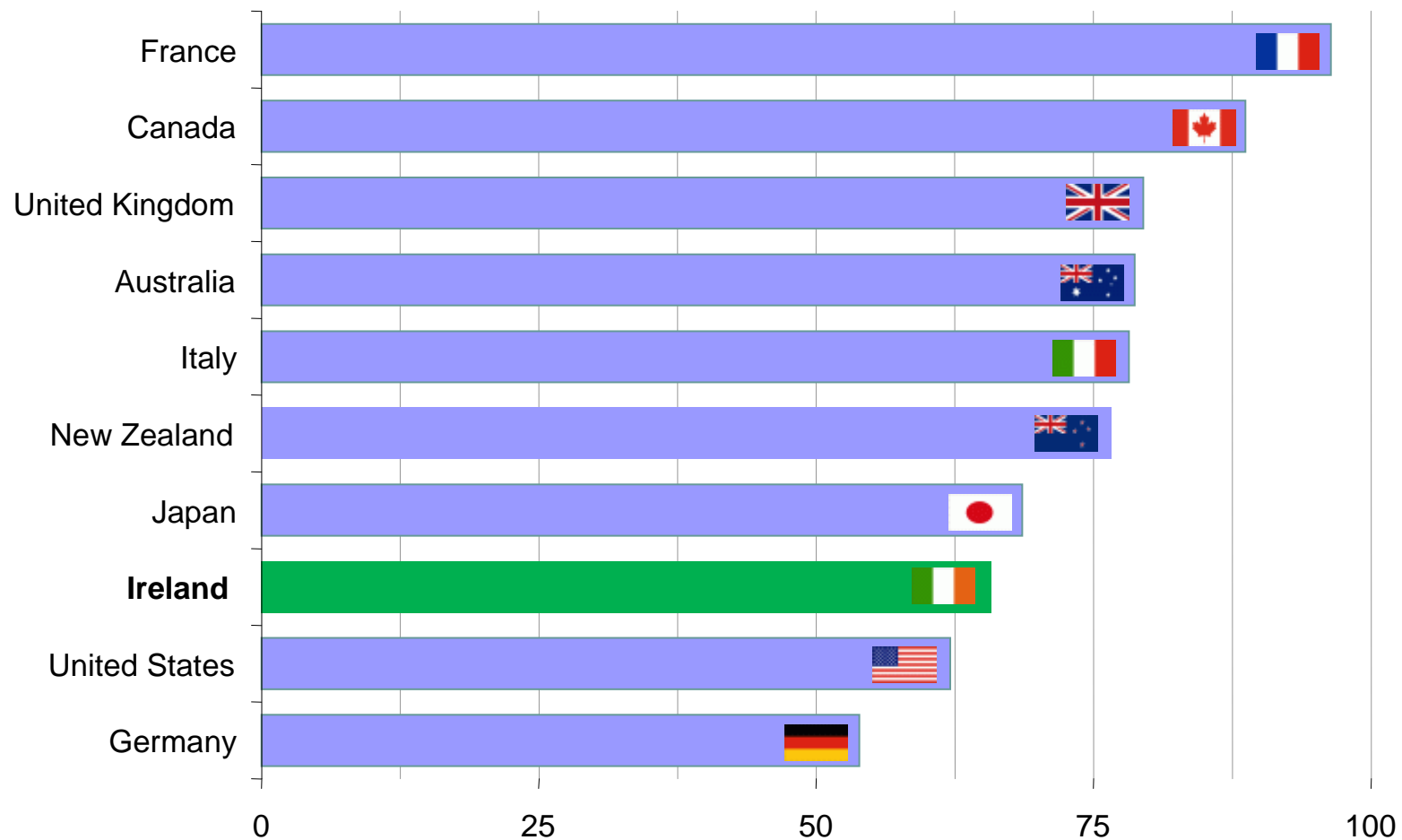
- ❑ OECD's new pension monitoring project
- ❑ A microeconomic approach
  - ❑ covers all (quasi-) mandatory pensions
  - ❑ includes effect of personal income tax and social security contributions
  - ❑ full-career workers
  - ❑ across earnings range
  - ❑ all currently legislated reforms fully in place



