Pensions at a Glance 2015
OECD and G20 indicators
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Chapter 1

Recent pension reforms

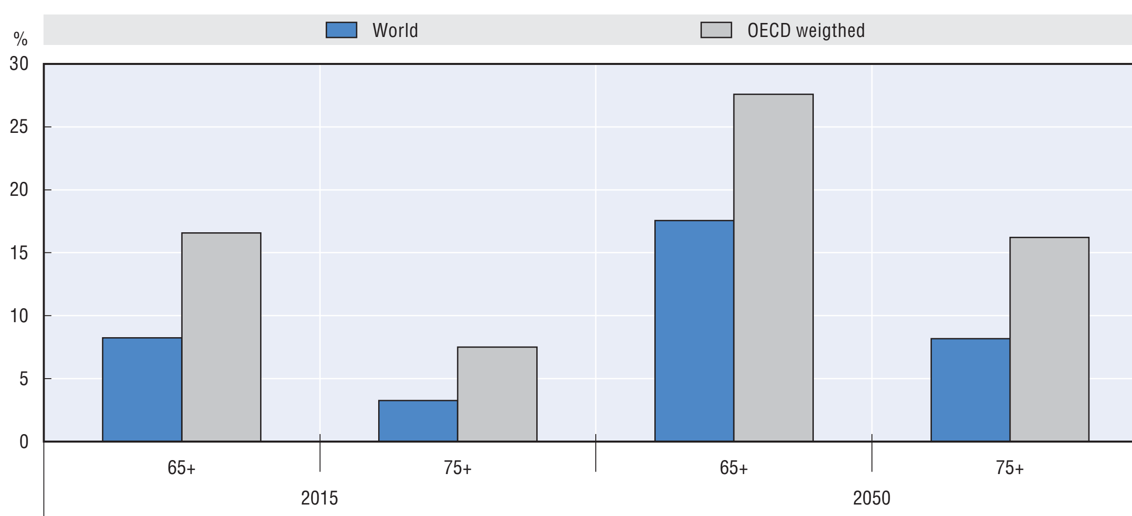
This chapter sets out the most important elements of pension reform in the 34 OECD countries between September 2013 and September 2015. It updates and extends the analysis from the 2013 edition of OECD Pensions at a Glance *which examined pension reforms from January 2009 to September 2013. The time period analysed here has been characterised by sluggish economic growth and increasing government debt. Countries have responded by measures aimed at limiting public pension expenditure while also addressing adequacy concerns in rapidly ageing societies.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

1.1. Introduction

Pension systems are striving to deliver adequate retirement income while remaining financially sustainable. Population ageing driven by increasing longevity and low fertility rates poses a persistent challenge. The share of individuals aged 65 and above will increase from 8% of the total world population in 2015 to almost 18% by 2050 (Figure 1.1), and from 16% to 27% in the OECD. In the OECD, the share of the population older than 75 years will be similar in 2050 to the share older than 65 years today. Ageing directly affects the financing of pay-as-you-go (PAYG) pension schemes, as a decreasing number of working-age people has to sustain pension levels for an increasing number of elderly. Ultimately, however, even defined-contribution (DC) schemes are not immune to the lowering of the economy's output potential which might be induced by demographic changes.

Figure 1.1. **Share of elderly older than 65 and 75 in the total population**



Source: United Nations (2013), *World Population Prospects: The 2012 Revision* and OECD calculations.

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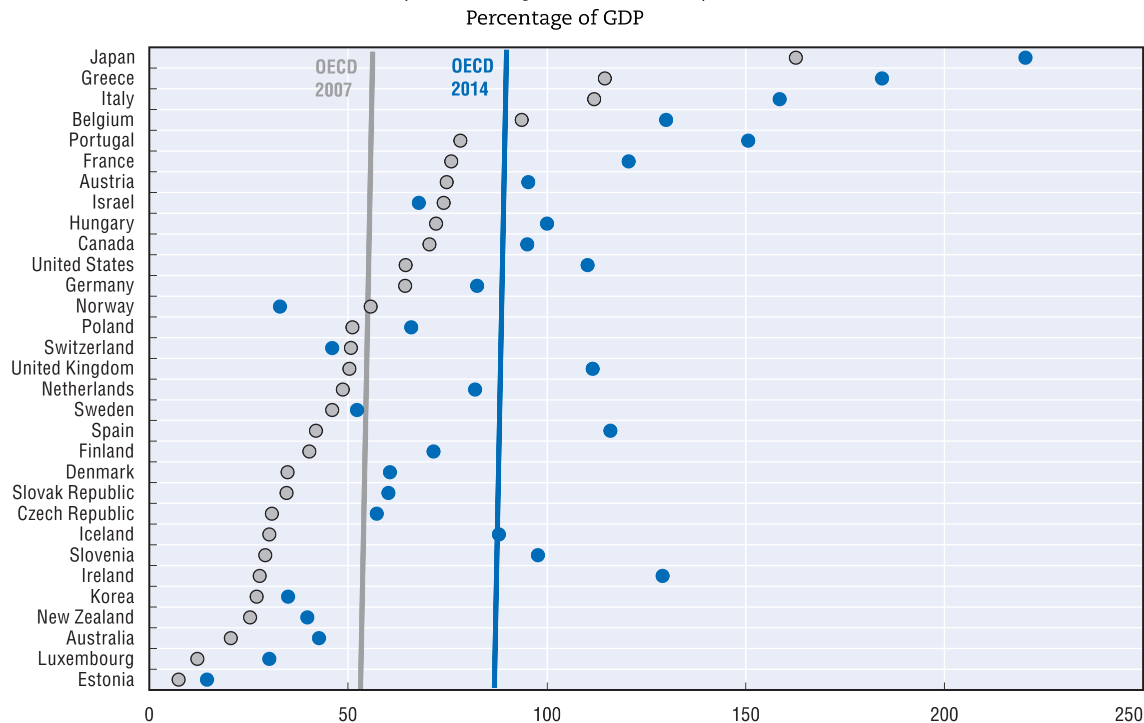
The economic crisis and its aftermath of sluggish economic growth and large government debt levels in many OECD countries have added further strains. Stubbornly high unemployment in many countries and record-low interest and inflation rates persist (OECD, 2015c). Financial sustainability has thus become a concern for the present rather than for the future. Government gross financial liabilities (debt) have increased from 55% of GDP in 2007 to 88% in 2014 on average across OECD countries (Figure 1.2). Given that public pension expenditure represents on average 18% of total public spending across OECD countries (see indicator "Public expenditure on pensions" in Chapter 9), pension reform is typically part of the strategy followed by countries that need to consolidate public finances and curb debt ratios by acting on the spending side.

This chapter reviews and analyses the pension measures enacted or legislated between September 2013 and September 2015. Many OECD countries have recently been implementing reforms that will limit future pension expenditure. According to the latest projections, pension

Figure 1.2. **Pre- and post-crisis government gross financial liabilities, 2007 and 2014 (or latest year available)**

Percentage of GDP



Note: Gross debt data are not always comparable across countries due to different definitions or treatment of debt components. Data for Austria, Iceland, Ireland, Israel, Japan, and Luxembourg is 2013: Switzerland 2012.

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

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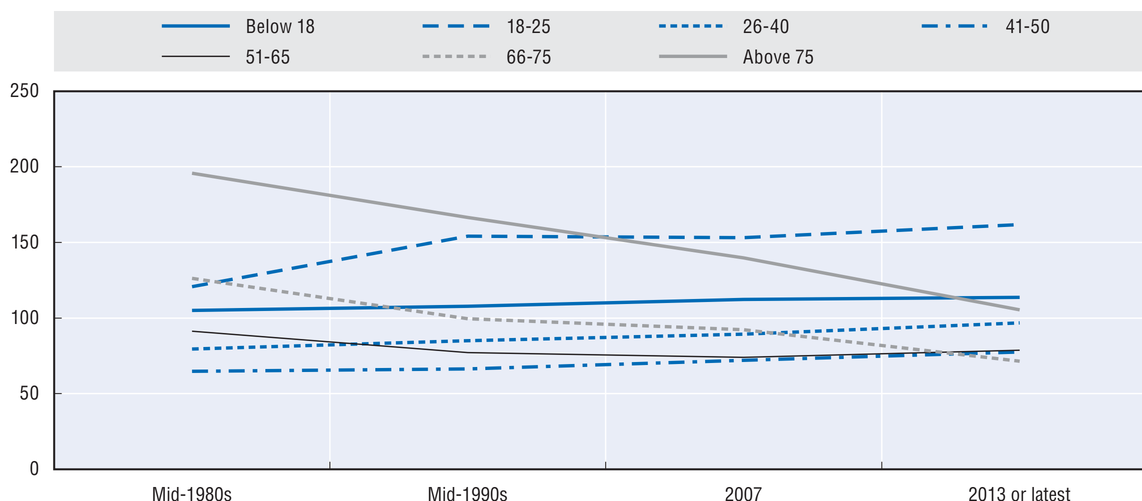
expenditure would increase from the current level of 9.0% of GDP to 10.1% in 2050 on average in OECD countries.[1] This is lower than the 2013 forecasts which projected pension expenditure to grow to almost 12% of GDP in 2050 (OECD, 2013). Changes in the projections are mainly driven by those made for EU countries: public expenditure on pensions is projected by the EU Ageing Working Group to be roughly stable as a share of GDP (see indicator "Long-term projections of public pension expenditure" in Chapter 9). The average increase is to a large extent driven by Korea and Turkey with the maturing of their pension system in the context of population ageing.[2]

The success of reforms aiming at containing future pension expenditure will depend on both the effective implementation of previously agreed measures and maintaining the momentum for further pension reforms. Particularly those that encourage individuals to work more and longer strengthen the productive capacities of the economy and thereby improve the scope of pension systems to deliver adequate retirement income promises. However, for those unable to extend their working lives, there is a risk that benefits may be insufficient to prevent a sharp fall in standards of living and even poverty in old age.

