

## Executive summary

This edition of *Pensions at a Glance* reviews and analyses the pension measures legislated in OECD countries between September 2017 and September 2019. As in past editions, a comprehensive selection of pension policy indicators is included for all OECD and G20 countries. Moreover, this edition provides an in-depth review of different approaches to organising pensions for non-standard workers.

### **Vigilance is needed not to jeopardise the progress achieved to make pensions more sustainable**

Pressure persists to maintain adequate and financially sustainable levels of pensions as population ageing is accelerating in most OECD countries. In 1980, there were 2 people older than 65 years for every 10 people of working age in the OECD. That number will have increased to slightly over 3 in 2020, and is projected to reach almost 6 by 2060. The working-age population, measured using fixed age thresholds, is projected to decrease by more than one-third by 2060 in several countries.

Several measures legislated since September 2017 have rolled back previous reforms. Recent reforms have loosened age requirements to receive a pension, increased benefits and expanded coverage. Contribution rates were changed in Hungary, Iceland and Lithuania; old-age safety nets and minimum pensions increased in Austria, France, Italy, Mexico and Slovenia as well as benefits for low earners in Germany, while Spain suspended measures (sustainability factor and revalorisation index) to deal with financial pressures due to ageing. Only Estonia has raised the retirement age. By contrast, Italy, the Netherlands and the Slovak Republic expanded early-retirement options or limited previously announced increases in the retirement age.

With improving economic conditions, financial pressure to reform pension systems has eased and it is understandable that some countries want to soften unpopular measures introduced in a crisis context. However, while financial pressures on pension systems were exacerbated by the crisis, they often also reflected structural weaknesses. Backtracking on reforms that address long-term needs may leave pension systems less resilient to economic shocks in the future and unprepared to face population ageing.

Based on currently legislated measures, slightly more than half of OECD countries are increasing the retirement age, from 63.8 years currently to 65.9 years on average by about 2060. This represents half of expected gains in life expectancy at age 65 over the same period, implying that by themselves, these changes will be insufficient to stabilise the balance between working life and retirement.

Taking into account recent reforms, future net replacement rates from mandatory schemes for full-career average-wage workers equal 59% on average, ranging from close to

30% in Lithuania, Mexico and the United Kingdom to 90% or more in Austria, Italy, Luxembourg, Portugal and Turkey. Replacement rates based on full careers are projected to fall over the next decades in most OECD countries.

### **Why does non-standard work raise pension concerns?**

Non-standard workers are a very diverse group, including part-time and temporary employees as well as the self-employed, which account for more than one-third of employment in OECD countries overall. The development of new forms of work might weaken the income prospects of future generations of retirees.

The self-employed generally pay lower pension contributions than employees with the same taxable income. They contribute in a similar way as employees in only ten OECD countries. A high degree of discretion in setting the contribution base, no requirement to participate in earnings-related schemes, reduced incentives to contribute to voluntary schemes and lower nominal contribution rates are the most important factors explaining lower pension contributions. This can have severe consequences for the pension benefits of the self-employed today and in the future, and for the overall capacity to finance adequate pensions.

Upon retirement, former self-employed people tend to have lower public pensions than former employees, and non-standard workers in general have more limited access to funded pension arrangements. Across the OECD, based on mandatory contributions, self-employed workers will receive an old-age pension that is 20 percent below the benefit of former dependent employees having the same taxable income over the working life.

### **Many countries can take steps to improve the pension outcomes of non-standard workers**

Reforms of pension systems that mitigate disparities between standard and non-standard workers in terms of coverage, contributions and entitlements would ensure fairer protection, reduce inequalities, pool risks as broadly as possible and facilitate labour mobility across job types.

Setting minimum earnings requirements for pensions at sufficiently low levels would remove some barriers that temporary and part-time workers face in meeting pension eligibility conditions. The need for equal treatment of all labour income implies not excluding temporary work contracts, irrespective of their duration, from mandatory pension protection and abolishing any minimum tenure or vesting periods for acquiring pension entitlements.

Fully including all non-standard workers in mandatory pensions in the same way as standard workers limits the financial incentives employers and workers might have to misuse non-standard employment. Ensuring the portability of pension rights and assets helps individuals who are changing jobs to keep saving in the same arrangement, or to transfer their vested rights. Limiting leakages from the funded pension system originating from job changes and early-withdrawal possibilities would improve coverage and old-age security. Moreover, voluntary occupational schemes and auto-enrolment schemes should be available for all contract types through default plans in countries where they are available for dependent workers.

The reasons to mandate pensions for dependent employees equally apply to the self-employed. Aligning pension rules across all forms of work means equalising total - the

sum of employee and employer - contribution rates for all workers. In particular, the large degree of flexibility in defining the contribution base for the self-employed tends to lead to low contributions. However, formally limiting such flexibility might not be sufficient to prevent low levels of contributions and appropriate compliance measures might be needed. If lower mandatory pension contributions for the self-employed are used as an instrument to promote self-employment or to support those in low-earning activities, resulting lower entitlements should be avoided by topping up the lower implied contributions through subsidies, at least for low earners.



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