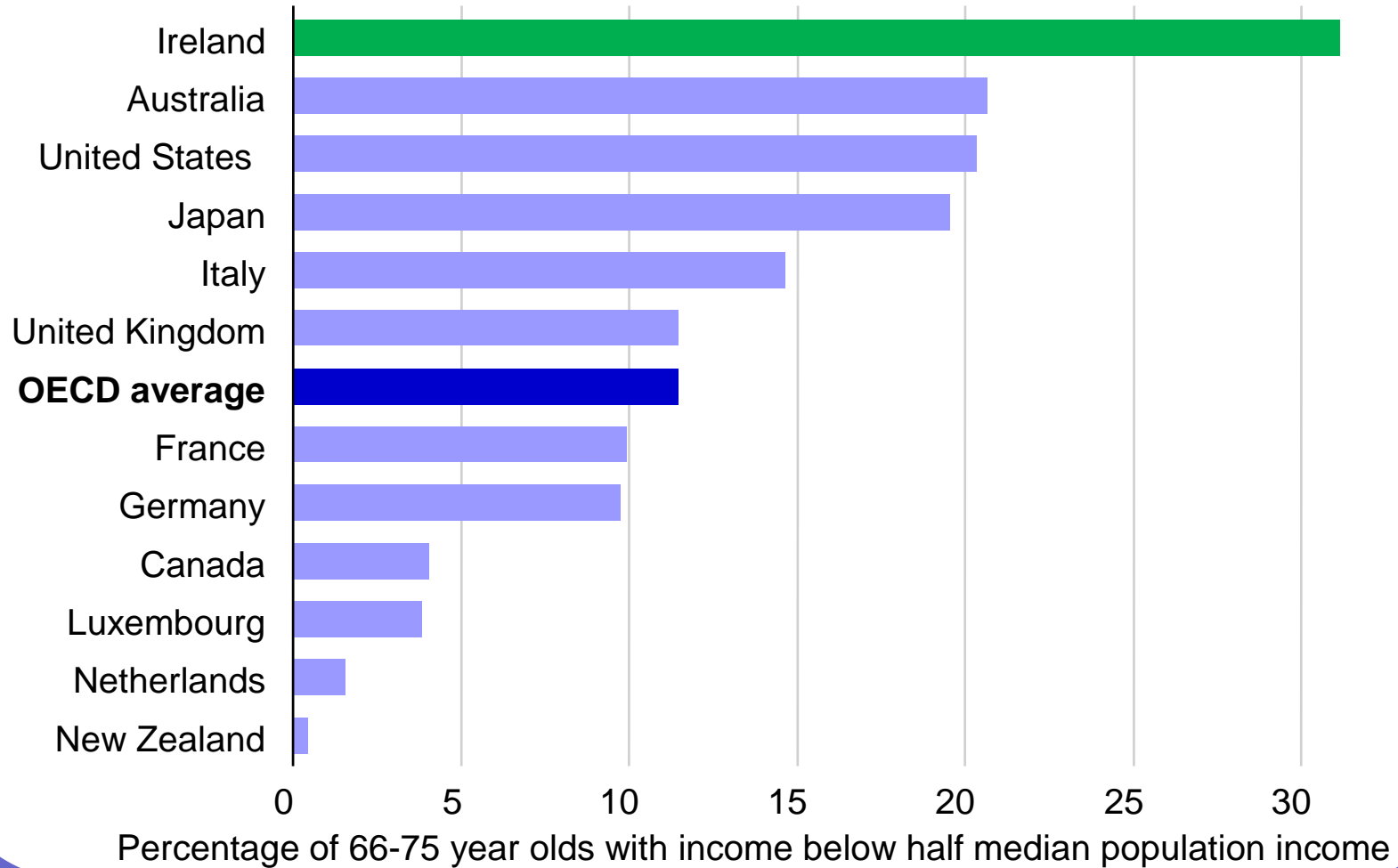
# Ireland has one of the lowest net replacement rates



