



LA SOSTENIBILITÀ E L'ADEGUATEZZA DEI SISTEMI PENSIONISTICI NEI PAESI OCSE

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CONFERENZA FINALE del progetto IESS

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Outline

- The context
- Challenges and risks for pension systems
- Conclusion



Setting the context...

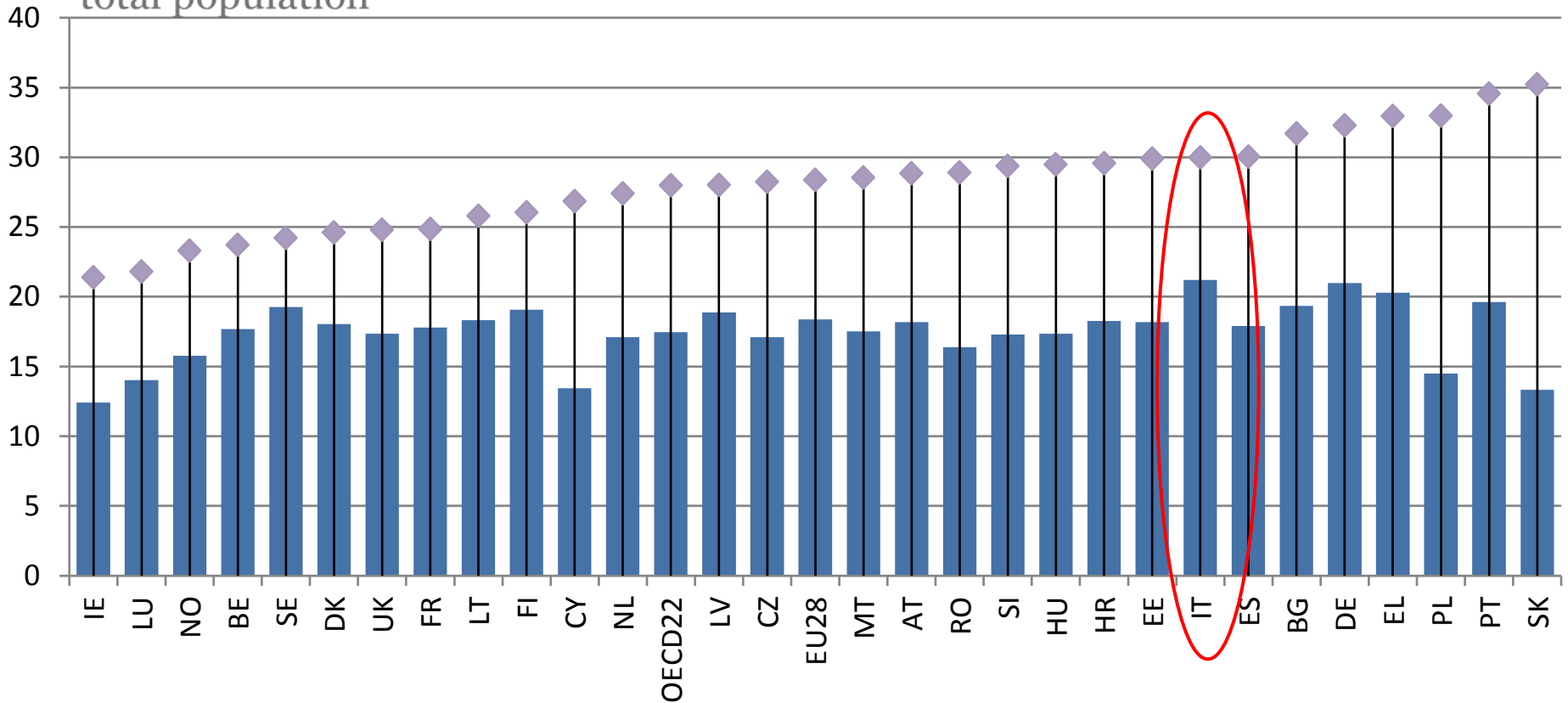
- (Post-)crisis
 - Low growth
 - High unemployment
- Rapid population ageing



Life expectancy increases: the share of the elderly will increase substantially

Share of elderly (65+) in total population

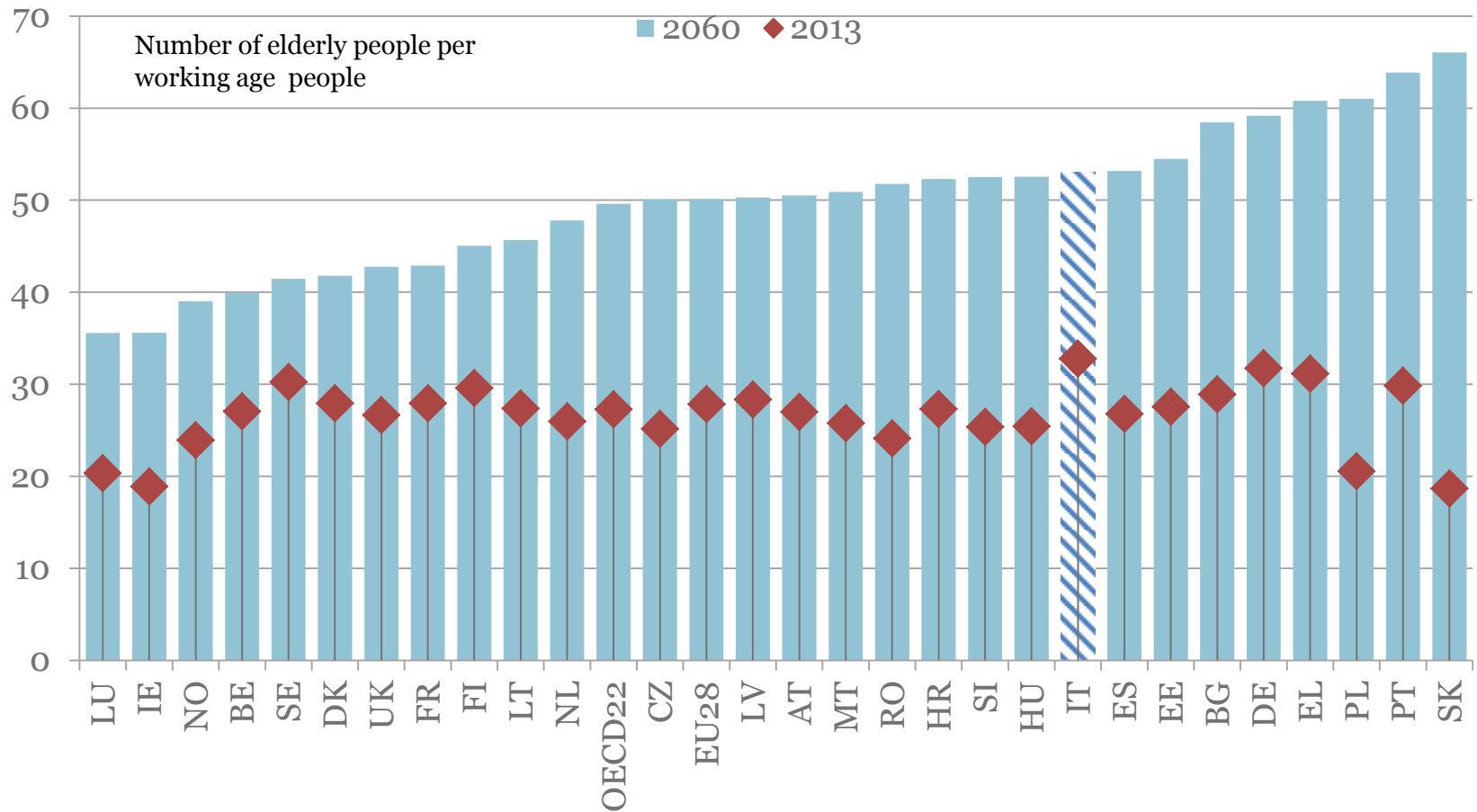
■ 2013 ◆ 2060



Sources: data from The 2015 Ageing Report, European Union



The number of elderly (65+) per working-age (15-64) people will increase ...

