

Unwinding pension reforms – An OECD perspective

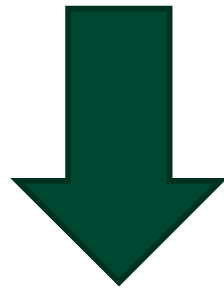
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Three solutions to the pensions paradox

- Longer working lives
- Focus public provision on the most vulnerable
- Higher private retirement savings



**Unwinding of structural pension reforms
does not achieve any of these goals**

Reform reversals: it's mostly fiscal

- “Carve-out” pension reforms created huge fiscal transition costs, especially where there were large incentives to transfer, as in many CEECs
- Transition costs were largely debt-financed
- Long-term fiscal gains are not recognised by current fiscal reporting practices and rules
- Promoting private pensions also has a large fiscal cost (tax incentives, government subsidies)



Fiscal considerations will inevitably continue to affect pension design

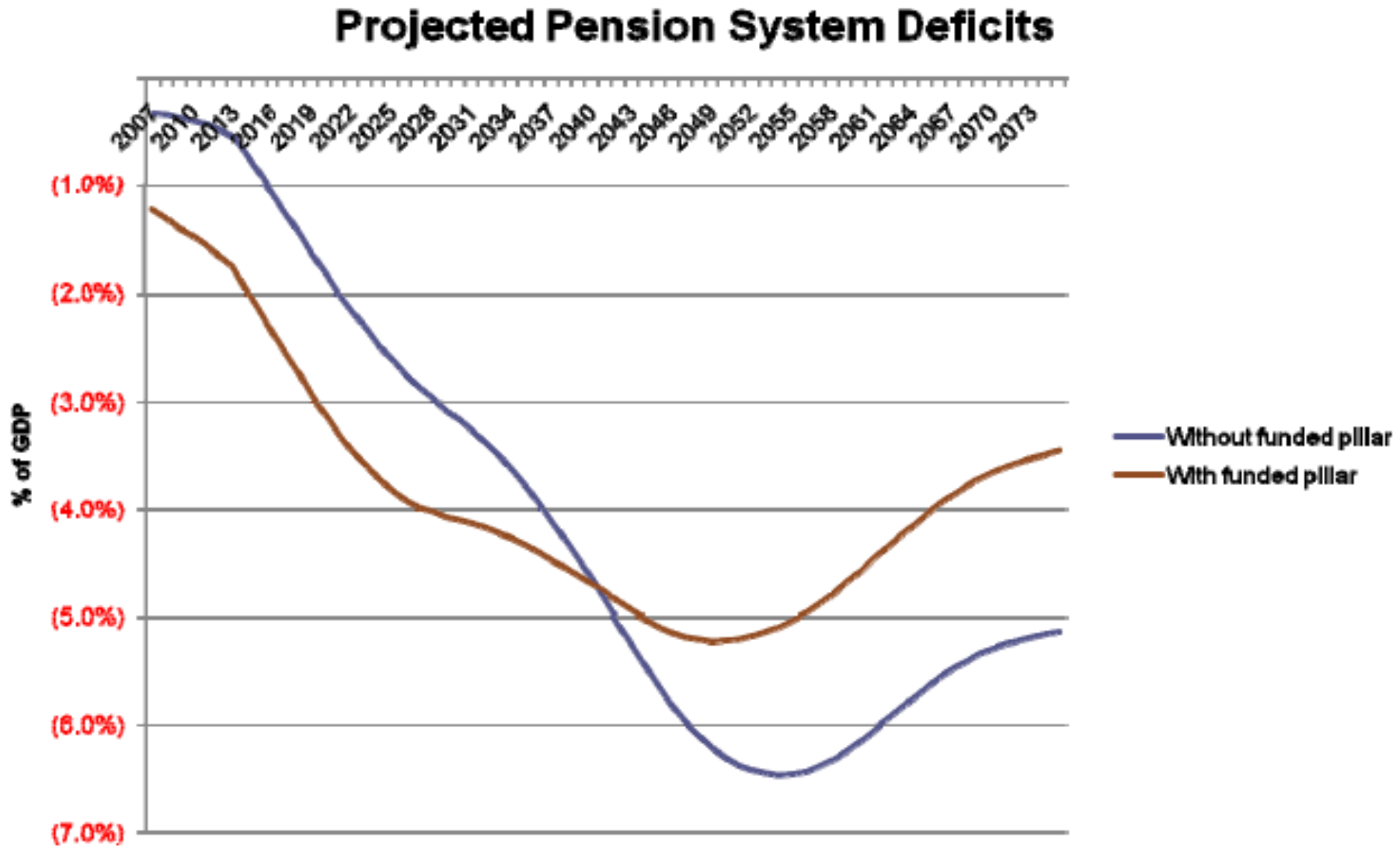
How to fix fiscal reporting and rules

- Reporting a pensions-adjusted fiscal budget, as suggested by the IMF
- Reporting annual deficit and implicit debt forecasts for the pension system
- Fixing fiscal rules that do not take into account pension deficits (e.g. Stability and Growth Pact, 55% debt threshold in Poland)