# Germany has lowest net replacement rate for low earners



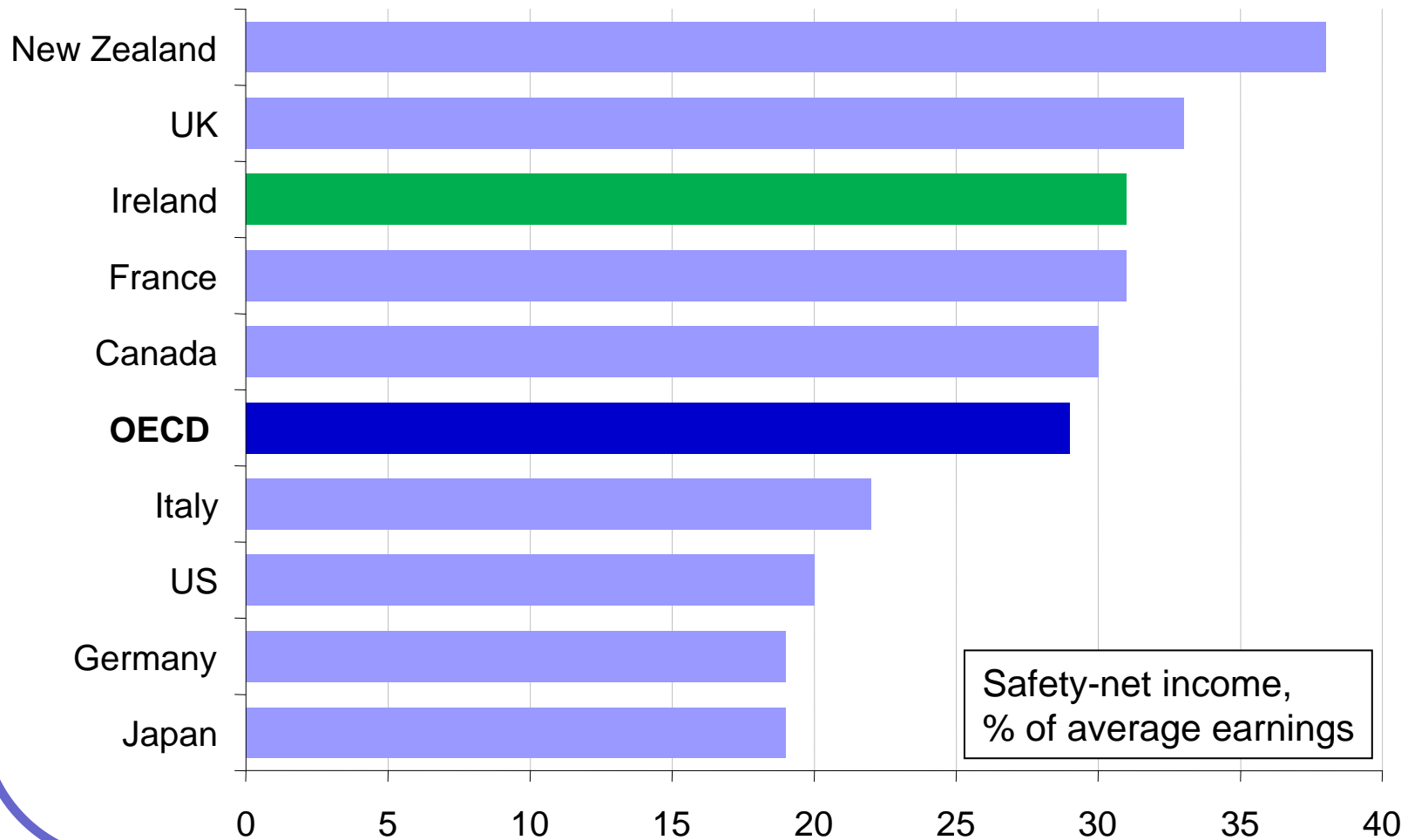
# Ireland poverty rate highest in the region