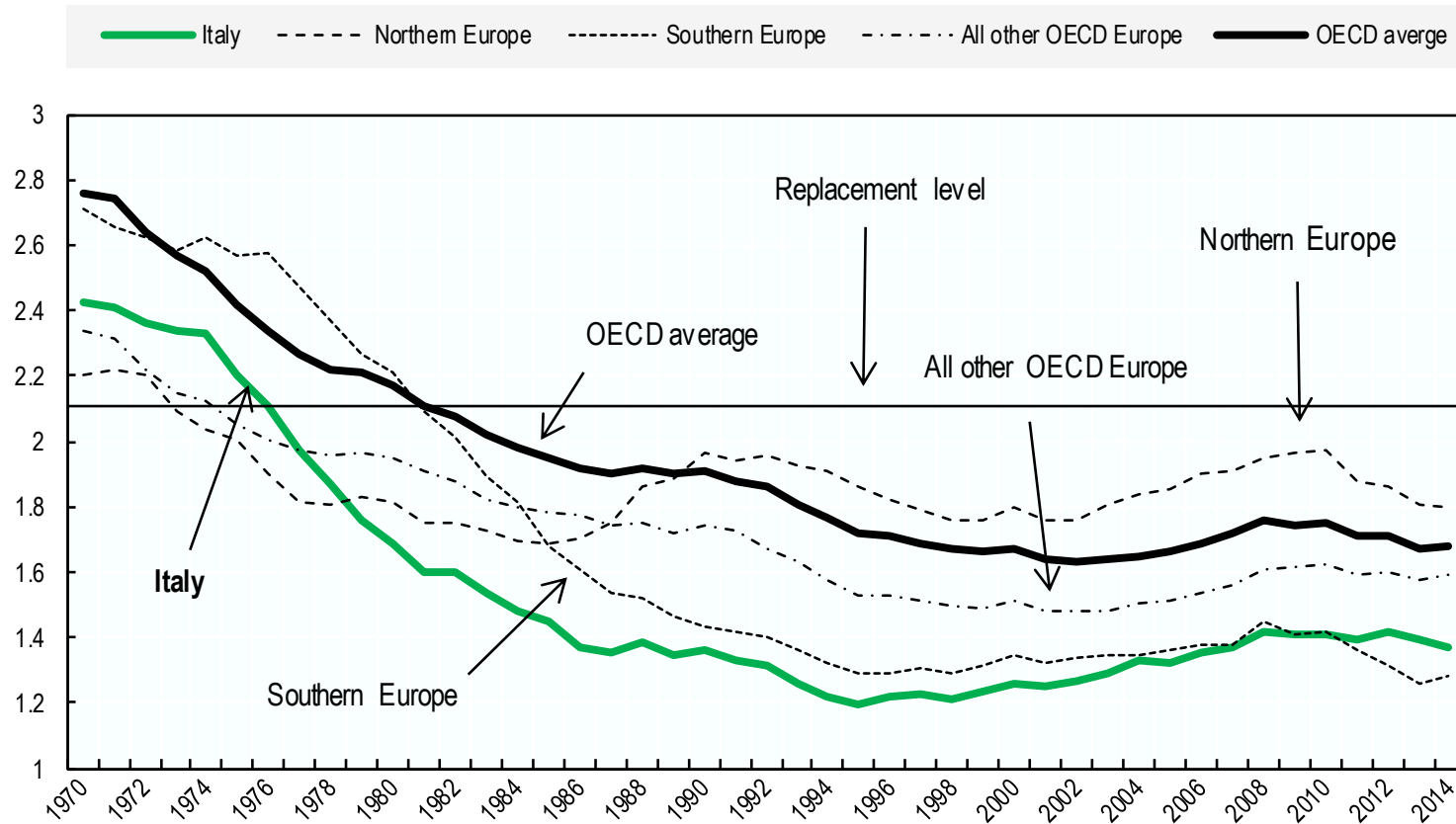


Sources: data from The 2012 Ageing Report, European Union



while population will tend to shrink...

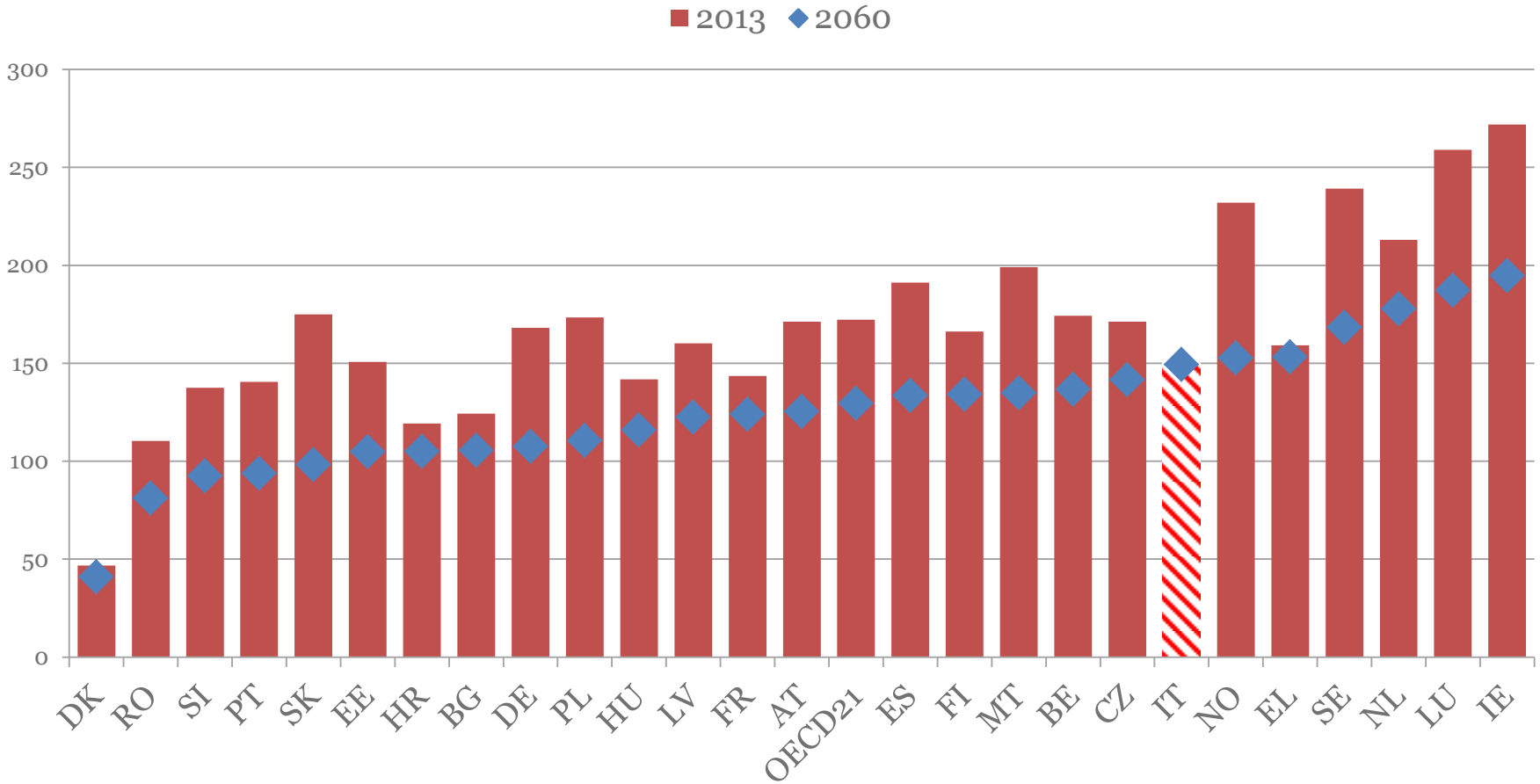
Total fertility rate, 1970-2014



Source: OECD (2015) OECD Family Database



Implying a smaller number of contributors for retirees in many countries...