Relative income poverty rates of the elderly have fallen since the mid-1980s, thus implying higher incomes relative to other groups in society, at least at the bottom of the income distribution (Figure 1.3). While in the mid-1980s individuals over 75 were by far more likely to be poor than other age groups on average, poverty risks have now shifted towards the young; relative old-age poverty has steadily and substantially declined, and the 66-75 age group is now the least at risk of poverty on average in the 18 countries where data are available for the whole period. In contrast, the young are currently the age group that is most likely to face poverty (Figure 1.3).

Figure 1.3. **Poverty has shifted from the old to the young across OECD countries**

Relative poverty rate of the entire population in each year = 100, mid-1980s to 2013 or latest year available



Note: OECD un-weighted average for 18 OECD countries for which data are available from the mid-1980s: Canada, Denmark, Finland, France, Germany, Greece, Israel, Italy, Japan, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Sweden, Turkey, the United Kingdom and the United States.

Source: *OECD Income Distribution Database*, *www.oecd.org/social/income-distribution-database.htm*; OECD (2014), *Income Inequality Update – June* 2014, OECD Publishing, Paris, *www.oecd.org/els/soc/OECD2014-Income-Inequality-Update.pdf*.

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This shift might translate into more or less severe difficulties later on in life. Being not in employment, education or training (NEETs) for a long period at an early stage in the career could be detrimental to the labour market trajectory, family formation, health outcomes and eventually to retirement income. Chapter 3 has a special focus on how incomplete careers and in particular late entrance into stable employment might affect pension entitlements.

Key findings

Most OECD countries have been active in changing their pension system since the last publication of *Pensions at a Glance* (OECD, 2013). Efforts were mostly driven by the widespread need for fiscal consolidation, and a majority of countries indeed implemented reforms to improve the financial sustainability of their pension systems. Some countries have done so while maintaining or improving retirement income adequacy, at least for some population groups.

Improving financial sustainability

- The most popular measure was to strengthen the incentives to work by increasing the minimum retirement age and/or the main retirement age, thereby enlarging the contribution base while preserving adequacy for those who are able to work longer.
- Almost no country resorted to direct nominal benefit cuts. When benefits were directly reduced, this only happened by switching to a narrower targeting, or by introducing adjustments in the initial pension benefit for new retirees.
- A much larger number of countries changed the indexation of pension benefits to less generous uprating mechanisms.
- Many countries raised revenues by increasing taxes or contribution rates in defined-benefit systems.
- Measures to curb pension administration costs were quite common.

Increasing retirement-income adequacy

- Several countries have taken measures to increase the coverage of voluntary private pension schemes.
- Some countries awarded retroactive pension credits or reduced the impact of missing years of contributions on pension levels.
- In some defined-contribution schemes, contribution rates have been increased, while some countries chose to reduce the effective taxation of pensioners' income.
- In a number of countries management costs have been lowered and several improvements were made to the security of pension investments.

The remainder of the chapter is structured as follows. Section 1.2 presents an overview of the pension reforms undertaken or decided over the last two years in OECD countries and their possible effects on improving financial sustainability and increasing retirement-income adequacy. Section 1.3 focuses on measures which should enhance the financing of pension systems, by distinguishing those that would reduce benefits from the others. Section 1.4 analyses the measures taken to improve income adequacy. Section 1.5 summarises the main recent pension policy changes and discusses remaining challenges. Some details of the reforms summarised in this chapter are provided in the Annex Table 1.A1.1 at the end of the chapter.

1.2. Overview of reforms

Nearly all OECD countries were active in changing their retirement-income provision systems between September 2013 and September 2015. An overview of the expected effect of reforms on improving financial sustainability and income adequacy, and of their assessed impact and scope is presented in Table 1.1. All reforms are graded from negative (-), unclear (blank) to positive (+). If a country has implemented reforms for which the sign of the expected effect is mixed both + and - grades are shown. The assessed scope ranges from narrow, medium or broad: a narrow reform affects only a small number of people while a broad reform affects a large proportion of the population. Likewise, the assessed impact ranges from minor, moderate to major, depending on the expected quantitative impact on targeted people.

This framework illustrates the key trade-offs between improving financial sustainability and increasing pension adequacy. For example, in a system in which there is a weak link between contributions and benefit payments, such as in defined benefit schemes, increases (reductions) in pensions deteriorate (improve) financial balances. Consequently, the countries that achieve a double plus in the Table 1.1 took a combination of measures, such as increasing contributions in defined contribution schemes and raising retirement ages or cutting pathways to early retirement. This for example happened in Australia where the contribution rate is planned to increase as is the retirement age.

- In 14 OECD countries the focus has been on increasing financial sustainability often through a longer working life. Making people work longer is appealing when the effective retirement age is low, especially given increasing longevity prospects, but requires that both employees and employers adapt their behaviour in order to lengthen working lives and maintain adequate incomes over retirement.
- Improving income adequacy was also common as 11 OECD countries introduced measures that will improve pension benefits at least for some groups of people.
- In several countries measures with mixed outcomes were implemented.
- The scope of the reforms is expected to be broad in 14 countries, medium in nine and narrow in three.
- The overall impact assessment is more balanced. In three OECD countries it is regarded as major whereas it is assessed as moderate in 13 countries and minor in ten countries.

- The countries that did not make any change were Estonia, Greece, Hungary, Iceland, Mexico, Slovenia, Turkey and the United States. In Greece in particular this followed a period of substantial policy action as described in the last edition of *Pensions at a Glance* (OECD, 2013).

Table 1.1. **Overview of pension measures, September 2013-September 2015**

	Income adequacy	Financial sustainability	Impact	Scope
Australia	+	+	*Major*	*Broad*
Austria		+	*Minor*	*Medium*
Belgium		+	*Major*	*Broad*
Canada	+	+	*Moderate*	*Medium*
Chile	+		*Minor*	*Narrow*
Czech Republic	-	-	*Minor*	*Narrow*
Denmark		+	*Moderate*	*Medium*
Estonia		*No new measures*		
Finland	-	+	*Moderate*	*Broad*
France		+	*Moderate*	*Broad*
Germany	+	-	*Moderate*	*Medium*
Greece		*No new measures*		
Hungary		*No new measures*		
Iceland		*No new measures*		
Ireland	+/-		*Minor*	*Medium*
Israel	+		*Moderate*	*Broad*
Italy	+/-	-/+	*Moderate*	*Medium*
Japan	+	-	*Minor*	*Medium*
Korea	+	-	*Minor*	*Medium*
Luxembourg	+	-	*Minor*	*Broad*
Mexico		*No new measures*		
Netherlands	+/-	+	*Moderate*	*Broad*
New Zealand	+	+	*Minor*	*Broad*
Norway	+		*Moderate*	*Broad*
Poland		+	*Moderate*	*Broad*
Portugal	-	+	*Major*	*Broad*
Slovak Republic	-	+	*Moderate*	*Broad*
Slovenia		*No new measures*		
Spain	-	+	*Moderate*	*Broad*
Sweden	+/-		*Minor*	*Medium*
Switzerland		+	*Minor*	*Narrow*
Turkey		*No new measures*		
United Kingdom	+	+/-	*Moderate*	*Broad*
United States		*No new measures*		

Note: See Annex 1.A1 for the details of pension reforms.

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The overview of the pension reforms is supplemented by a description in greater detail in Annex 1.A1. All reforms are classified in eight different categories: coverage, diversification and security, pension benefits, taxes, indexation, work incentives, administrative efficiency and a residual group of other reforms. The grouping corresponds to the main objectives and principles of retirement-income systems.

1.3. Improving financial sustainability

This section deals with policy measures that, temporarily or permanently, enhance financial sustainability of pension systems. It includes reforms implemented over the last two years, on top of those legislated between September 2013 and September 2015 which are described in Annex 1.A1. The first subsection focuses on the recent measures that achieve this by reducing net pension benefits, and the second subsection presents other measures.

Improving financial sustainability by reducing net pension benefits

Improving financial sustainability by reducing net pension benefits is possible in several ways, including changes in: outright reductions in benefit levels or pension formulae, lowering the indexation of benefits in payment including through automatic adjustment mechanisms, raising contribution rates in defined-benefit schemes, and increasing taxes and social security contributions on pension income. Policy measures to increase income adequacy, discussed in the following section, might add pressures on the financial sustainability of the pension system, and therefore operate in the opposite direction.

Pension benefits

Very few OECD countries have carried out extensive reforms to improve the financial sustainability through nominal benefit cuts. In Australia, the asset test in the Age Pension will be more tightly targeted from January 2017, generating both winners and losers while saving public money overall. In Spain, every five years from 2019, the initial pension benefit paid to new retirees will be adjusted based on life-expectancy gains.