# Research Sources

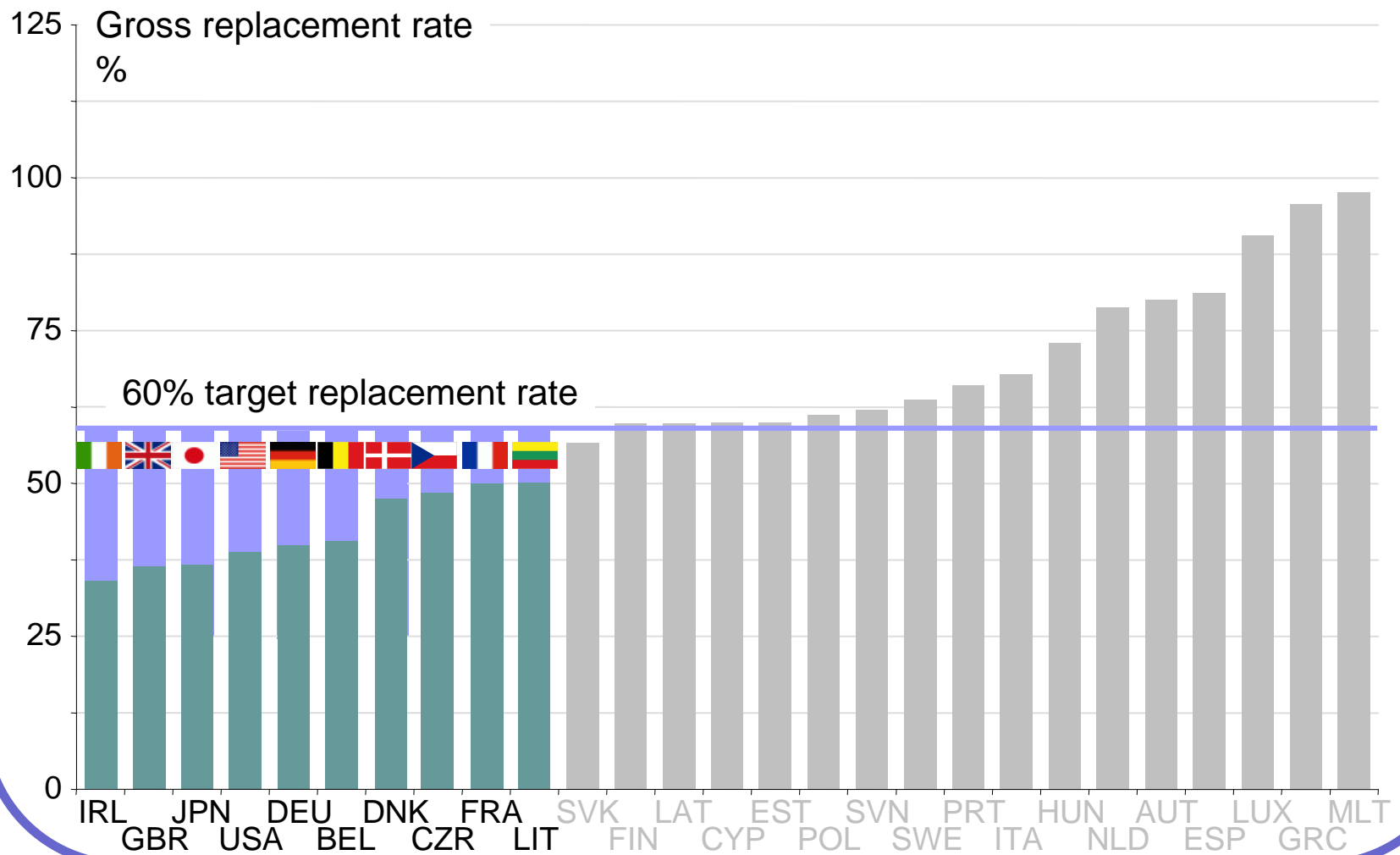
- Eurostat – Irish pensioners are among the most likely in Europe to fall into poverty.
- Longitudinal surveys – ECHP, BHPS (UK), PSID (US), GSOEP (Germany)
- Household surveys – FRS (UK), FBS (France), EU-SILC(Ireland), HES (New Zealand)
- NGOs – Help the Aged (UK), Age Action (Ireland)

