Editorial
The next frontier for pension policy: Focusing more on social sustainability

This sixth edition of *Pensions at a Glance* marks the tenth anniversary of the OECD's flagship series on pension systems and retirement incomes. Ten years of scrutiny of member and G20 countries' pension systems and policies, ten years of assessing and predicting workers' pension entitlements, and ten years of recommending reforms that lead to more financially sustainable pay-as-you-go pensions and also respond to citizens' need for stable and adequate incomes in old age.

The good news is that the OECD's call has been heeded in most countries around the world. The last decade has been a period of intense reform activity in the area of pensions, with governments changing key parameters of their retirement income systems and, in some cases, proceeding to overhaul the design of the pension schemes, often scaling down the ambition of public pensions and giving a larger role to funded defined contribution retirement provision.

The most visible progress has been made in raising official pension ages. Many countries have been moving this key parameter beyond the mark of 65 years. As highlighted in previous editions of *Pensions at a Glance*, 67 has indeed become the new 65, and several countries are going even further towards ages closer to 70. Raising the pension age has been politically difficult in many countries as it is a parameter that is easily understood; most citizens are not happy to be told that they will have to work longer, often for the same benefit, even though the time spent in retirement is still growing due to continuously increasing life expectancy.

Setting a legal norm, of course, does not mean that all people actually work up to these higher ages. Workers still leave the labour market well before reaching the official pension age in several OECD countries. The gap between official and effective retirement ages, however, is gradually shrinking. Over the past ten years, employment rates of workers aged 55 to 64 years have been rising substantially in many countries: from 45 to 66% in Germany, for example, from 31 to 46% in Italy, and from 52 to 57%, on average in the OECD.

The pension reforms undertaken over the past decade are biting. The combination of cuts in future pensions through higher pension ages, fewer options for early retirement, changes in the way benefits are calculated, and lower adjustments of pensions in payment on the one hand, and more people working and contributing longer, on the other hand, has greatly improved the financial sustainability of pay-as-you-go pension systems. The most recent projections of the European Union's Ageing Working Group, for example, foresee a stabilisation of public pension spending as a share of GDP between 2015 and 2060 for most European countries, and in some cases, even reductions in spending, although from a much higher levels than projected just a few years ago.

Does this mean that all is well and that countries have managed to solve the pension puzzle we described in previous editions of *Pensions at a Glance?* Unfortunately, the answer is no. Fixing the financial challenges of pay-as-you-go pension systems is only one part of the equation. The other part relates to social sustainability and whether pensions in the future will be sufficient to provide adequate living conditions for older people.

Today, the majority of OECD pensioners enjoy as good living standards as the average population. This is not surprising: many of today's retirees, at least men, have worked for most of their active years in stable jobs. However, a "job for life" and even a "career for life" are rare commodities for people starting out today. Unemployment rates, in particular among younger groups, continue to be high in many countries. While older workers were less hit by the economic crisis than in previous downturns, long-term unemployment rates in this group are still unacceptably high. And we need to be realistic: even with the best of efforts working longer is not an option for everybody; some people will have to retire early due to job strain and declining health no matter how high the pension age is set.

Time out of work means time out of the pension system. Even though many countries provide pension credits during periods of unemployment, maternity or sick leave, future pension entitlements will be lower for many workers, as Chapter 3 of this volume suggests given labour market developments over the last decades. And for the most unfortunate of tomorrow's pensioners, those young people who do not manage to enter the labour market, the outlook is even direr.

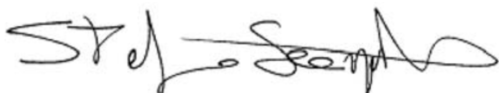
The second major challenge for adequate pensions for future retirees relates to the investment of retirement savings. When the financial crisis first struck, public attention focused on the impact on pension funds and the losses that some workers had to shoulder. As we showed at the time, in most countries vulnerable retirees were largely protected from falling into old-age poverty through the interplay of private and public pension systems, but many middle-class workers who were close to retirement were forced to radically change their plans for their life after work.

New longer-term difficulties have emerged in the aftermath of the financial and economic crisis. The current low-growth, low-interest rate environment is making it difficult to earn the returns necessary to reach adequate pension levels, both for individual savers and financial service providers who offer life insurance and annuity contracts and have to honour their obligations. In addition, mortality tables used in many countries do not fully incorporate projected improvements in life expectancy. This can lead to pension funds and life insurers starting to look for higher yields and to pursue riskier investment strategies that could ultimately undermine their solvency. Apart from posing financial sector risks, this behaviour potentially jeopardises both current and future retirement income security.

Pension savings are ideally made over a long period over which returns might substantially rise again, but this is difficult to predict with any degree of certainty. One trend that is certain, however, is the shift from defined-benefit schemes, where the employer shoulders the risk, to defined-contribution schemes, where the risk lies with the individual worker. This trend, well entrenched in occupational pension schemes, is also observed in public pension schemes with much closer links between workers' contributions and their pension benefits, and benefit formulae which more and more often take into account increases in life expectancy.

After having put pension systems on a more sustainable financial track, policy makers now have to turn their attention to also ensuring that pension systems provide adequate retirement incomes to all workers. As discussed in Chapter 2 of this volume, all countries have old-age safety nets in place, but in some cases these are still not strong enough to protect most of the elderly from falling into old-age poverty. But adequacy is not only about preventing poverty. More than ever before we now need consistent and coherent coordination of labour market, social, pension and financial sector policies to ensure that people's careers and life-courses are accompanied by the most effective measures helping them to maximise their chances of retiring comfortably in the future. Many countries are offering pension calculators in order to show people what benefits they may expect in

the future based on their personal career and contribution developments. These real-life tools complement the OECD's pension calculator and can help raise awareness both among individuals and policy makers. Let us make sure that they are used in time and prompt action to prevent people from encountering nasty surprises when it is too late to change course. We at the OECD are looking forward to the next decade of supporting countries and policy makers around the world in their analysis of pension systems and their design of pension reforms.



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