

## Executive summary

This edition of *Pensions at a Glance* reviews and analyses the pension measures enacted or legislated in OECD countries between September 2015 and September 2017 and provides an in-depth review of flexible retirement policies. As in past editions, a comprehensive selection of pension policy indicators is included for all OECD and G20 countries.

### **Pension reforms have been fewer and less widespread than in previous years**

Since 2015, the pace of pension reforms in OECD countries has slowed and reforms have been less widespread. Improving public finances have eased the pressure to reform pension systems. However, some countries have changed retirement ages, benefits, contributions or tax incentives. Canada, the Czech Republic, Finland, Greece and Poland took far-reaching measures, with some of them reversing previous reforms.

Over the last two years, the statutory retirement age was changed in six countries. About one-third of OECD countries changed contributions and another third modified benefit levels for all or some retirees. Based on legislation, the normal retirement age will increase in about half of OECD countries, with links to life expectancy in Denmark, Finland, Italy, the Netherlands, Portugal and the Slovak Republic. On average, the normal retirement age will increase by 1.5 years for men and 2.1 years for women, reaching just under 66 years around 2060. This means that, on average, the retirement period will increase relative to people's working lives.

Three countries have future retirement ages over 68 years: Denmark, Italy and the Netherlands. By contrast, the normal retirement age will remain below 65 only in France, Greece, Luxembourg, Slovenia and Turkey for full-career workers. Moreover, only Israel, Poland and Switzerland will maintain a gender gap in the retirement age.

Concerns about the financial sustainability of pension systems and retirement income adequacy remain, given the projected acceleration of population ageing, higher inequality during the working age and the changing nature of work. Past reforms addressing financial sustainability will lower pension benefits in many countries.

The net replacement rate from mandatory pension schemes for full-career average-wage earners entering the labour market today is equal to 63%, on average in OECD countries, ranging from 29% in the United Kingdom to 102% in Turkey. Replacement rates for low-income earners are 10 points higher, on average, ranging from under 40% in Mexico and Poland, to more than 100% in Denmark, Israel and the Netherlands.

In non-OECD G20 countries, South Africa has a very low projected net replacement rate, of 17% for average earners from the mandatory component. By contrast, future net replacement rates are higher than 80% in Argentina, China and India. Of these countries

only Indonesia implemented a major reform over the last two years by introducing a mandatory defined benefit pension scheme.

### **Flexible retirement: what it means, why it matters**

Flexible retirement is the ability to draw a pension – full or partial – while continuing in paid work, often with reduced working hours, or to choose when to retire. Longer lives, the increasing diversity of work trajectories and the growing desire for more autonomy in the retirement decision are motivating calls for rules that allow individuals to decide when and how to retire.

Many workers want greater retirement flexibility. However, take-up rates are relatively small. In Europe, about 10% of individuals aged 60-64 or 65-69 combine work and pensions. And about 50% of workers older than 65 work part-time on average in OECD countries; this share has been stable over the past 15 years.

### **Steps to improve flexible retirement opportunities**

Most OECD pension systems allow combining work and pensions after the normal retirement age, albeit with some disincentives. In Australia, Denmark, Greece, Israel, Japan, Korea and Spain earnings limits apply, beyond which pension benefits are reduced. In France, working pensioners fully withdrawing their pension do not earn any additional pension entitlements despite paying contributions.

The situation is more complex before the normal retirement age. Flexibility to retire fully before the normal retirement age is strongly restricted in more than half of OECD countries. In another fifteen countries, retiring a few years early is allowed and pension benefits are reduced in line what is justified by actuarial principles.

While eleven countries allow combining work and early pension within some limits, few have early partial retirement. Whether pensioners would benefit from enhanced partial retirement opportunities depends on their capacity to make well-informed choices to avoid jeopardising their final retirement incomes. Financial literacy plays an important role in that respect.

Barriers to flexible retirement also exist outside the pension system, especially in the labour market or in cultural acceptance of part-time work, limiting the freedom in retirement decision.

Postponing retirement will lead to higher pension entitlements in the vast majority of countries. In Estonia, Iceland, Japan, Korea, and especially Portugal, the financial incentives to continue working after the retirement age are large and go beyond the increases that would be justified to compensate for the shorter retirement period.

Chile, the Czech Republic, Estonia, Italy, Mexico, Norway, Portugal, the Slovak Republic and Sweden offer flexible retirement for the baseline OECD case. These countries allow: combining work and pensions flexibly after the retirement age, in particular without any earnings limitations; reward postponing retirement; and, do not heavily penalise retiring early. In Italy and the Slovak Republic, however, people entering the labour market today will only be offered flexibility at ages higher than 67 and 66 years, respectively.

Real choice in making the retirement decision means that postponing retirement should be sufficiently rewarding to compensate for lost pension years; on the other hand, retiring a few years before the normal retirement age should not be overly penalised.

However, flexibility should be conditional on ensuring the financial balance of the pension system, which implies that pension benefits should be actuarially adjusted in line with the flexible age of retirement. Moreover, some people might underestimate their future needs and retire too early with insufficient future pensions. Policies that de facto restrict early flexible retirement might therefore be needed; the early retirement age should be set high enough to make sure that individuals accumulate sufficient pension entitlements.





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