# Social pension in Japan under 20% of average earnings

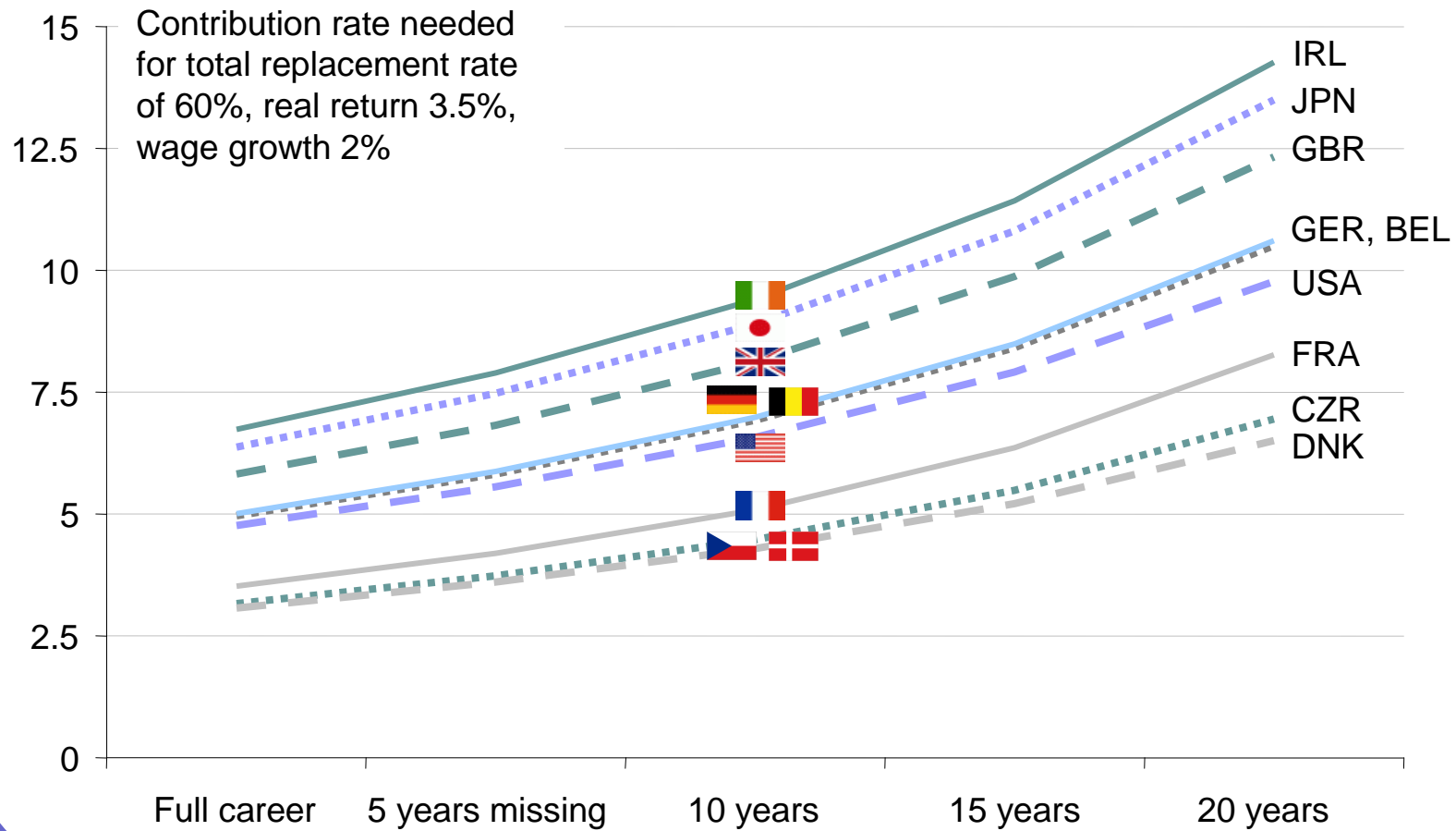




# The pension gap, average earner



# Filling the retirement-savings gap



# Coverage of private pensions

- Difficult to compare across OECD
- Administrative data and household surveys can be used to provide estimates
- Double counting in administrative data
- Results given are based on household survey data