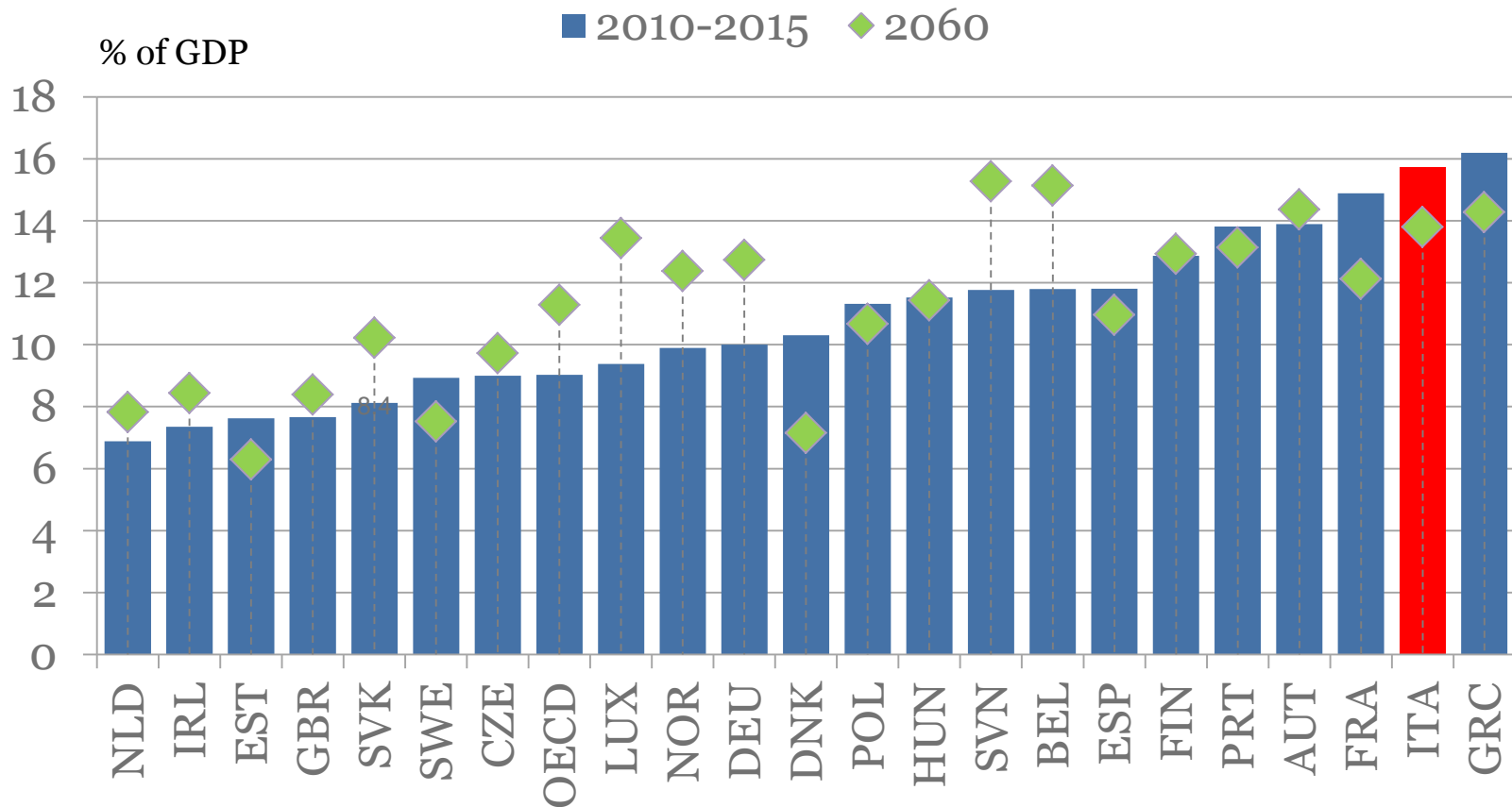


Number of contributors for 100 pensioners

Sources: data from EU (2015) The 2015 Ageing Report, European Union



In Italy: Public expenditure on pensions is predicted to decline by around 2 pp of GDP

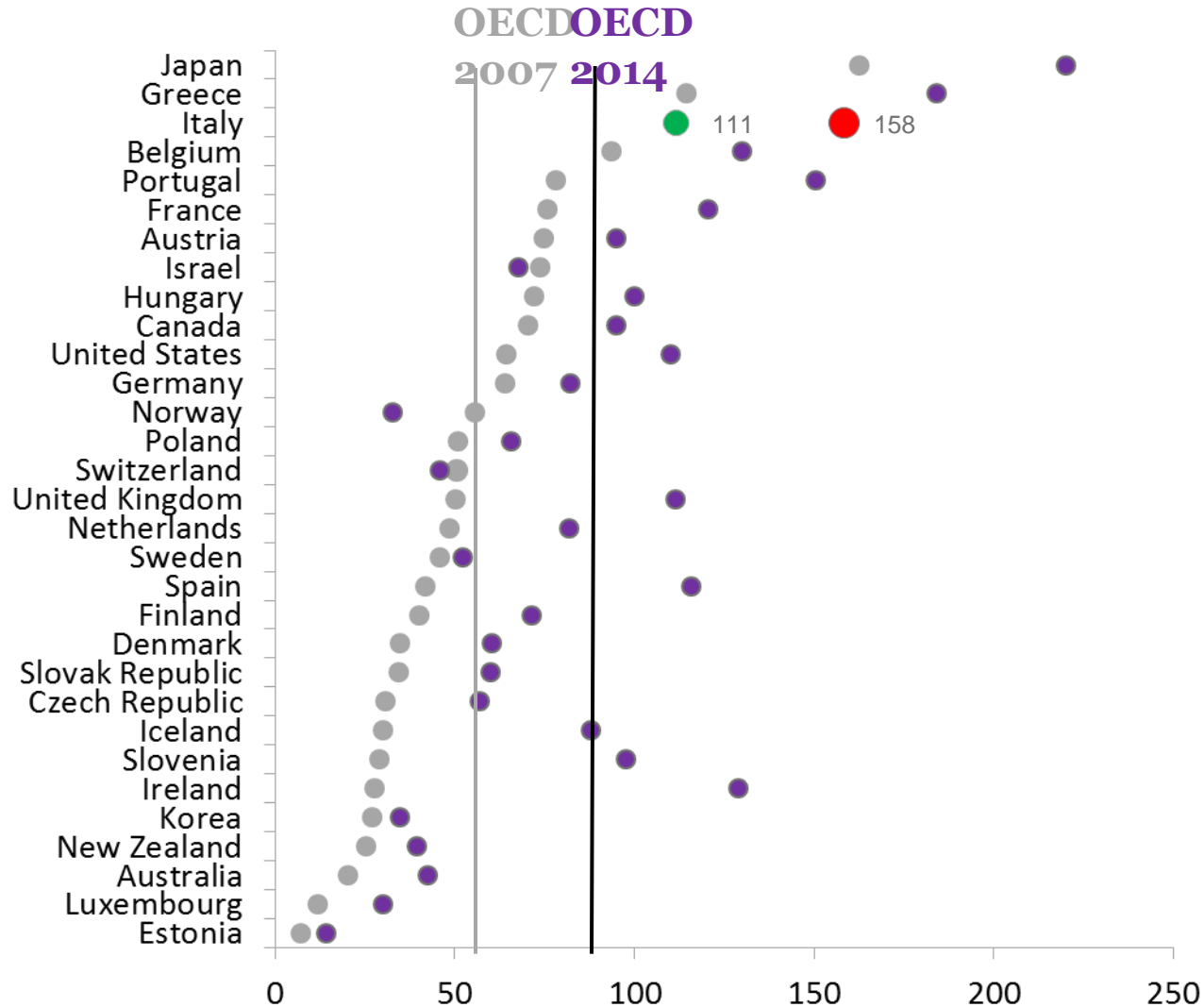


Source: EU (2015) *The 2015 Ageing Report*



But financial pressures are still relatively large

Pre- and post-crisis government gross financial liabilities, 2007 and 2014 (or latest year available) - % GDP



Source: OECD (2015), *OECD Economic Outlook 97 Database*, <http://dx.doi.org/10.1787/eo-data-en>.