Indexation

The longer retirement lasts the more important indexation becomes for adequacy. In order to contain public pension expenditure, some countries froze benefit indexation as a temporary measure following the crisis. However, nominal freezes of pension benefits in countries, such as Greece which are experiencing falling prices and wages (deflation), actually raise the relative value of benefits and modify relative revenues in favour of current pensioners. As a consequence this could lead to an increase in pension spending as a share of GDP. During the last two years, nominal freezing of benefits has been uncommon. Instead many countries are moving to less generous indexation options.

In the Czech Republic, the government introduced a lower level of indexation until 2015. In Finland, the indexation of earnings-related pensions was limited to 0.4% instead of well over 1% according to the previous formula. In France, the indexation of pension benefits was changed and, since 2014, the uprating occurs in October instead of April. Pension indexation has been frozen since 2011 in Greece and since 2015 in Belgium. In Italy, indexation rules for the period 2014-16 were changed into a progressive "cost-of-life" indexation where pensions above a threshold were increased by a fixed amount only. In April 2015 the Constitutional Court ruled that the partial benefit freeze of benefits above EUR 1 500 in 2012 and 2013 was unconstitutional. The reimbursement of the "lost indexation" for pensions up to six times the minimum pension which follows the ruling by the Court, while increasing benefit levels, will substantially affect public finances. In the Slovak Republic, pension benefits will have increased by fixed amounts between 2013 and 2017, and thereafter they will follow consumer prices instead of the previous mix of wages and consumer prices.

Other countries introduced automatic adjustment mechanisms to strengthen the link between benefit indexation and the financial standing of the pension system. In Spain, indexation will be adjusted every year within a range depending, among others, on the ratio of pension contributions to expenses, and as noted above initial pension benefits will be revised based on changes in life expectancy. In Canada, an automatic indexation mechanism will be implemented for the Quebec Pension Plan from 2018 to ensure stable funding. In Luxembourg, a "reduction factor" which adjusts benefits to contributions was introduced in 2013. Future wage indexation of pension benefits will only be possible if annual contributions exceed pension expenditure.

Taxes and contributions

Many counties increased revenues for the financing of public pensions through higher taxes and contributions. This includes higher effective taxation of current pension income, higher pension

contributions in defined benefit schemes (without generating additional pension entitlements) and lower tax deductions on pension contributions or on pension assets. These higher effective taxes can, however, discourage participation and/or lower savings rates in the voluntary schemes affected by the reform.

In Canada, the contribution rate for the Quebec Pension Plan is increasing from 9.9% in 2011 to 10.8% in 2017. In France, the contribution rate will increase by 0.3 percentage points by 2017 for both employees and employers. Moreover, the 10% pension bonus for having three children will be subject to taxation. In Finland, pensioners have paid an extra tax of 6% on pension income exceeding EUR 45 000 since 2013. Moreover, the social partners decided to increase the contribution rate of mandatory earnings-related systems for private sector workers (TyEL) by 0.4 percentage points annually between 2011 and 2016.

Some countries tightened the tax incentives on contributions to voluntary schemes. In Ireland, temporary levies on private pension assets were extended and increased in 2014, while tax reliefs on private-pension contributions were reduced for high-income earners. In the Netherlands, the full tax allowance for pension contributions was capped. In addition, the work continuation credit given to all older workers was changed from a general bonus to a credit targeted towards individuals in unemployment or work incapacity or with low income. This measure will increase taxes for the groups that are not eligible for the new credit. In New Zealand, the kick-start government subsidy for each new KiwiSaver account was eliminated in May 2015. Abolishing the subsidy is estimated to save the government NZD 125 million a year over the next four years (which represents about 1% of public pension expenditure). In Sweden, tax deductions for individual contributions to private personal pensions will be phased out entirely by 2016.

Other measures to improve financial sustainability

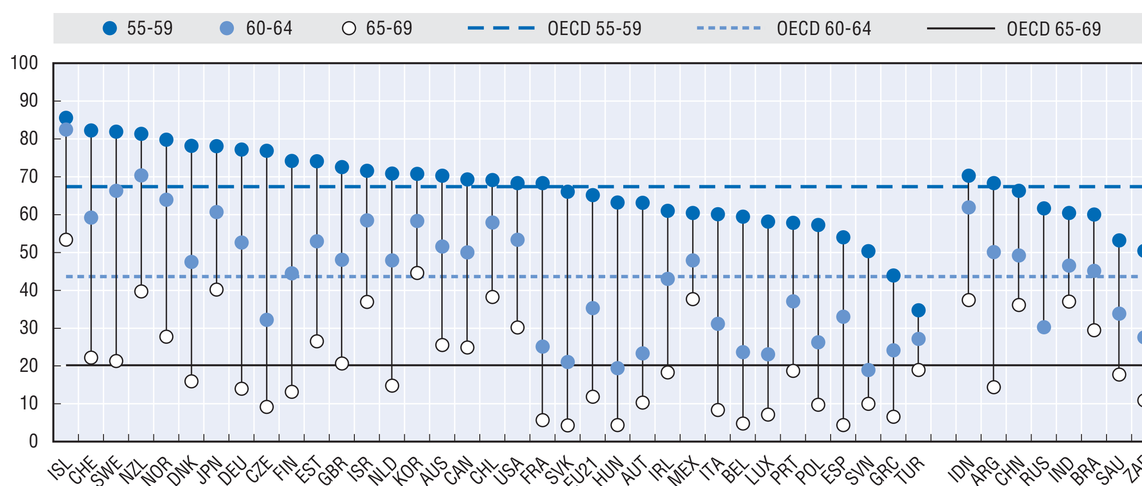
Strengthening work incentives and enabling more people to work at higher ages can help safeguard the financial sustainability of pension systems. Another possibility to improve financial sustainability is to promote increased administrative efficiency of pension systems. With the use of automatisation and new technologies the cost of running pension systems can be reduced.

Pension age

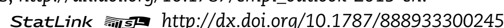
The employment rate falls with age well before the retirement age in all OECD and G20 countries. For individuals of age 55 to 59 the average employment rate across all OECD countries was equal to 67% in 2014, whereas it was 44% and 20% for those aged 60-64 and 65-69 respectively (Figure 1.4). Hence, there is significant room for improvement in the vast majority of countries. Changing the statutory retirement age serves as a signal on how individuals are expected to modify behaviours when planning for retirement, thereby influencing social norms. However, most legislated increases in the retirement age phase in gradually to enable older workers to adapt their retirement planning.

Many OECD countries have reformed their pension rules in order to extend working lives in the broader context of increasing life expectancy. This means that workers need to contribute more towards their pension to help finance longer expected durations in retirement. While this generally leads to higher accrued pension entitlements, the benefit increase is usually low enough to generate net public saving. In pension schemes where there is a weak connection between contributions paid and pension benefits received, this additional contribution might only improve the sustainability of the system, i.e. without necessarily raising pension levels (e.g. France and Korea). Most pension reforms have been focused on prolonging working lives at the end of the career through: i) increases in the statutory retirement age; ii) tightening of early retirement provisions; iii) higher financial incentives to work beyond the pensionable age and higher penalties for early pension benefit; and iv) greater possibilities to combine work and pensions.

Figure 1.4. **Employment rate for people aged 55-59, 60-64 and 65-69, OECD and G20 countries, 2014**



Note: Employment rates for non-OECD G20 countries are latest available.
Source: OECD (2015), *OECD Employment Outlook 2015*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/empl_outlook-2015-en*.

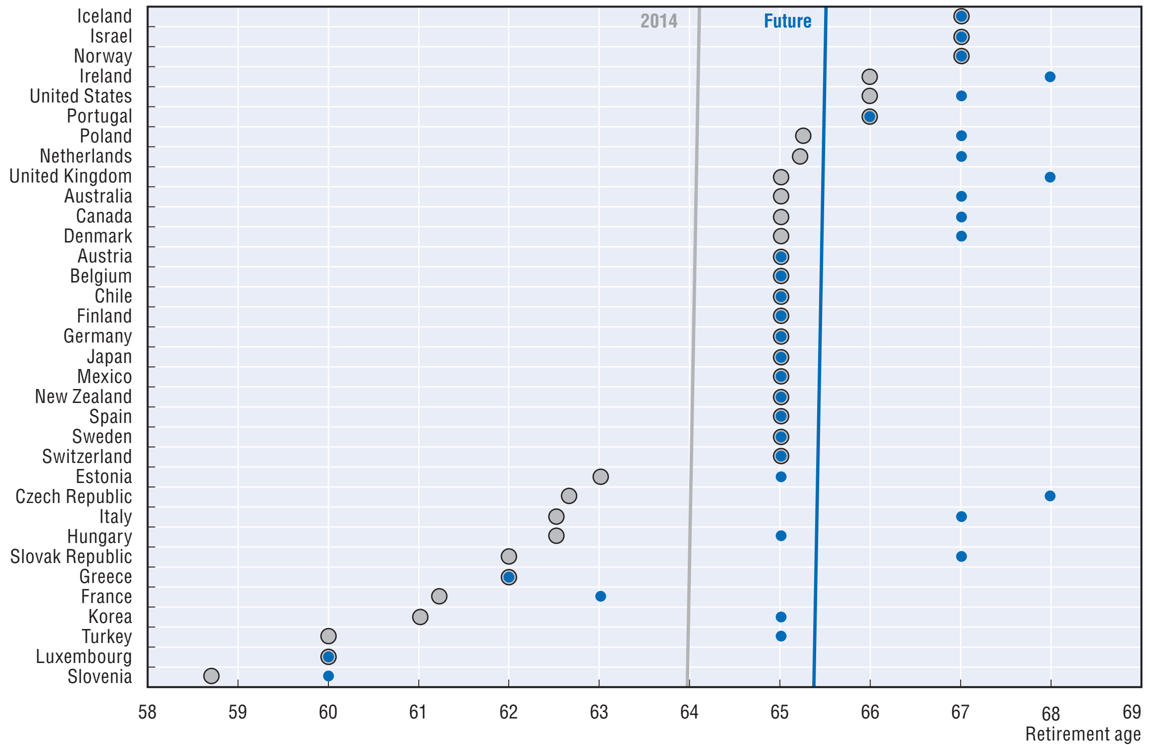
StatLink  http://dx.doi.org/10.1787/888933300245

Based on the most recent legislation, the retirement age of males entering the labour market at age 20 will increase from 64 years currently, on average across all OECD countries, to 65.5 years in the late 2050s (Figure 1.5). The lowest retirement age is currently found in Slovenia where it is possible to retire at age 58.7 and the highest is found in Iceland, Israel and Norway. In the future the highest male pension age given labour market entry at age 20 will equal 68 years in the Czech Republic, Ireland and the United Kingdom. The lowest retirement age will be equal to 60 and apply in Slovenia and Luxembourg. Beyond these two countries, full-career males entering the labour market at age 20 in 2014 will be entitled to a full pension before age 64 in only Greece and France.