## Coverage - results

- Countries covered are Australia, Canada, Germany, Ireland, UK and USA
- Coverage is well above 50%
- Peaks between ages 35-44 or 45-54, depending on the country
- Coverage of voluntary private pensions tends to increase with income
- Need to improve coverage for low earners and for the younger age groups

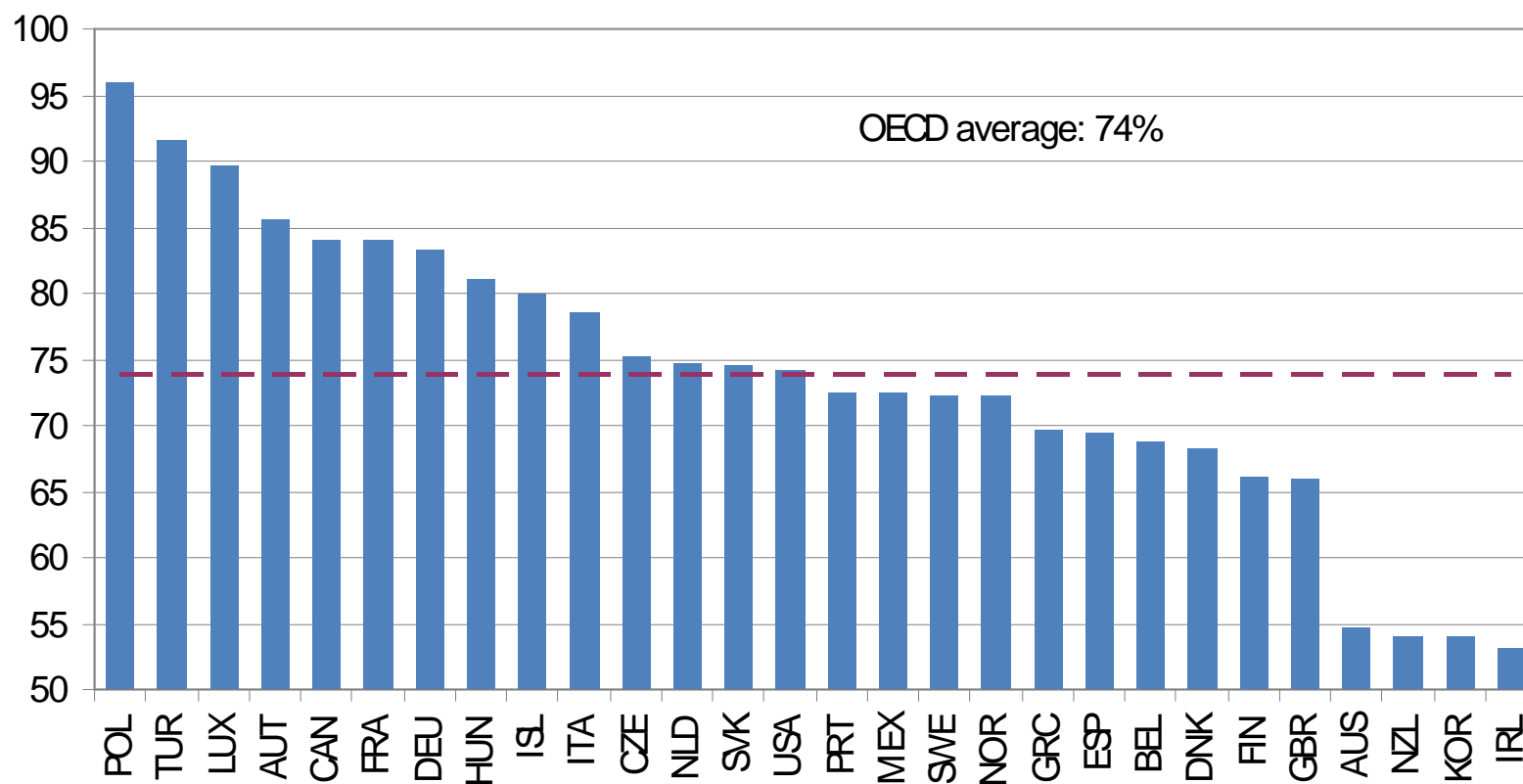
# What can be done?