Trends of pension reforms in OECD countries (1)

- Financial sustainability has driven many reforms in recent years
 - Retrenchment of public pensions
 - But low earners generally better protected
 - Net pension replacement rates according to OECD pension models 63% for average wage earners and 73% for low earners
- Expansion of private pensions ...but also reversal of previous reforms in some countries because of the crisis and the need for fiscal consolidation



Trends of pension reforms in OECD countries (2)

- Expanding coverage
 - Private and public pension
- Enhancing administrative efficiency and transparency of pension systems
 - Design of policies for funded schemes is important (see the OECD roadmap on DC in annex to the presentation)



Trends of reforms of the last decades

- Moving towards a tighter link between contribution and pension benefits
 - DC, NDC (SWE, ITA, POL, LTV, NOR);
 - NDC have some nice properties but need to be well designed .
- Extending working lives

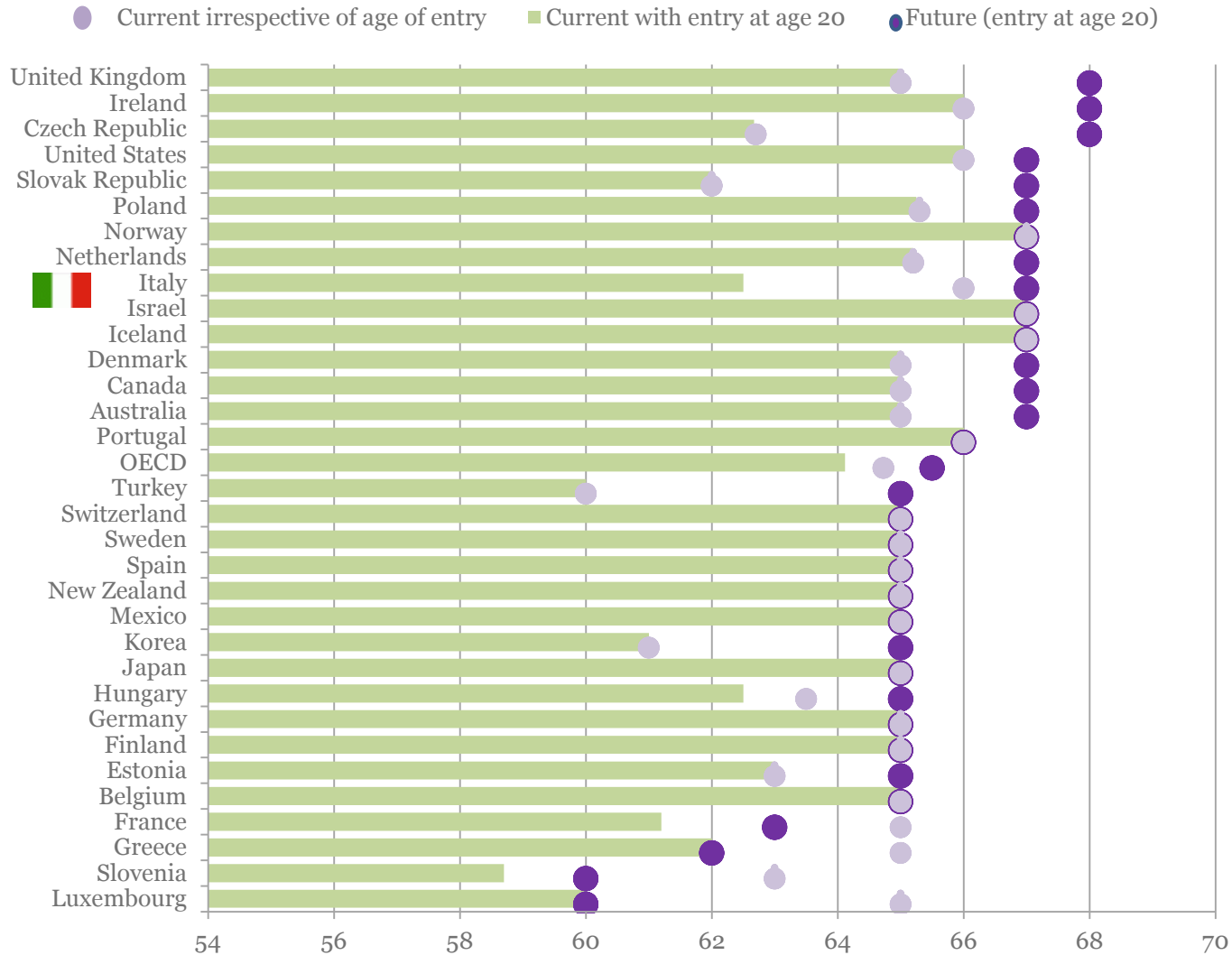


Extending working lives mandating working longer

- Retirement ages have increased
- Early-retirement schemes have been closed down and the access to those still existing has been tightened
- The access to alternative pathways such as disability and unemployment has been tightened
 - the benefits have been restricted to those ‘genuinely’ sick and unable to work (such as in CZE, DNK, FIN, FRA, GRC, HUN, POL and ESP)
- Job-search requirements have been tightened for older workers,
- Automatic adjustments (*linking*) have been introduced to increase retirement ages and to lengthen career length