Figure 1.6 provides the evolution of the retirement-age gap between men and women and highlights the shrinking list of countries where women will be able to retire earlier than men. Currently, thirteen OECD countries record a positive gender gap, i.e. in favour of women, from a few months in Slovenia to five years in Austria, Chile, Israel and Poland. The gap is being eliminated in all countries except Chile, Switzerland and Israel. This primarily is due to an increase in the women's retirement age. In Italy, the retirement age of private sector workers will be equalised to 67 for men and women by 2018. There, the pension age is also increasing for public sector workers from 66.25 years in 2014 to 67 years in 2018. However, workers can still retire at any age if they have contributed a minimum period of 42.5 years for men and 41.5 years for women in 2014. In Poland, the retirement age for men and women is increasing from 65 years and 60 years, respectively, to 67 for both but in 2020 for men and 2040 for women; partial retirement at age 62 for women and 65 for men will still be possible. In the United Kingdom the pension age for women will converge to the men's level of 65 in 2018 against 62 years currently.

More and more OECD countries are raising the overall retirement age, sometimes beyond 65 which has generally been the norm in most countries in the past decade. In Belgium, the government recently announced a gradual increase in the pensionable age to 67 by 2030. Further increases could happen thereafter through the introduction of a link to life expectancy. In Canada, the normal retirement age to be eligible to the basic pension (Old-Age Security) will gradually increase from 65 to 67 years between 2023 and 2029. In Ireland, the pension age increased from 65 to 66 years in 2014, and will rise to 67 by 2021 and 68 after 2028. In Germany, the retirement age is gradually increasing by

Figure 1.5. **Current and future retirement ages for a man entering the labour market at age 20**



Source: See Chapter 5, Tables 5.7 and 5.9.

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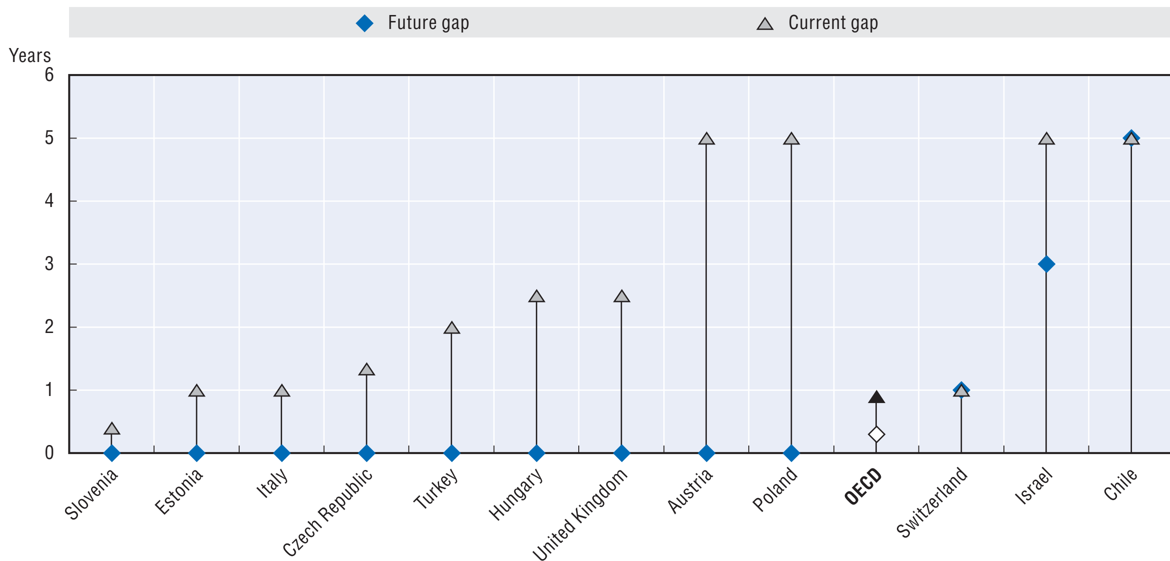
Figure 1.6. **Current and future retirement-age gap between men and women entering the labour market at age 20**



Note: Future gap refers to the age gap remaining between a man and a woman entering a full career at age 20 in 2014.
Source: See Chapter 5, Table 5.7 and Figure 5.10.

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one month a year from the current level of 65 years and four months for the 1950 cohort to reach 67 in the future as a general rule for individuals with less than 45 years of contributions. In Hungary, the pension age is increasing from 62 to 65 years. In Portugal, the retirement age was raised from 65 to 66 years and will be linked to changes in life expectancy.

In the Netherlands, the retirement age for the basic pension will reach 66 by 2018 and 67 by 2021. Since 2014 the retirement age for occupational pensions has been increasing from 65 to 67. The retirement age is also increasing in Slovenia, although from a very low level: the retirement age will increase from 58.25 years for workers having contributed for at least 40 years in 2014 to 60 years in 2019. For individuals with less than 40 years of contributions the retirement age will be 65. The normal pension age has been increasing in Spain from 65 in 2013 to 67 in 2027, but full pension benefits are still available at age 65 with 38.5 years of contributions. In the United Kingdom, the pension age will increase to 66 in 2026 and 67 by 2028. In addition the earliest age for private pension withdrawal will be set at ten years prior to the normal pension age. In Australia, the pension age (which has been equal across gender since July 2013) will gradually increase from 65 in 2017 to 67 in 2023, as was decided in 2012. A further gradual increase to 70 in 2035 is currently being discussed. In France, the minimum contributory periods will increase from 41.5 currently to 43 years in 2035.

Early retirement age

Many OECD countries are also restricting access to early retirement. In Austria, the required insurance period for individuals to be eligible for early retirement (*Korridorpension*) is increasing from 38 years in 2013 to 40 years in 2017. On top of this, the minimum early retirement age increased in 2014, from 60 to 62 years for men and from 55 to 57 years for women. In Belgium, the age for the early retirement benefit will increase from 60.5 years in 2013 to 62 years in 2016, and the necessary contribution period will increase as well from 38 years to 40 years. Further tightening of early exit pathways in some special regimes (such as for policemen) are being considered. In Denmark, the early retirement age is currently being increased from 60 years to 64 years in 2023 while a new senior disability benefit for workers with low work capacity due to health problems is being introduced.

In Finland, the part-time pension age is being increased to 61 and early retirement is abolished for private sector workers (TyEL scheme). For workers born after 1951 the early retirement age is increased from age 62 to 63. The early retirement pension for the unemployed is also being phased out, while unemployed individuals born before 1958 will still be able to retire at age 62 without reductions. In the Netherlands, early retirement options for workers in physical demanding occupations are being phased out. In Portugal, early retirement has been suspended until the beginning of 2015. However, long-term unemployed workers can retire from age 57. In Spain, the early-retirement age is increasing in line with the change in legal retirement age from 61 to 63 by 2027 in cases of registered unemployment; the contribution period for involuntary early retirement is increasing from 31 years to 33 years; and for voluntary early retirement, the pensionable age will be 65 and the contribution period will increase to 35 years.

Financial incentives to work longer

Financial incentives to prolong working lives have been strengthened in a number of countries and are often accompanied by increasing flexibility in the opportunities to combine pensions and work. Their overall impact on the financial balance of pension systems is not always clear-cut though as additional contributions are typically offset by additional spending. In Australia, the economic incentives for employers to hire and retain older workers were increased, thus potentially reducing public spending on Age Pension. In Austria, annual penalties for each year of early pension

withdrawal will increase from 4.2% to 5.1% for individuals born in 1955 or after. In Canada, the benefits from delaying retirement after age 65 were increased and it is now possible to combine work and pension benefit receipt from the mandatory public scheme (Canada Pension Plan). While contributions are mandatory for individuals under 65, working beneficiaries under age 70 can now increase their benefit through additional contributions. In Norway, new requirements for occupational pensions to offer a flexible retirement age from age 62 to 75 at partial withdrawal ranging from 20%-80% will enable more people to accommodate further work and pension withdrawal according to their preferences. In Spain, it is now possible to work and withdraw pension benefits at the same time. In Switzerland, incentives to work and coverage of private pension plans amongst the elderly will rise, as the age limits for the payments of pension contributions were increased. In Sweden, the financial incentives to work more and longer were strengthened in 2014 with the increase in the earned income tax credit for workers over 65.