- Five possible approaches will be considered:
  - Compulsion
  - Tax incentives
  - Facilitate access
  - Financial education
  - Auto-enrolment

# 1. Compulsory individual retirement savings?

- For compulsion
  - People are myopic
  - This leaves them vulnerable to old-age poverty
  - And puts pressure on social safety-nets
  
- Against compulsion
  - Most people are rational
  - Allows for non-pension provision for retirement (saving through asset accumulation, property, business investment *etc.*)
  - Difficult to decide the appropriate contribution rate: forced over-saving can reduce lifetime welfare as much as under-saving
  - Could undermine existing voluntary provision (occupational plans)

# Pensioners' incomes as a percentage of working-age incomes 2005

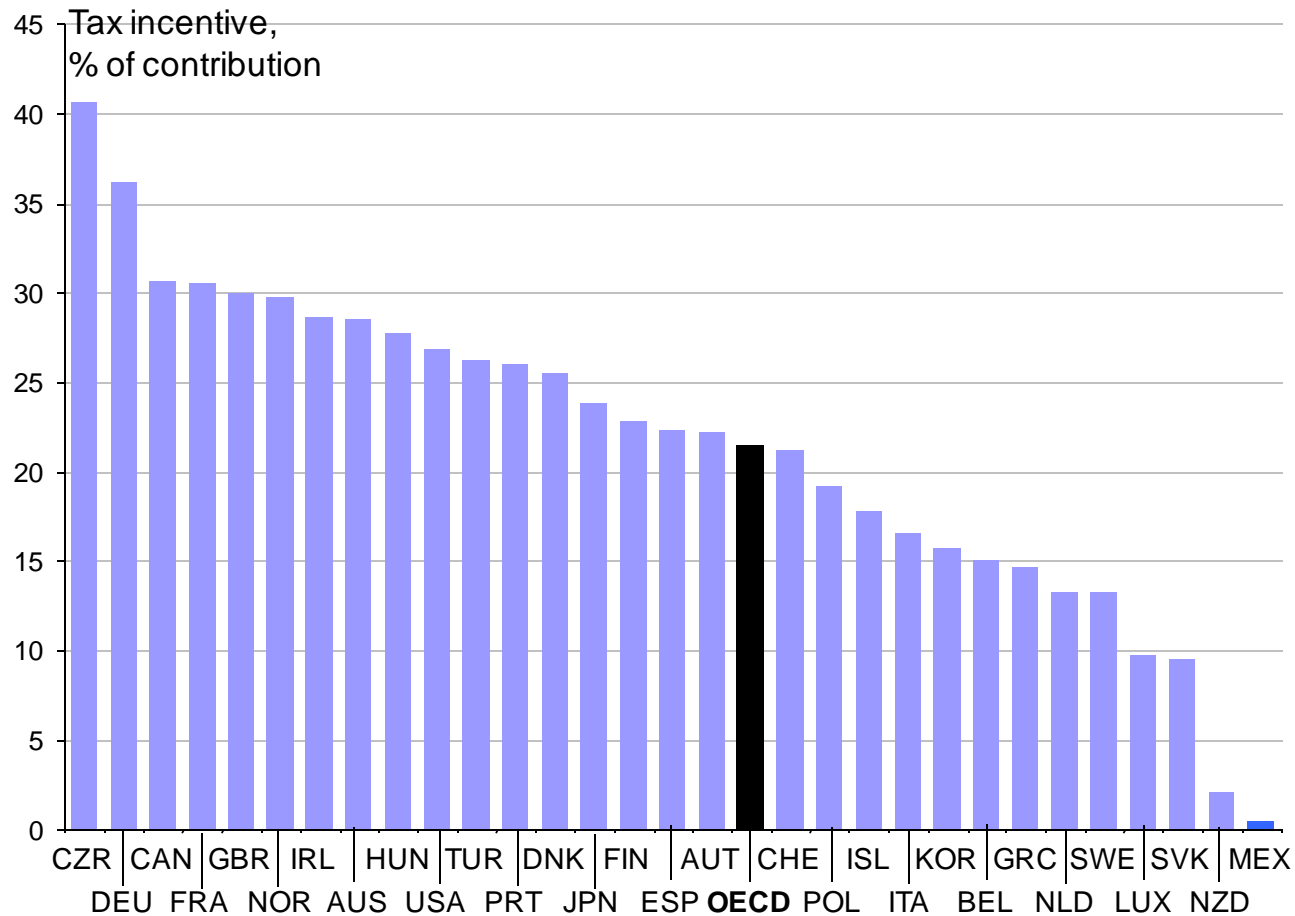


## 2. Tax Incentives?

- Encourage private, voluntary retirement savings
- Give preferential tax treatment to pension plans
- Restrictions apply – duration of saving or restrictions on method of withdrawal
- Does it work?



# Tax incentive for private pensions relative to benchmark savings



### 3. Facilitating access to retirement-savings schemes

- Availability of occupational pensions
- Smaller employers are less likely to have access
- Is the cost of establishing a pension scheme acting as a deterrent?
- Enrolment can be increased by improving eligibility and incentives

## 4. Financial education

- A better understanding should lead to greater coverage rates and higher contribution levels
- National awareness campaign in Ireland has increased understanding