Retirement ages will increase



Retirement ages, current and future



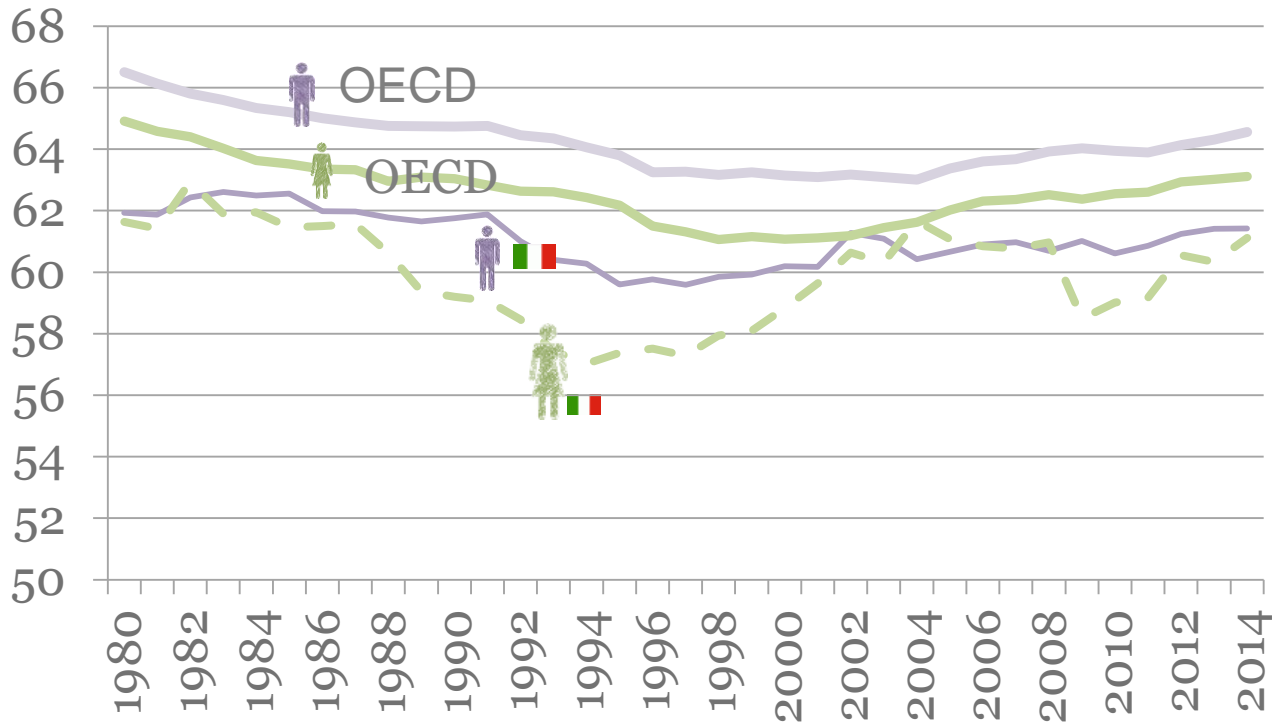


Extending working lives giving more choice

- Flexible retirement age with neutral/actuarial benefit formula
- Possibility to combine old-age pension and work without reduction
- More flexibility in late career
 - Increase penalties for early retirement
 - Increase bonus to defer retirement
- Abolish mandatory retirement



The effective age of labour market exit is rising



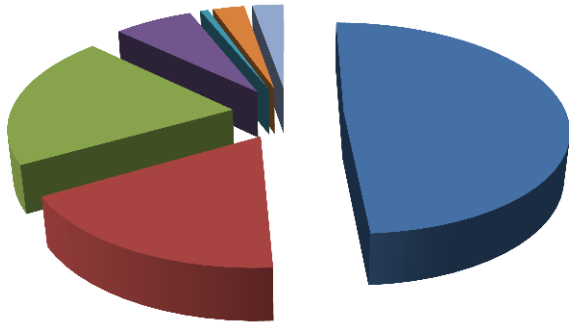
But remains low compared to the OECD average



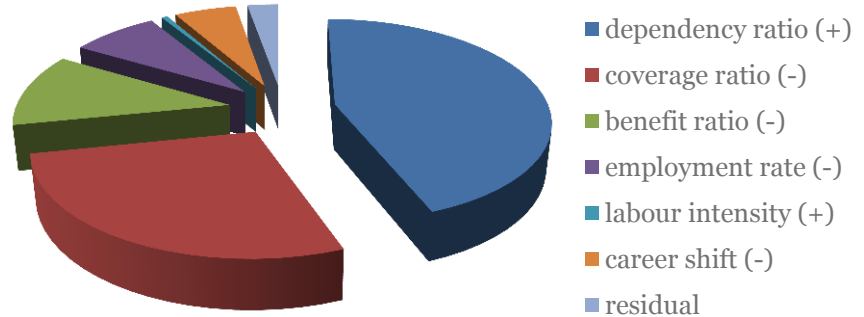


Promoting longer working lives is key for **both** financial sustainability

EU28:
11.3% GDP in 2013 to
11.1% GDP in 2060



Italy:
15.7% GDP in 2013 to
13.8% GDP in 2060



Decomposition of growth in pension spending (as a % of GDP)

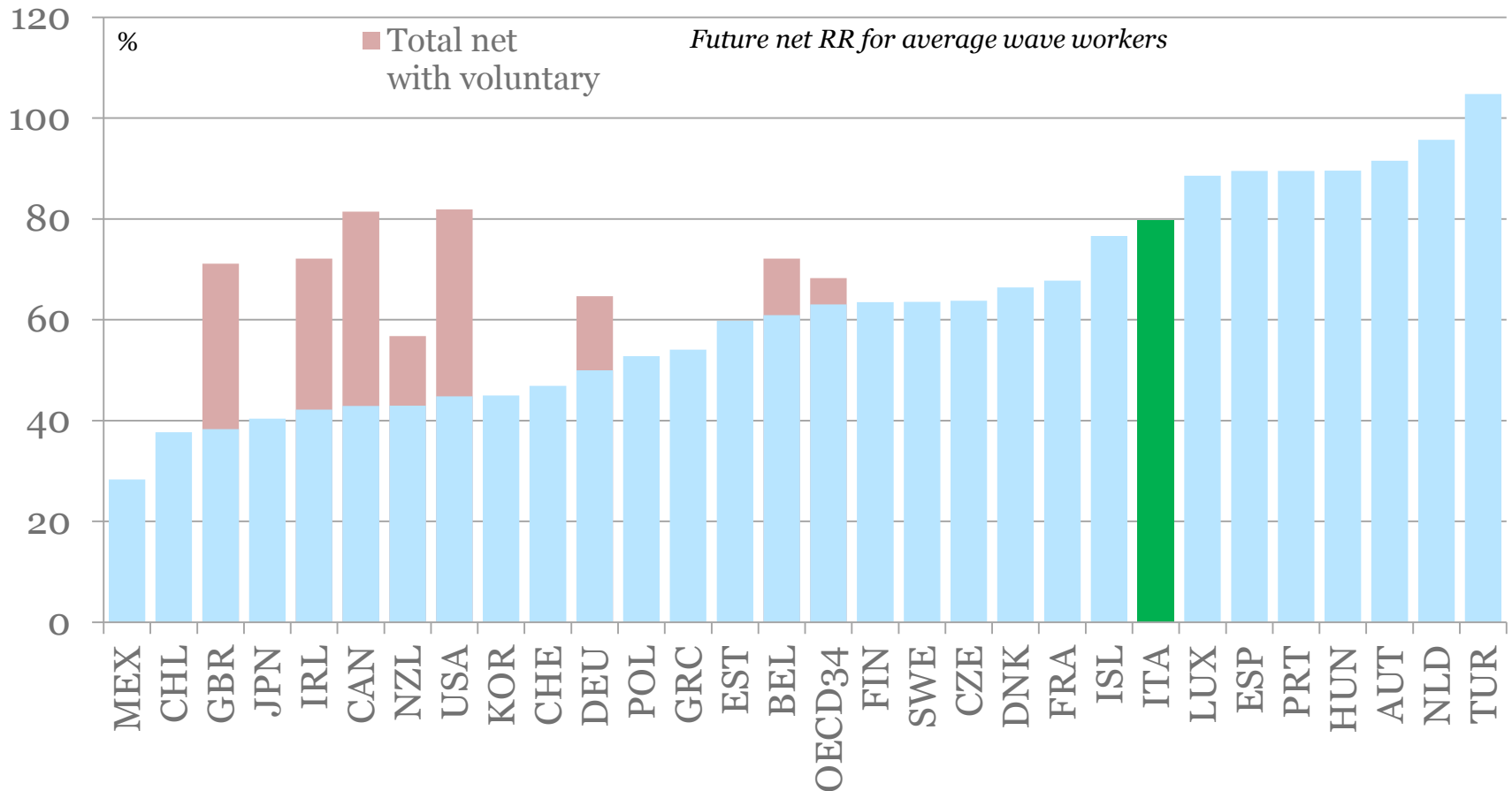
Note: - Implies a decline in pensions expenditure ; + implies an increase.

Source: Based on data extracted from EU(2015) The 2015 Ageing report

and retirement-income adequacy



But replacement rates for future retirees will vary substantially across countries...