In contrast, full pension benefits (without penalties) will be awarded below the legal retirement age to people who started their career early in both France and Germany. These measures increase pension entitlements, but encourage the targeted people to exit the labour market at a relatively young age. In France, the minimum legal retirement age remains at 62; however, the age at which people may withdraw full pension benefit was lowered back from 62 to 60 for people who entered the labour market before 18 and have worked at least 41.5 years. In Germany, the pension age was decreased from 65 to 63 for individuals with 45 years of contributions. From 2015 this age will increase by two months each year until it reaches 65, once again.

Administrative efficiency

In pay-as-you-go public defined benefit schemes, improving administrative efficiency reduces administrative costs and strengthens public finances. Indeed, the connexion between pension benefit and administration cost is often weaker than in a defined contribution scheme where administration fees more directly reduce the value of accumulated pension savings. Costs have been reduced and performance increased in a number of countries through the merging of administrations, the implementation of regulatory measures or the use of a new technology.

In Greece, government-sponsored auxiliary pension funds have been merging since 2011. In Japan, pension systems for public servants and private school employees are being merged into the employees' pension. In Spain, the administrative efficiency with regards to collecting contributions will increase as of 2014 as the General Social Security Treasury will be enabled to bill employers directly instead of having employers calculate the employee's contributions as was the case previously. This measure will most likely also reduce the administrative burden of employers.

In Poland, 51.5% of the net assets of privately managed pension funds (corresponding to the part invested in public bonds at the time) were transferred to the Social Insurance Institution in February 2014, which came at the expense of reduced diversification and partially reversed the 1999 reform. Pension contributions to the mandatory second pillar were by default redirected to the public pension scheme, even though workers can choose to keep contributing to pension funds instead. Moreover, accumulated assets of those who choose to stay in privately managed pension funds and likewise of those who decided to move to the public pension scheme will be gradually transferred to the social security fund ten years prior to the retirement age. These measures will reduce both the public debt and the government deficit in the short term, but will increase the implicit debt of the public pension system and possibly reduce retirement income in the long term (OECD, 2014b).

Finally, strengthening institutional oversight might improve financial sustainability. In Spain, a new independent public agency, the Independent Agency for Fiscal Responsibility, was created in November 2013. The agency will express opinions about annual adjustments of benefits and changes in the sustainability factor.

1.4. Increasing retirement-income adequacy

The tightening of benefits as part of fiscal consolidation programmes can have serious consequences for the living standards of the elderly, and could be especially painful if the cuts are made from an already low level. Despite the heavy focus of recent pension policy action on improving the financial side of pension systems, some measures have also been taken to boost retirement-income adequacy. The section describes the improvements that occurred to improve adequacy of pension benefits, including those implemented over the last two years, thus covering a broader range of reforms than those presented in Annex 1.A1.

Reforms to improve adequacy include increasing coverage or benefit levels or both. Improvements in disposable income for retired people can also be achieved by lowering taxes targeted towards them. In systems with a stronger direct link between contributions paid and benefits received retirement-income adequacy tends to increase when higher contributions are paid into the system, through either higher contribution rates or longer contribution periods. This is especially the case in defined-contribution-type schemes.

The so-called replacement rate is one measure of adequacy (for a comprehensive overview of all OECD pension entitlement indicators and the assumptions underlying their estimation, see Chapter 6). The net replacement rate is equal to the ratio of the net pension entitlement to life-time average net earnings. Theoretical replacement rates are forward-looking and assume that currently legislated pension rules apply throughout an individual's career until reaching the normal pensionable age in each country. Pensionable age is defined here as the age at which individuals can first withdraw their full pension benefits, i.e. without actuarial reductions or penalties, assuming they start a full career in 2014 at age 20.

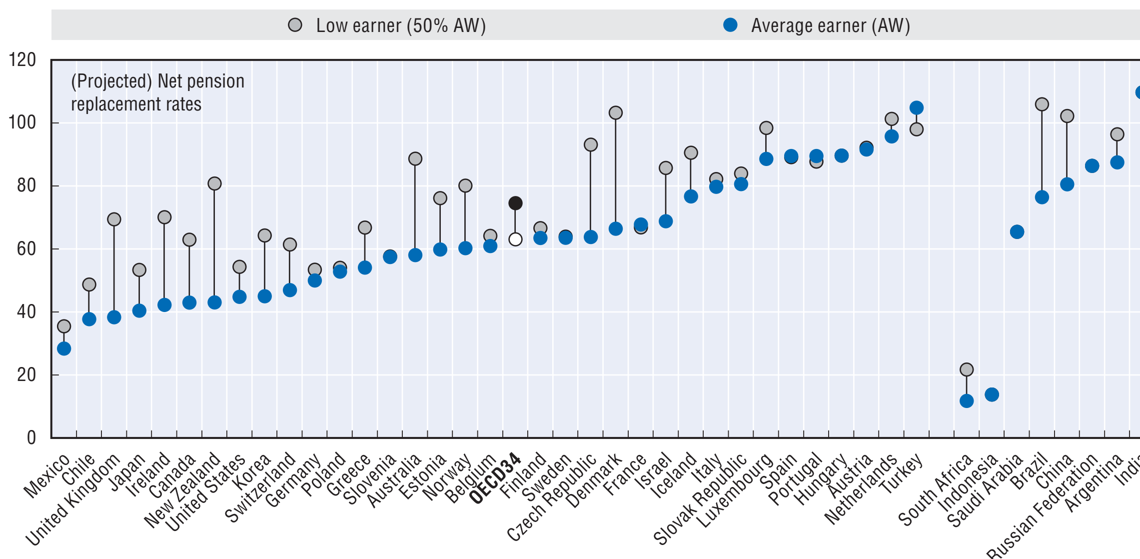
Figure 1.7 shows theoretical net pension replacement rates across OECD and G20 countries for a full-career worker at either low or average earnings. The OECD average for net replacement rates for average-income earners is equal to 63%, ranging from 28% in Mexico to 105% in Turkey. Low-income earners generally have higher net replacement rates than average-income earners due to the progressivity of the tax-pension benefit systems that is in place in most OECD countries. Countries with the highest net pension replacement rates for low-income earners are Denmark, Luxembourg, the Netherlands and Turkey. In Mexico, net replacement rates for low-income earners, at about 35%, is well below the OECD average, which is equal to 75%.

Coverage

Ensuring adequate population coverage by retirement schemes is a significant policy concern in a number of OECD countries in order to fight income-poverty in old age. All OECD countries have set up mandatory or quasi-mandatory pension systems so as to achieve high coverage in public and/or private pension schemes. Yet, countries with a large informal sector, such as Mexico and Chile and some G20 countries may have lower coverage levels even in mandatory schemes (OECD/IDB/The World Bank, 2014).

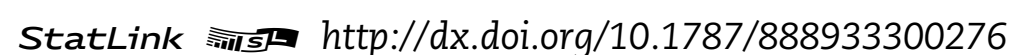
Since 2013, a number of OECD countries have undertaken reforms to extend the coverage of pension benefits to groups previously not covered by mandatory or quasi-mandatory pension entitlements. Others have introduced new benefits altogether to extend coverage. In Japan, from April 2017 the qualifying period for the national pension will decrease from 25 to 10 years hence increasing coverage and benefiting short-career workers. In addition, the employees' pension

Figure 1.7. **Future net replacement rates for low and average income earners in OECD and G20 countries**



Note: The net replacement rate is calculated assuming labour market entry at age 20 in 2014 and a working life equal to the pensionable age in each country The net replacement rates shown are calculated for an individual with 100% and 50% of average worker earnings (AW).

Source: See Chapter 6, Table 6.7 and Figure 6.9.

StatLink  http://dx.doi.org/10.1787/888933300276

insurance will be extended to cover more part-time workers from October 2016 and the survivor's pension was extended to motherless families from April 2014. A new targeted benefit was introduced in Korea in July 2014, doubling the level of the preceding scheme. The measure benefits about 70% of those aged 65 and over.

Following reforms over the last two decades in many OECD countries, voluntary private pensions might increasingly become an important complement to public pensions as replacement rates from the latter are often expected to diminish. As a result, obtaining adequate coverage levels in private schemes is a policy objective which is attracting more and more attention. This might, however, lead to additional public spending if governments encourage their development through financial incentives.

Countries such as Canada, Ireland, the United Kingdom and the United States have had the longest tradition of complementing public pensions with voluntary private pensions. In the past two years, some countries introduced saving incentives (matched contributions, subsidies, tax deductions or credits) to increase coverage in voluntary private pensions, even though current budget pressures limit the room for manoeuvre in this area. Other countries focused on non-financial incentives, including auto-enrolment and mandatory pension savings. In the United Kingdom, auto-enrolment in a workplace pension scheme is being introduced gradually, depending on the size of the employer. While large employers must automatically enrol workers in a company scheme or in the state-run National Employment Saving Trust (NEST) since October 2012 and medium-size employers since April 2014, small employers must comply from January 2016. A similar reform introducing an occupational pension scheme (MySaver) for uncovered workers is planned in Ireland and is supposed to be implemented once the economic conditions become more favourable. In Canada, new schemes were created to encourage participation and savings in voluntary private pension plans. A new type of retirement savings plan (the Pooled Registered Pension Plan, PRPP) is now available in some provinces and in sectors governed by federal legislation; others provinces are expected to follow. The PRPP is voluntary for employers and based on auto-enrolment of employees; it is meant to address low workplace pension coverage, increase portability, reduce administrative fees and lower employers' investment risks.