Goal is to shed transparency on long-term impact of pension reforms

Intertemporal budget effect of reform



Source: Anita Schwartz (2011)

Reform reversals: other factors

- Low public awareness about pensions, low financial literacy
- Negative impact of the financial crisis on returns, lack of life-cycle investment strategies
- Relatively high management fees of pension providers



Facilitated political case for reform reversal

Reform reversals: reactions

- Fix fiscal reporting and rules
- Consider alternatives to improve fiscal balance (raise taxes/cut other expenditure, increase retirement ages, reform special regimes)
- Reform reversals are bad for public trust in pensions policy, pension system diversification and private investment



International organisations need to contribute to the dialogue

A Tale of Two Cities: Budapest vs Warsaw

	Hungary	Poland
Type of scheme	DB	NDC
Retirement age	62	65 (men), 60 (women)
Benefit indexation	GDP growth	80% prices, 20% earnings



Polish PAYG system delivers greater financial sustainability

Changing fortune for Polish NDC financing

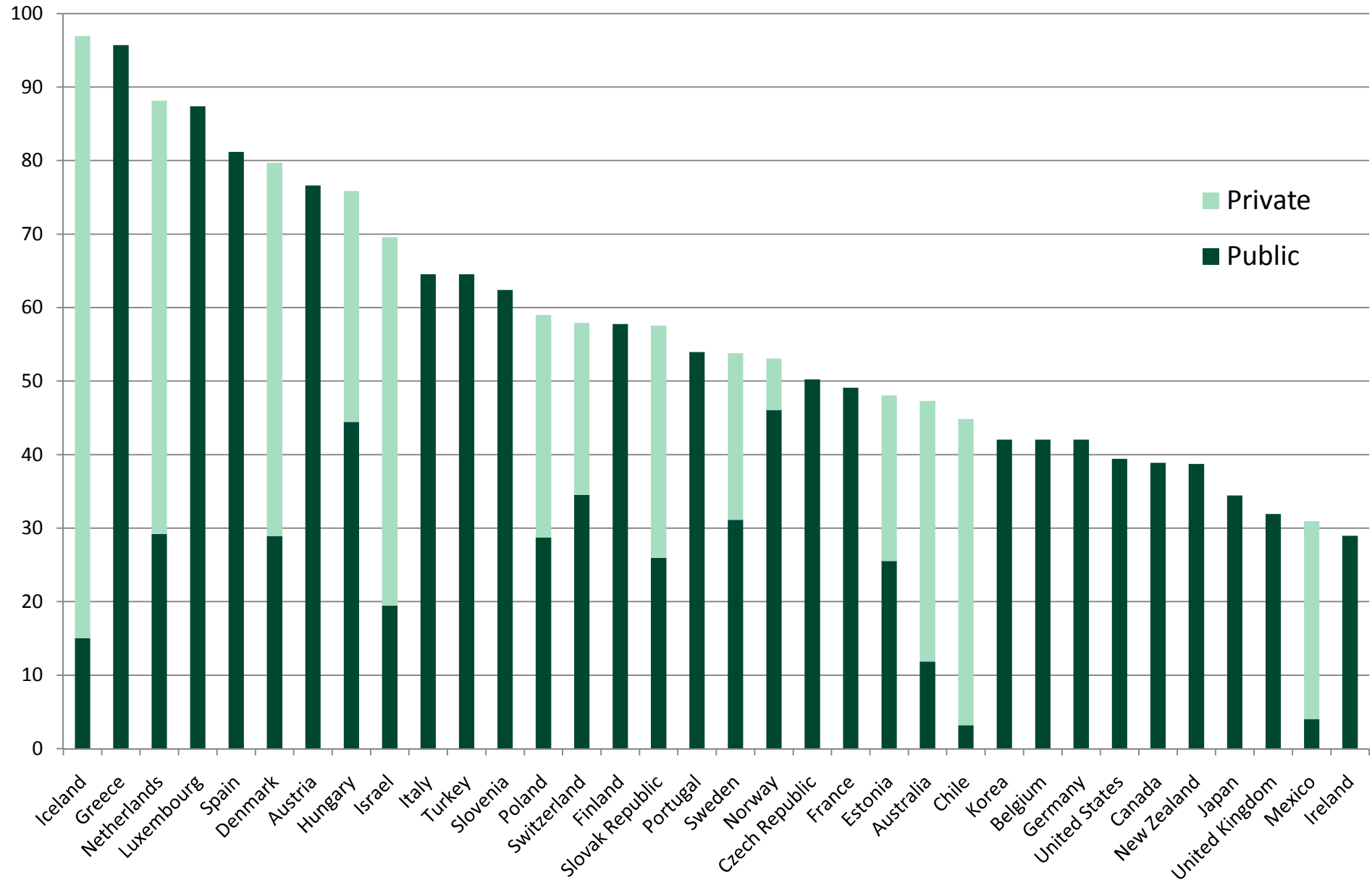


Source: Jarrett, P., Pension Reforms in Poland and Elsewhere: The View from Paris, OECD, April 2011.