- Employment based campaigns have been shown to increase participation and contribution rates
- Improve information disclosure e.g. Sweden, Germany and France

## 5. Is auto-enrolment an alternative?

- Approach makes use of inertia and procrastination
  - Workers tend not to make decision when asked to explicitly opt into a pension plan
- Main attraction of auto-enrolment is timing and the likelihood of high coverage
  - Standard enrolment takes time to take hold
- Enrolment does not affect opting-out over time
  - Workers are not locked into personal accounts

# Conclusions

- Social pensions only provide minimum levels of income
  - Levels vary greatly by country
- Pensioner poverty levels are related to 'gap' in pension provision
  - Four G7 countries in the bottom five
- Research focuses attention on governments
  - Impact of UNICEF report on child poverty in UK – need similar for elderly
- Auto-enrolment might be a compromise
  - New Zealand introduced 'KiwiSaver' in 2007
  - UK to create 'BritSaver' as proposed by Lord Turner in 2012

## Sources and further reading

- *Pensions at a Glance: Public Policies across OECD Countries*, OECD, 2007
- 'Income distribution and poverty in OECD countries in the second half of the 1990s', by Michael Förster and Marco Mira d'Ercole, Social, Employment and Migration working paper no. 22, OECD, 2005
- 'Fiscal implications of ageing: projections of age-related spending', by Thai Thanh Dang, Pablo Antolín and Howard Oxley, Economics Department working paper no. 305, OECD, 2001
- *Live Longer, Work Longer*, OECD, 2006

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