Some countries went in the other direction and abandoned the efforts to introduce mandatory or voluntary accounts altogether. In the Czech Republic the second pillar of voluntary individual accounts that has been effective since 2013 will be closed in 2016 due to low take-up. In the Slovak Republic, the mandatory defined contribution system was made voluntary in 2015 for the fourth time since its introduction in 2005. Voluntary participation is possible for new entrants and voluntary entrance is possible before the age of 35 years for those who choose to switch some of their pension contributions.

Pension benefits

Increasing the existing pension benefits of current retirees is the most direct way to address ongoing adequacy concerns.[3] A number of countries enacted ad hoc improvements in pension benefits targeting vulnerable groups. There have been upgrades in the targeted household benefits in Ireland in 2015, and the basic pension has increased by about 0.4% per year on top of wage growth in Luxembourg from October 2012. Low-income old-age pensioners will receive welfare benefits in Japan from April 2017 (Chapter 2 focuses on first-tier pensions more generally).

Over the course of a working life, individuals might experience voluntary or involuntary career breaks. Such breaks can be detrimental to pension benefit levels, and, in some cases, to incentives to work longer (see Chapter 3). In order to mitigate the effects of career breaks some countries chose to ease the rules on how periods of low or no income are accounted for in the pension benefit formula. In Canada, past earnings are ranked in descending order and the months with the lowest earnings are dropped from the pension benefit calculation. In 2014 the share of disregarded months was increased from 16% to 17%. In France, the accrual of pension entitlements during periods of maternity leave, professional training, tertiary education and unemployment will become more generous. In Japan, workers will be able to make up gaps in their contribution record by paying additional voluntary contributions. In Germany, the introduction of credits for children born before 1992 (i.e. the mothers' pension) will increase current and future pension benefits retroactively.

Higher contribution rates in defined contribution schemes is another way to improve adequacy. In Australia, mandatory defined contribution rates will start to increase in July 2021 from 9.5% (the current level) and reach 12% in 2025. In Israel, the mandatory minimum contribution rate increased from 15% to 17.5% in 2014. In Norway, the new notional defined contribution system that is gradually introduced for cohorts born from 1954 with a contribution rate equal to 18.1% of pensionable income creates a stronger link between life-time earnings and the size of the pension benefit, and will increase flexibility to combine work and pensions. In the United Kingdom, the minimum NEST contribution rate will increase between 2017 and 2018 from 1% to 3% for employers with employees obliged to supplement this to an overall minimum contribution level of 8% (including 0.2% to 1% of tax relief). Also, from 2016, a new state pension will replace the basic pension and the state second pension (earnings-related public pension), as well as the savings credit of the Pension Credit (targeted benefit, see the United Kingdom country profile in Chapter 9 of OECD, 2013), thereby improving the benefit level overall.

Taxation

The tax and social contribution system plays an important role for net retirement income. Given the progressivity of income tax systems and the fact that pension income is generally lower than income from work, effective tax rates on retirement income tend to be lower than those on income from work. Moreover, most tax systems give preferred treatment to pension income or pensioners, thereby addressing pension adequacy concerns, however at the cost of creating tax distortions.

A number of OECD countries have improved net retirement incomes by reducing total taxes and social contributions paid by pensioners. In Portugal, the extraordinary solidarity surcharge introduced in 2013-14 will be limited to pensions exceeding EUR 4 611 from 2015. The applicable rate is 15% for pensions up to EUR 7 127 ansd 40% beyond. In Poland, a new tax incentive for voluntary personal plans was introduced. Increased tax relief was given to older people in Sweden in 2014. In the United Kingdom, the taxes on withdrawals from pension accounts were lowered and tax-free amounts for pension lump sum withdrawal were increased in 2015. These measures will make it cheaper to withdraw money from pension accounts. On a different note, women on maternity leave in Japan have had an increase in their disposable income as they have been exempt from employees' pension contributions since April 2014.

Other ways of improving retirement income adequacy

There are other possibilities to improve pension adequacy. In defined contribution plans lower costs and higher administrative efficiency directly affect the pension benefit. In addition better information and services to limit myopic behaviour improve individuals' choice. Finally, the diversification between funded and pay-as-you-go, and between defined benefit and defined contribution enables risk mitigation as systems have different strengths and weaknesses, thus achieving a better risk-return profile of pension income.

Administrative efficiency

In the design of voluntary pension schemes, there is a clear trade-off between on the one hand greater flexibility and choice in these plans to meet the needs of different workers at differing stages of their lifecycle and on the other hand minimising fees. High fees might discourage workers from joining voluntary plans and make mandatory plans costly. More generally, excessive cost structures could threaten not only financial sustainability and income adequacy of all pension schemes, but also their entire legitimacy. Recent reforms that aim to reduce costs directly and provide more information to increase transparency and competition through the disclosure of costs, fees and performance are successively discussed.

Reducing fees in defined contributions schemes has been a key objective for many regulators. In Chile, Planvital, one of the six private pension fund administrators, won the tender to manage defined contribution accounts for new entrants; the new annual fee will be 0.47% on account holder's earnings compared to 0.77% previously. In Australia, a new simple defined contribution scheme (MySuper) will cover new default pension funds chosen by employers (default contributions) from 1 January 2014, and will offer a more uniform, easier to compare set of products. All pre-existing employer-nominated default fund balances will be transferred into a MySuper account by 1 July 2017. In the United Kingdom, the new National Employment Savings Trust (NEST) scheme will create economies of scale and is hoped to lower administration costs.

Better information disclosure and data collection can improve the efficiency of a pension system. In Australia, the SuperStream project will establish mandatory, uniform e-commerce standards for contributions to superannuation funds and for transfers between funds ("rollovers"). Implementation will be completed by the end of 2015-16. In France, beginning in 2016 all workers covered by pension insurance will have an electronic account that provides relevant pension related information, such as past contributions, work history and projected pension benefits from both public and mandatory occupational systems. In an attempt to increase competition and public awareness in New Zealand, providers of the government-subsidised voluntary retirement saving scheme (the so-called "Kiwisaver") are required to post on their websites information regarding fund performance, fees, returns, portfolios and key staff information on a quarterly basis. In addition KiwiSaver default providers will have to offer financial education and impartial financial advice to account holders. In

the United Kingdom, pension providers and trust based managers must offer members of defined contribution schemes free and impartial face-to-face advice. Small defined contribution plans are automatically transferred to the new pension plan when workers change jobs.

Finally, automatic enrolment and enhanced automatisation increase both prospective adequacy and financial sustainability as it aims both to increase take-up and to lower administrative costs. In Canada, between 2013 and 2016, an automatic enrolment regime for the minimum pension (Old-Age Security) benefit is being phased in aimed at lowering both the administrative burden on seniors and the pension administrative costs, and should also increase take-up.

Diversification and security

Some countries have focused their effort on increasing investor choice for funded schemes. In the United Kingdom, new rules for defined contribution pension withdrawals were legislated in May 2014 and will enable large lump-sum withdrawals. While this measure might increase pensioners' control over their accumulated funds, it could be detrimental to both retirement-income adequacy and incentives to work, due to individuals' myopic behaviour and insufficient financial literacy. The overall outcome depends on how successful individuals are in assessing their needs over their remaining life expectancy. In any case, such withdrawals run the risk that retirees outlive their savings, especially those with low wealth.

Other countries chose to improve the security of investment. These measures can consist of improving the governance and risk management of pension plans or in reducing individuals' investment risks. In Chile, minimum and maximum limits for foreign currency hedges have been established in order to lower risk. In Ireland, major changes were implemented to increase the overall security of private pensions. They involve a new benefit security in case of company bankruptcy, increased risk reserves from 2016, stricter reporting of actuarial reserves and an age-dependent capitalisation amount used for defined benefit pensions from 2014. In Italy, new pension fund investment regulations have been introduced since 2014. The new rules aim to create more prudent management of investments and more diversified portfolios. A law to improve the governance of occupational pension plans was also passed in the Netherlands in 2013. In New Zealand, KiwiSaver default providers will maintain a conservative investment strategy with only 15-25% allocation in growth (i.e. riskier) assets such as shares and property. In Mexico, the pension funds within the individual accounts system have loosened age-dependent limits on fund investments in equities. In the Slovak Republic, a rate-of-return guarantee was introduced for the low-risk investment option. In Norway, the occupation pension plans are allowed more flexibility in their system design to better complement the new public notional accounts system, hence resulting in greater choice for employers and individuals.

In Japan, financially unsound employees' pension funds (EPFs) have been under dissolution since April 2014. The EPFs with assets above the minimum reserve level can continue, but must pass an annual asset test, and no new EPFs can be set up.

1.5. Remaining challenges

Pension systems across OECD countries face considerable social and economic challenges in the wake of the economic crisis and given the ongoing population ageing. The widespread large increase in government debt levels in many counties have motivated more pension reforms in most OECD countries during the last two years. In many cases, the problem of weak financial sustainability is not new but has been compounded by the crisis and its aftermath.