Final comments on pension design (1): the inevitable growth in private pensions

- 9 out of 34 OECD countries with mandatory, DC systems (all “carve-out” except AUS, ISR and NOR)
- 4 countries with mandatory, funded DB/hybrid (Denmark, Finland, Iceland, Switzerland)
- 1 country with quasi-mandatory, funded DB system (Netherlands)
- 2 countries with nation-wide, automatic enrolment into fully-funded DC systems (NZ, UK)
- Private pensions voluntary in 18 out of 34 OECD countries

Projected OECD gross replacement rates from mandatory pension systems

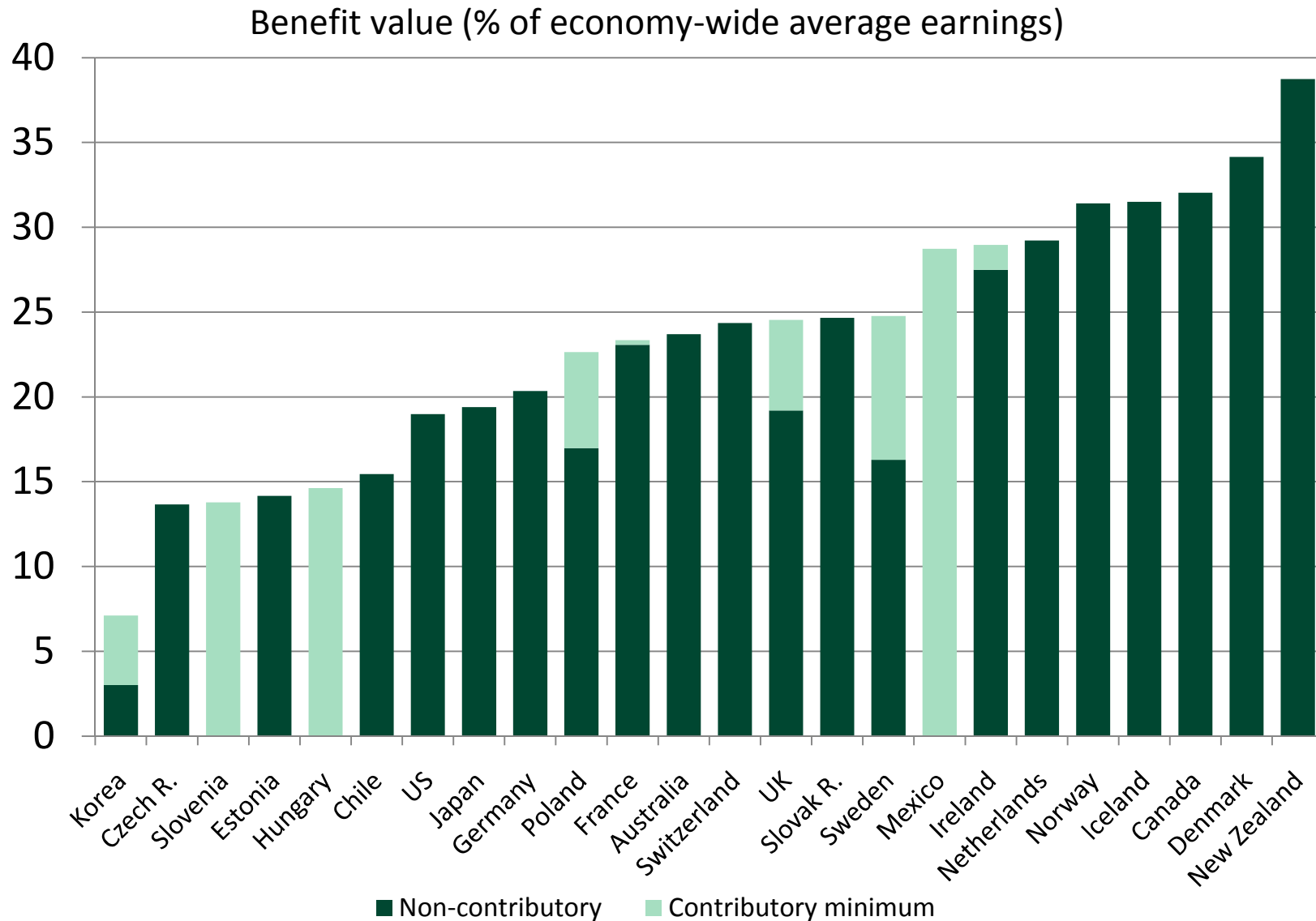


Source: Pensions at a Glance 2011

Final comments on pension design (2): more attention to basic pensions needed

- Systemic pension reforms often *forgot* the “0 pillar”
- The crisis has highlighted major safety net holes even in richer countries
- Broad access to basic pensions ensures broad-based support for public pension policy, including private pensions
- The fiscal cost can be kept low, yet old-age poverty impact is massive

Insufficient focus on basic pensions in some CEECs



Source: Pensions at a Glance 2011