Pensions at a Glance 2013
OECD and G20 Indicators

Executive summary

This edition of *Pensions at a Glance* examines the distributional impact of recent pension reforms and analyses how housing, financial wealth and publicly provided services may affect living standards in old age. It also contains a comprehensive selection of pensions policy indicators, covering: the design of pension systems; future pension entitlements for men and women at different earnings levels; finances of retirement-income systems as a whole; the demographic and economic context in which retirement-income systems operate; private pensions and public-pension reserve funds. The publication also includes profiles of the pension systems for all OECD and G20 countries.

Later retirement ages and increased private pensions arrangements

Reforms vary between countries, but there are two main trends. First, reforms of pay-as-you-go public pension systems, aimed at postponing retirement, have introduced higher pension ages, automatic adjustment mechanisms and modified indexation rules. These should improve financial sustainability of pension provision. Retirement ages will be at least 67 years by around 2050 in most OECD countries. Some others are linking the pension age directly to the evolution of life expectancy. Second, governments have been looking at funded private pension arrangements. While the Czech Republic, Israel and the United Kingdom have introduced defined-contribution pension schemes, Poland and Hungary have reduced or closed these.

Pension reforms made during the past two decades lowered the pension promise for workers who enter the labour market today. Working longer may help to make up part of the reductions, but every year of contribution toward future pensions generally results in lower benefits than before the reforms. While future pensions will decline across the earnings range, most countries have protected the lowest earners from benefit cuts; everywhere, except in Sweden, pension reforms will hit the highest earners most.

Adequate living standards in old age

The reduction of old-age poverty has been one of the greatest social policy successes in OECD countries. In 2010, the average poverty rate among the elderly was 12.8%, down from 15.1% in 2007, despite the Great Recession. In many OECD countries, the risk of poverty is higher at younger ages. Incomes of people aged 65 years and older in OECD countries reach, on average, about 86% of the level of disposable income of the total population, ranging from almost 100% in Luxembourg and France to less than 75% in Australia, Denmark and Estonia. However, to paint a more complete picture of pensioners' retirement needs, other factors – such as housing wealth, financial wealth and access to publicly-provided services – also need to be considered.

In OECD countries, on average more than three-quarters of those aged 55 and above are homeowners. Housing can make a major contribution to pensioners' living standards, because they save on rent and can, when necessary, convert their property into cash through sale, rent, or reverse mortgage schemes. Nevertheless, homeowners may still be income-poor and may find it difficult to pay for both home maintenance and their daily needs.

Financial wealth can complement other sources of retirement income. Unfortunately, recent internationally comparable data is lacking in this area, making comprehensive assessment difficult. The extent to which financial wealth can help reduce the risk of poverty in old age depends on its distribution; as wealth is strongly concentrated among the top of the income distribution, its impact on poverty among the elderly is limited.

Access to public services, such as health care, education and social housing, also affects older people's living standards. Long-term care is very important as care costs associated with greater needs (i.e. 25 hours a week), may exceed 60% of the disposable income for all but the wealthiest one-fifth of the elderly. Women, who live longer than men, have both lower pensions and less wealth, are at a particular risk of old-age poverty when long-term care is needed. Public services are likely to benefit the elderly more than the working-age population: adding their value to incomes, about 40% of older people's extended income is made up of in-kind public services, compared to 24% for the working-age population.

Key findings

Population ageing means that in many OECD countries, pension expenditures will tend to increase. Recent reforms have aimed at maintaining or restoring financial sustainability of pension systems by reducing future pension spending. The social sustainability of pension systems and the adequacy of retirement incomes may thus become a major challenge for policy makers.

- Future entitlements will generally be lower and not all countries have built in special protection for low earners. People who do not have full contribution careers will struggle to achieve adequate retirement incomes in public schemes, and even more so in private pension schemes which commonly do not redistribute income to poorer retirees.
- It is essential that people should continue paying in contributions to build future pension entitlements and ensure coverage. However, increasing pension age alone will not suffice to ensure people stay effectively on the labour market. A holistic approach to ageing is needed.
- Retirement incomes come from different sources and are subject to different risks, related to labour markets, policy, economic conditions and individual circumstances. Unemployed, sick and people with disabilities may not be able to build adequate pension entitlements.
- Current retirees have high incomes relative to the total population: 86% on average in OECD. This outcome and the reduction of old-age poverty are policy successes of the last decades.
- Because of stigma, lack of information on entitlement, and other factors, not all elderly people who need last-resort benefits claim them. There is thus a certain degree of hidden old-age poverty.

- The retrenchment of public pension systems, trends towards working longer and more reliance on private pensions may increase inequality among retirees.
- Housing and financial wealth supplement public pension benefits. They do not, in their own right, appear to be sources of income that can be expected to replace a proper pension income. Better internationally comparable data are urgently needed to explore in greater detail how housing and financial wealth can contribute to the adequacy of retirement incomes.
- Public services are retirement-income enhancers. This is especially true of healthcare and long-term care services. Services benefit the poorest retirees much more than they do richer elderly households. Public support is set to play an increasingly important role in preventing old-age poverty among people requiring health and long-term care services.

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