Pension systems still need to adjust to persisting demographic changes. The extent to which individuals, of all ages, will be willing and able to work more and longer will be a crucial issue in ageing societies. Concerns about income security at a much higher age than what we are used to will

grow in importance, in a context where more countries opt for less generous indexation of pension benefits and more elderly are likely to outlive their accumulated resources (Chapter 2). Some countries have opted for introducing automatic adjustment mechanisms into their pension systems, based on demographic and economic developments. Although these innovations are promising to reduce political risks their correct design and implementation still need to be worked out.

Older workers who are laid off still too often enter into early-retirement programmes. This approach, which is internalised by both employers and employees, gives older workers little opportunity to re-train and acquire new skills in order to strengthen their employability. Early retirement also exposes individuals to future poverty as income needs at a much higher age are often underestimated. Early retirement systems should be eliminated, and employment difficulties faced by the elderly should be dealt with by unemployment systems that promote activity as a way to protect and help people remain on the labour market longer. Beyond this, with the tightening of benefit eligibility criteria in most OECD pension systems, ensuring that the labour market is conducive to longer working lives is vital. In that respect, increases in the labour supply of older workers have to be met by a higher demand. Upgrading of skills and lifelong learning will therefore become important to retain older workers in the labour market.

Private pension systems face specific challenges. Low interest rates reduce the capacity of pension funds and life insurance companies to fulfil their commitments to retirees and pension savers in defined benefit pension plans (OECD, 2015b). In defined contribution schemes it might be difficult for individuals to achieve adequate pension levels if rates of return remain low. One important concern in this context is that individuals might not be contributing enough.

Rebuilding trust is also demanding. Better information and increased transparency about administrative cost and pension entitlements would improve confidence in the pension systems and help improve governance. Young people in particular need to believe in the long-term stability of the pension system and the pension promises that are made to them in order to have them endorse the generational contract.

Pension reform activity should be deepened in several areas. While special regimes have been reduced, and there has been a convergence of public-sector and private-sector schemes in many OECD countries, wide differences persist in some. Also, the self-employed do not contribute enough in some countries due to a combination of their short-sightedness and ineffective policies. Increasing their pension coverage remains a challenge, which might relate in some cases to reducing informality and increasing tax collection.

Furthermore, the extent to which pension regimes can tackle the situation of individuals who have worked in arduous conditions is not obvious and early-retirement pathways due to arduous work have often been misused in the past. While these schemes might be justified for some narrowly defined groups, they generally are an inefficient policy response to compensate individuals for impaired health or shorter life expectancy. Instead policy makers should seek to prevent hazardous or arduous working conditions from happening in the first place, shifting the focus from a passive pension problem towards the end of life to a health and work-environment issue when the arduous work occurs. Finally, survivors' pensions should be reformed in many OECD countries, by moving closer to actuarial fairness while taking into account life events such as divorce; the objective would be to contribute to enhancing gender equality and boosting women's labour supply through stronger incentives to economic independence and work. In the short term, however, reforming survivors' pensions might increase vulnerabilities, and phasing-in effects should be closely analysed.

Pension systems might in fact extend inequalities that already compound through the working-life cycle due to the interrelation between poor health and poor labour market experience. Pension rules or annuity formulae used to compute the benefits, in either defined benefit or defined contribution systems, typically do not take into account the disparities in mortality rates that are correlated with income. The latter imply that poor pensioners tend to receive their pensions for a shorter period on average. This makes pension systems less redistributive than expected when ignoring inequalities in life expectancy, and might make some of them even regressive.

Notes

1. *Source:* European Commission (2015), *Ageing Report*; Australia: Commonwealth of Australia (2015), *2015 Intergenerational Report: Australia in 2055*; Standard and Poor's (2013), *Global Aging 2013: Rising to the Challenge: Argentina, Brazil, China, Iceland, India, Indonesia, Japan, Korea, Mexico, Saudi Arabia and the United States*.
2. Public pension spending is projected to increase from 1.7% to 12.5% of GDP in Korea and from 6.3 % to 17.0% in Turkey according to Standard and Poor's (2013), *Global Aging 2013: Rising to the Challenge*.
3. Increases in pension benefits linked to the adjustments of indices are treated below.

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ANNEX 1.A1

Pension reforms from September 2013 to September 2015

Table 1.A1.1. **Details of pension reforms, September 2013-September 2015**

By country and prime objective

	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Australia			Mandatory DC contributions increased from 9% to 9.5% from July 2014. The contribution rate will remain at 9.5% until July 2021 and reach 12% by July 2025. The assets test in the Age Pension is rebalanced from Jan. 2017. The benefit will become more targeted but also more generous. The overall effect is estimated create savings for the Treasury.		General concessional contributions cap indexes to AUS 30 000 from July 2014.	Restart Wage Subsidy Program commenced 1 July 2014, replacing the Seniors Employment Incentive Payment and Mature Aged Worker Tax Offset.	In 2014 MySuper products replaced default superannuation products for all new accounts and all existing default balances will have to be transferred into a MySuper account by 1 July 2017. The SuperStream project will establish mandatory, uniform e-commerce standards for contributions to superannuation funds and for transfers between funds (“rollovers”). Implementation will be complete by the end of 2015-16.	
Austria						For cohorts born 1955 and later the early retirement penalty will increase from 4.2% to 5.1% (max. of 15.3%).		

Table 1.A1.1. **Details of pension reforms, September 2013-September 2015** *(cont.)*

By country and prime objective

	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Belgium						The government recently announced a gradual increase in the pensionable age to 67 by 2030, a link to life expectancy thereafter, a one-year increase in the early-retirement age, the further tightening of the unemployment-exit pathway, the abolition of lower retirement ages in some special regimes (such as for the policemen).		The government has initiated a proposal to introduce a point scheme aligning the public and private pension schemes and some mechanisms to develop further the private pension pillar.
Canada	A new voluntary retirement savings plan (Pooled Registered Pension Plan, PRPP), based on auto-enrolment of employees working for an employer who opted in has been introduced in sectors under federal jurisdictions. In 2014 British Columbia and Nova Scotia where added to this group, while legislation was adopted in Ontario in 2015. The Quebec version of PRPPs was adopted in Dec. 2013. Legislation creating the Ontario Retirement Pension Plan (ORPP) was adopted in April 2015, which will introduce a new mandatory pension scheme for Ontario employers and employees not participating in a DB and some DC plans (starting in 2017).		Increase of the general drop-out provision for the Canada Pension Plan to exclude 17% (from 16%) of the contributory period of low earnings from the benefit calculation in 2014.	Contribution rate for the Quebec Pension Plan is increasing from 10.2% in 2013 to 10.35% in 2014 and 10.5% in 2015.		People over 60 are now able to collect CPP benefits and work. As well, the Post-Retirement Benefit was introduced for individuals who work while receiving CPP benefits. Contributions are mandatory for people under 65 and optional from 65 to 70. The CPP requirement to stop working or reduce income to become eligible for an early retirement pension was eliminated.		

Table 1.A1.1. **Details of pension reforms, September 2013-September 2015** *(cont.)*

By country and prime objective

	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Chile	Since 2012-14 self-employed are automatically enrolled with the option to opt-out. From 2015 all eligible self-employed workers are obliged to contribute to the system.	Minimum and maximum limits for foreign currency hedges have been established.					As an outcome of the auction in 2014 of new members the minimum management fees decreased from 0.477% to 0.47% of an account holder's monthly earnings. Also, the fees for providing disability and survivor insurance decreased from 1.49% to 1.15%.	
Czech Republic	The voluntary individual accounts, effective from 2013 will be closed as of 2016 due to low take-up.							
Denmark						Increased early retirement age (2014). A new "senior disability benefit" for workers in physically demanding jobs with work-related health problems is being created (2014).		
Estonia								

Table 1.A1.1. **Details of pension reforms, September 2013-September 2015** *(cont.)*

By country and prime objective

	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Finland				The social partners have agreed to increase the combined employer/ employee contributions to earnings-related plans (TyEL) by 0.4% annually between 2011 and 2016.	In 2015 the pension indexation planned for (earnings-related and KELA) was limited to 0.4% instead of well over 1%.	The legislation enabling disability pensioners to have work for two years without losing right to a pension will be extended until the end of 2016. The part-time pension age will increase to 61 for those born after 1953 and cuts in pension accrual will be implemented. Early retirement is eliminated under TyEL for workers born after 1951. For KELA the early retirement age is increasing to 63. The unemployment pension programme is phased out in 2014. Long-term unemployed born before 1958 can still retire at 62 with a full pension.	New rules on transparency for private sector providers have been accepted by Parliament. The new law will require employees able to influence the company's investment decisions to report their stock exchange holdings and business dealings (Jan. 2015).	In 2014 the government and social partners reached an agreement on pension reform, beginning in 2017, including gradually raising the minimum and maximum retirement ages and changing the benefit formula for the earnings-related old-age pension. The pension reform proposal has been sent to parliament in Sept. 2015.
France	The contribution period used for benefit computation will be more generous for maternity, training, unemployment, apprenticeships, students and part-time work.			The 10% pension bonus for having at least three children will be subject to taxes. The contribution rate will increase by 0.3 percentage points for both employees and employers by 2017, by 0.15% in 2014 and by 0.05% a year from 2015 to 2017.	From 2014, indexation occurs in Oct. against Apr. previously. Pensions below EUR 1 200 were frozen between April and Oct. 2014.	The contribution period for a full pension will increase by one quarter every three years and reach 43 years in 2035. While the retirement age remains at 62, a person having contributed a full period will be able to retire without any penalty from the age of 60. Individual accounts will be established to take into account arduous work; they will open rights to professional training and allow a shorter contribution period.	Beginning in 2016 all insured will have an electronic account that provides all relevant pension related information, such as past contributions, work history and projected pension benefits from both public and mandatory occupational systems.	