In Italy they will be above average in case of a **steady and continuous career** from age 20 until RA

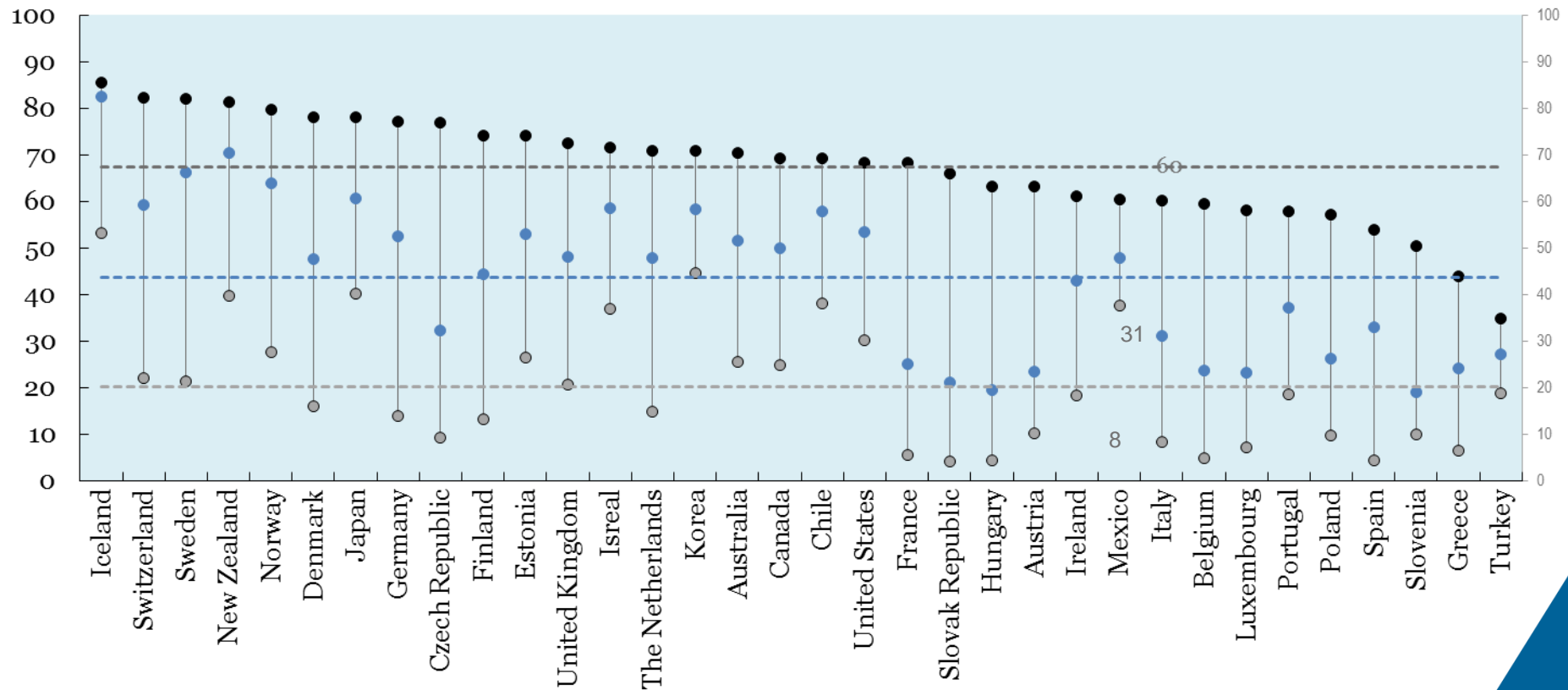
Source: OECD pension models



However, many workers are not employed, particularly in the older groups

Employment rates of workers aged 55-69, 2014

● 55-59 ● 60-64 ● 65-69 ----- OECD 55-59 ----- OECD 60-64 ----- OECD 65-69



Source: OECD Employment Outlook 2015.



Pension reforms: which challenges for the future?

- NDC is based on a strong link between contributions and pension benefits
 - Precarious careers and earnings profiles may have a strong effect on future pension entitlements
- How to best protect the most vulnerable?
- How to develop private pensions?

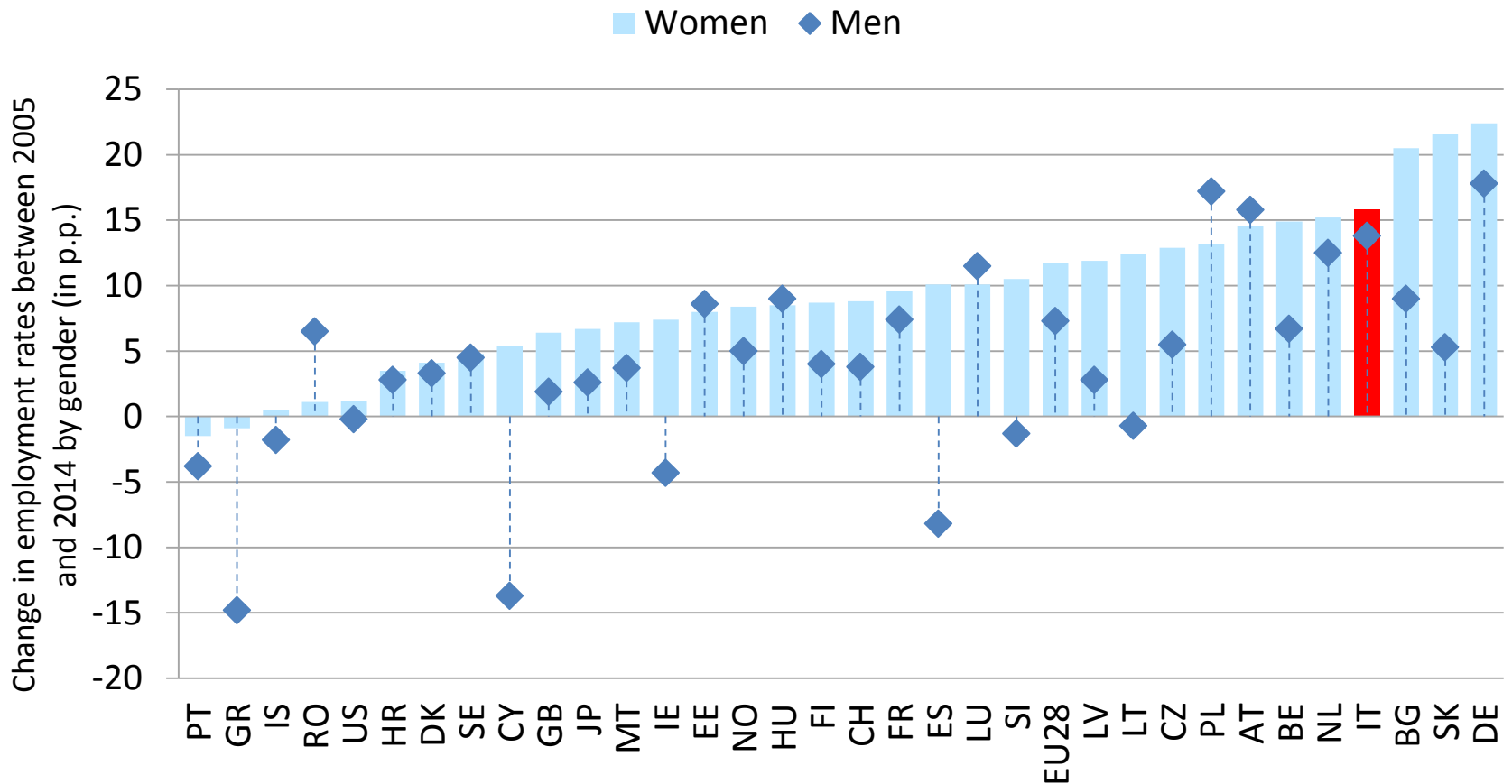


What are the risks?

- Intergenerational gaps are increasing:
 - Poverty is higher among young and prime-age people
 - Unemployment is very high and careers are more precarious
 - Employment rates of older workers have increased, while they have decline for young people but differences persist
 - Pensions are a long term issue: financial risks also matter



Employment rates of older workers have increased and largest contribution to this increase are by women but less in Italy relative to men



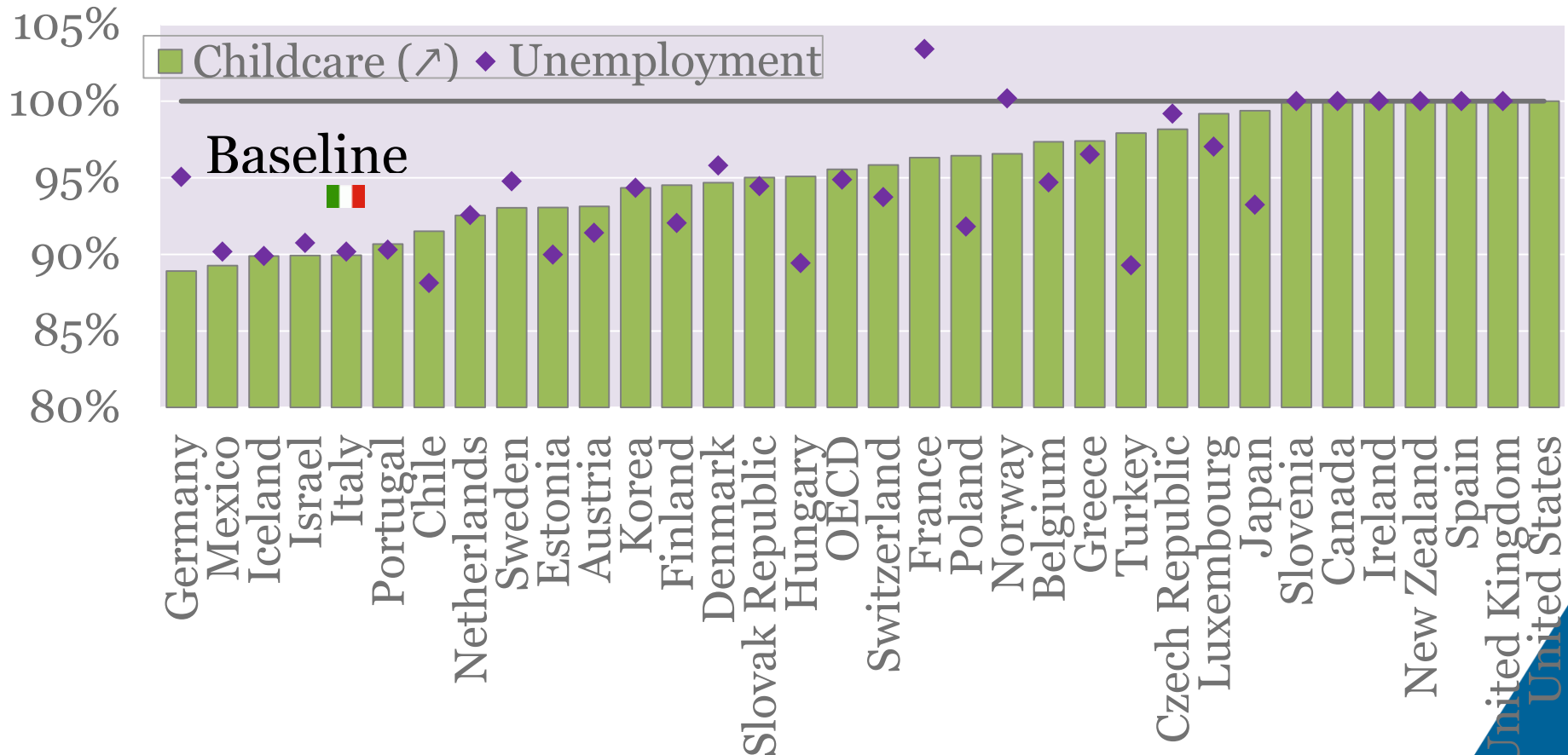
Source: Based on EU LFS data

But differences persist by gender, education, sector of activities, health status...



In Italy pension reductions for career breaks are already above average in a relatively optimistic scenario

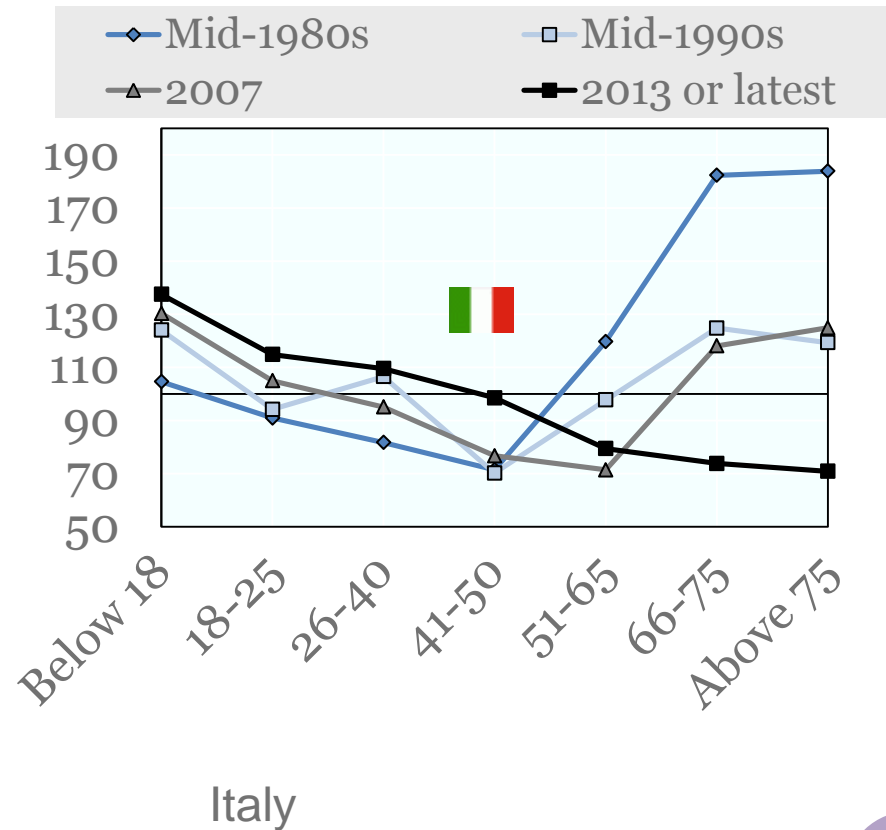
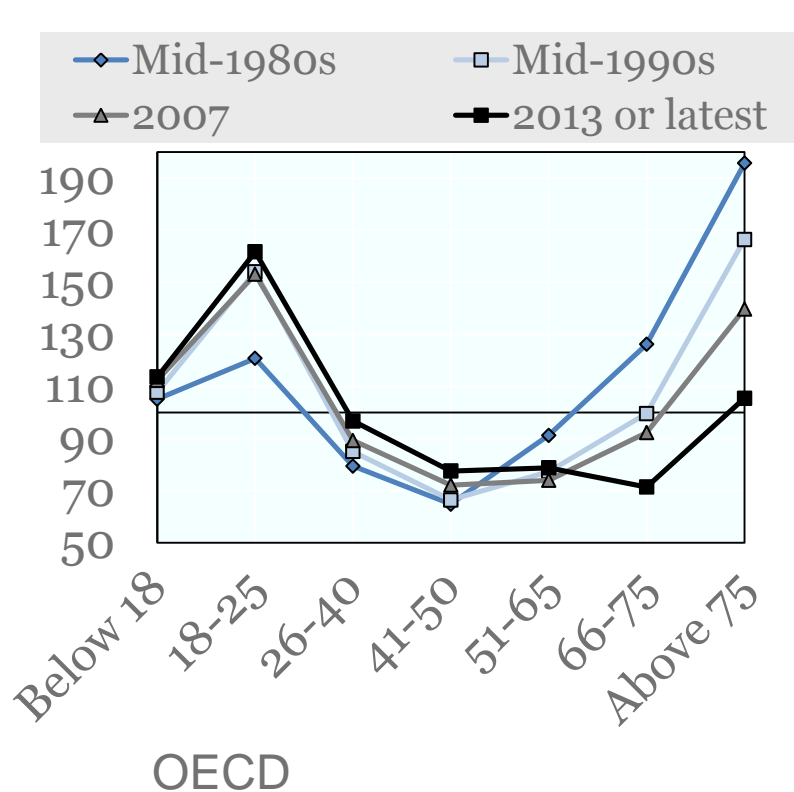
(Future) relative gross pension entitlements of someone who has a 5-year career-break relative to a full-career worker, %, average-wage worker