Table 1.A1.1. **Details of pension reforms, September 2013-September 2015** *(cont.)*

By country and prime objective

	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Germany			Parents of children born before 1992 will now receive pension credits for the first two years of their child's life (July 2014).	In 2015 the contribution rates for old-age, survivors and disability insurance was reduced to 9.35% for the employer and employees each from 9.45%.		The retirement age was lowered from 65 to 63 for people with 45 years of contributory years in July 2014. From 2016 this age will increase by two months a year until it reaches 65.		
Greece								
Hungary								
Iceland								
Ireland	In Mar. 2014, a road-map for the introduction of an occupational pension scheme for those currently not covered is being implemented. Its implementation will depend on economic recovery and stability.	A new benefit priority was established from 25 Dec. 2013 improving the priority given to future pensioners and reducing the rights of current pensioners in the distribution of DB plan assets in case of bankruptcy. DB plans have to hold additional assets from 2016. The Standard Fund Threshold, i.e. the pension fund limit eligible for tax relief, is being reduced from EUR 2.3 million to EUR 2 million from 2014. The capitalisation factor used to compute DB pension amounts is age-dependent since 2014.	New affordability measures to assist pensioners, persons with disabilities, and carers who receive the Household Benefits Package. The HBP will also assist with water costs. The value of this additional benefit will be approximately EUR 100 a year to each recipient, beginning in 2015.	A temporary tax levy of 0.15% of occupational pension assets was introduced in 2014 replacing the 0.6% levy that was introduced in 2011.				
Israel			The minimum contribution rate of mandatory pension savings increased from 15% to 17.5% in 2014.					

Table 1.A1.1. **Details of pension reforms, September 2013-September 2015** *(cont.)*

By country and prime objective

	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Italy		New pension fund investment regulations have been introduced in 2014. The new rules aim to create more prudent management of investments and more diversified portfolios.			For the period 2014-16 a new progressive indexation rule based on the "cost-of-life" index has been introduced. Pensions higher than a certain threshold are not indexed but given a fixed amount. In April 2015 Italy's constitutional court ruled the indexation changes as unconstitutional.	A number of safeguard clauses have been introduced for the Esodati to enable them to retire on pre-reform conditions.		
Japan	The qualifying period for the national pension will be shortened from 25 to 10 years from Apr. 2017.	The bill to terminate employees' pension funds (EPFs) came into effect in April 2014. Financially unsound EPFs are being contracted out or dissolved within five years. No new EPFs can be set up. EPFs with assets above the minimum reserve can continue subject to annual asset tests beginning in 2019. Financially sound EPFs are also encouraged to switch to other types of pension plans.	Provide low-income, old age pensioners with welfare benefits from Apr. 2017. The ad hoc nominal freeze of pension benefits is abolished and a new wage and price indexation (called "macroeconomic indexation") is being introduced from Apr. 2015.	Women on maternity leave are exempt from pension contributions since Apr. 2014.	The ad hoc nominal freeze of pension benefits is being abolished by 2015.		Public servants and private school employee's pension systems are being unified into the employees' pension from Oct. 2015.	
Korea	New basic pension introduced in July 2014.							
Luxembourg			The basic pension is increasing slightly on average by about 0.44% per year since October 2012 on top of wage growth.					
Mexico								

Table 1.A1.1. **Details of pension reforms, September 2013-September 2015** *(cont.)*

By country and prime objective

	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Netherlands				Until 2013, it was possible to get a full tax allowance for pension contributions (accruing at 2.25%). Tax exemption will only be granted for accrual rates up to 2.15% and 1.75% annually from 2014 and 2015.		In 2014 the retirement age for occupational pensions was increased from 65 to 67. Early retirement for physically demanding occupations conditions are being phased out.		
New Zealand		KiwiSaver default providers will maintain a conservative investment strategy with 15%-25% of allocation in growth assets.		The kickstart government subsidy for each new KiwiSaver account was eliminated in May 2015. Abolishing the subsidy is estimated to save the government NZD 125 million a year over the next four years.			KiwiSavers providers will be required to post information on their websites regarding performance, fees, returns, portfolio and key staff information on quarterly basis. Default providers will have to offer financial education and impartial financial advice to account holders.	
Norway		New rules for occupational pension plans allow employers greater flexibility in designing pension plans (2014).				New requirements for occupational pension plans offer flexible withdrawal of full or partial retirement pension benefits from 62 years of age, independent of actual employment. The present value of total retirement pension benefits is independent of withdrawal.		

Table 1.A1.1. **Details of pension reforms, September 2013-September 2015** *(cont.)*

By country and prime objective

	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Poland	Mandatory contributions to the privately managed DC scheme (OFE) were turned optional: workers can opt-in to allocate 2.92% of their gross wages to OFEs while the default option is to contribute to the public NDC scheme.	OFEs are prohibited to invest in Polish treasury bonds or in debt instruments guaranteed by the Treasury. In 2014, pension funds have to hold a minimum threshold of 75% of their assets in equities. That threshold will gradually decrease to 15% in 2017.		New tax incentives for IKZE (a type of voluntary personal plan) – Exempt-Exempt-Tax scheme, with special, 10% flat tax rate (i.e. lower than standard income tax).	Generally pensions are indexed by factor which is a combination of inflation and 20% of wage growth. This indexation principle was applied in 2015 without setting it as a rule for next years. However, in 2015 the increase of individual pension could not be lower than PLN 36.		On Feb. 2014, 51.5% of the net assets of privately managed pension funds were transferred to the Social Insurance Institution. Moreover, the assets of those who chose to stay in OFEs will be gradually transferred to the public system ten years prior to the retirement age. Assets so far accumulated by those who decided to move to the public pension scheme will also be transferred on the same basis.	
Portugal				In 2015 the pension-income threshold for the CES (extraordinary solidarity surcharge) was changed and applied just to the highest pensions.	The determination of the sustainability factor, which links the level of pensions to increasing life expectancy, was changed. It will be computed as the ratio between life expectancy in 2000 and life expectancy in the year prior to retirement. The sustainability factor will be used to increase the retirement age rather than to reduce retirement pension and applies only to people claiming old-age pensions before the normal retirement age.	The retirement age was increased from 65 to 66 in 2014. Long-term unemployed can retire at 57. Retirement age will be linked to life expectancy.		
Slovak Republic	In 2015 the DC scheme was made voluntary and individuals now have the possibility to opt into the public earnings-related scheme for the fourth time since its introduction in 2005.				From 2013 to 2017 pension benefits will be increased by fixed amounts and thereafter valorisation will follow consumer prices.			
Slovenia								

Table 1.A1.1. **Details of pension reforms, September 2013-September 2015** *(cont.)*

By country and prime objective

	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
Spain			Adjustment of relevant parameters of the pension system to change in life expectancy every five years from 2019. The sustainability factor is only applied once when the initial benefit is calculated (Dec. 2014).		Pension benefits will be adjusted according, among others, to the ratio of contributions to expenses with a maximum and minimum adjustment from 2014.		In 2014 the General Social Security Treasury was enabled to bill employers directly instead of having employers' calculating employers and employee's contributions as was the case previously.	A new public agency the Independent Authority for Fiscal Responsibility was created in November 2013. The agency will give its opinion of proposed annual adjustments of benefits and changes in the sustainability factor.
Sweden				The basic pension income tax deduction for people over 65 was increased in 2014. Tax deductions for private personal plans are being phase-out and abolished by 2016.		Earned Income Tax Credit (EITC) was enhanced in 2014. The EITC is higher for workers over 65.		
Switzerland						Greater flexibility is provided for deferring labour market exit since insured persons may carry on paying contributions to the pension fund until 70.		
Turkey								.

Table 1.A1.1. **Details of pension reforms, September 2013-September 2015** *(cont.)*

By country and prime objective

	Coverage	Diversification and security	Pension benefits	Taxes and defined benefit contributions	Indexation	Work incentives	Administrative efficiency	Other
United Kingdom	The National Employment Savings Trust (NEST) is being extended to small employers from January 2016.	New rules for defined contribution pension withdrawals were legislated in May 2014 and will enable large lump-sum withdrawals.	From 2016, a new state pension (single-tier pension, STP) will replace at a higher level both the basic pension and the minimum income guarantee (Pension Credit).	Taxes on withdrawals from pension accounts were lowered and tax-free amounts were increased in 2015.		Bring forward pension age to 66 by 2026 and to 67 by 2028. Gradually increasing the private pension savings age from 55 to 57 in 2028. Private pension will be available for withdrawal from 10 years before the normal pension age.	NEST scheme will create economies of scale compared to current DC plans. Pension providers and trust-based managers must offer DC members free and impartial face-to-face advice. Small DC plans are automatically transferred to the new pension plan when workers change jobs. The government's authority to introduced minimum governance standards, fees, etc. have been strengthened to mitigate excessive charges and to increase standards.	
United States	My retirement accounts (myRAs) were announced in January 2014 to encourage more to save for their retirement. Contributions will be invested in government bonds and the principal is guaranteed. Final regulations were announced by the US Treasury in December 2014, with the programme available from November 2015.							

Note: Admin. = Administrative; cohort = Date-of-birth group; CPI = Consumer price index; DB = Defined benefit; DC = Defined contribution; GDP = Gross domestic product; NDC = Notional accounts.

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