Poverty risks have shifted to the young over time

Poverty rates for each age group relative to population's



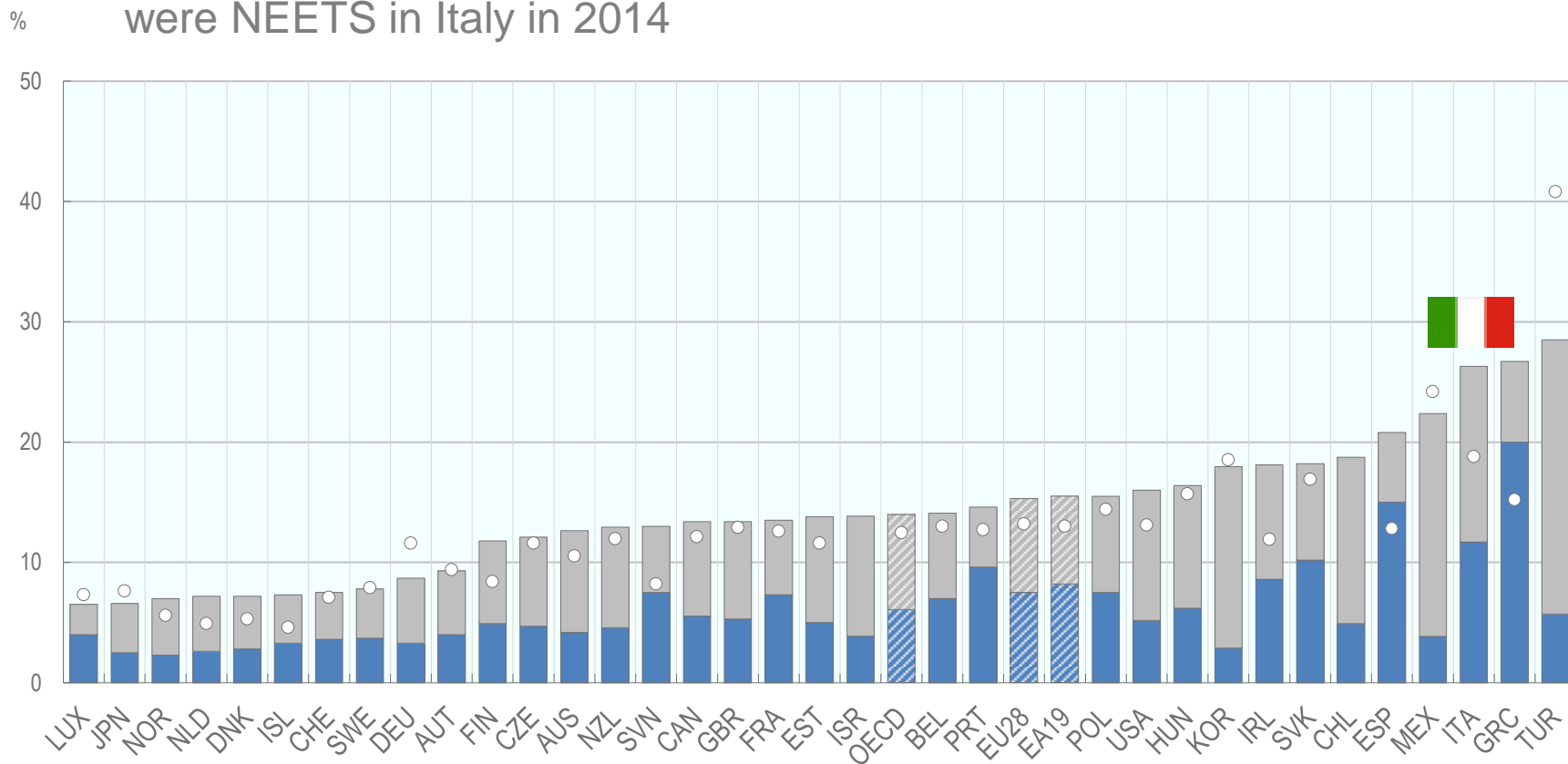
Relative poverty rate of the population in each year = 100





Young people experience delayed entry, more precarious careers and unemployment

More than ¼ of young people aged between 15 and 29 were NEETS in Italy in 2014





Safety nets are important

For those eligible both minimum and safety nets are weaker than in other countries

% of average earnings



But there is no longer any minimum pensions for workers in the NDC



Conclusion (1): Many challenges ahead...

- Pension spending is still set to increase in many OECD countries
- Future entitlements will generally be lower and depend more closely on labour and financial market performances.
- Retirement-income adequacy may become a major challenge for those who have not contributed enough.



Conclusion (2)

- There is no magic solution for a more sustainable, adequate and equitable pension system;
- Process of reforms has accelerated but there may be the need to do more
- Trade-off sustainability/adequacy will stay



Conclusion (3)

- In Italy the previous reforms have contributed to stabilise pension spending in the LT
- But the success of these reforms will depend on well functioning labour market for older workers
- Need to increase coverage for the self-employed and the informal sector



Conclusion (4)

- Need to develop labour market policies to effectively deliver longer working lives:
 - increasing retirement ages alone will not suffice
 - Does living longer mean working longer?
 - Does working longer also means working better?



Conclusion (5)

- Risk diversification is still important despite the financial and socio-economic context
 - However additional voluntary savings may be unaffordable
 - Need to think of «pensions» in a broader context
- Communication and information are crucial
 - Pension reforms have social and economics implications that matter



Conclusion (6)

- Safety nets for the most vulnerable are needed too
- Achieve different objectives at the same time (equity, security and adequacy of benefits, solidarity) ;
- Broad and comprehensive approach to ageing is essential
- A strong and competitive labour market is essential too



Pensions at a Glance 2015 OECD and G20 INDICATORS

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The OECD Roadmap for the good design of DC pension plans

1. Design DC pension plans coherently with structure of the pension system
2. Encourage people to contribute and contribute for long periods
3. Improve the design of incentives to Δ contributions and coverage
4. Promote low-cost retirement savings instruments
5. Establish appropriate default inv. strategies while providing choice
6. Favour life-cycle (LC) investment strategies as defaults
7. Encourage annuitization as a protection against LR
8. Promote the supply of annuities
9. Make it easier to deal with Longevity Risk
10. Ensure effective communication and address financial literacy

This Roadmap was approved by the OECD Working party on Private pensions in June 2012. For a full copy see

<http://www.oecd.org/daf/fin/private-pensions/50582753.pdf>