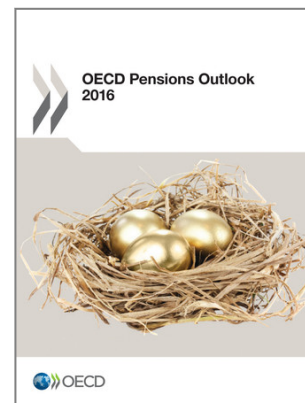


OECD *Multilingual Summaries*

OECD Pensions Outlook 2016

Summary in English



Read the full book on: [10.1787/pens_outlook-2016-en](https://doi.org/10.1787/pens_outlook-2016-en)

Pension systems across OECD countries are still addressing the challenges posed by population ageing, the financial and economic crisis and the economic environment of low growth and low interest rates. This Outlook continues the OECD exploration of how pension systems are responding to these challenges.

The nature of funded private pension provision is changing, defined contribution (DC) and personal pension arrangements are growing in importance

The challenges facing pension systems have led to reforms that have increased the diversity of pension arrangements across OECD countries and the importance of arrangements in which assets back pension benefits, especially DC ones, in which pension benefits are linked to the value of assets accumulated. DC pension arrangements provide a clear, straightforward link between contributions and benefits, but put most risks (e.g. investment and longevity) onto individuals, and make them more responsible for managing their retirement.

To understand this changing landscape and distinguish among different pension arrangements, it is important to look at their characteristics: whether they are mandatory, how pension benefits are financed, who manages them, the role of the employer, the link between contributions and benefits, and who bears the risks.

The Outlook also considers the policy context of these changes, finding them to be in line with the main OECD messages about diversifying the sources to finance retirement, and the complementary role of funded pensions. The growing weight of DC arrangements makes it imperative to improve their design in line with the OECD Roadmap for the Good Design of DC Pension Plans. What follows discusses some of those policy guidelines.

In most OECD countries, the tax treatment of retirement savings provides a tax advantage when people save for retirement

Most countries have a preferential tax treatment of retirement savings to encourage people to save for retirement. Calculating the amount that an individual would save in taxes paid by contributing to a private pension plan instead of putting the same amount into an alternative savings vehicle suggests that the tax treatment of retirement savings does indeed provide a tax advantage. The size of the overall tax advantage varies, however. Flat-rate subsidies and matching contributions can be used to target tax advantages at low-income individuals or to smooth out the tax advantage across the income scale. Tax advantages can encourage people to save for longer periods, but not necessarily to save more. Straightforward and simple tax rules may increase people's confidence and help to increase participation in and contributions to private pension plans.

Policy makers need to ensure that consumers receive appropriate financial advice for retirement

Measures are needed to address financial advisers' conflicts of interest and to help to ensure that consumers receive financial advice for retirement that is appropriate for their needs. Such measures can potentially lead to an advice gap, however, reducing the availability and affordability of advice, particularly for consumers with low to moderate retirement wealth. Technology-based advice has the potential to increase the accessibility and affordability of advice and to overcome the behavioural biases of advisors. However, policy makers need to ensure that there is regulation in place so that the same level of consumer protection is provided.

Policy makers need to ensure the sustainability of annuity products and their suitability for consumers

Annuity products can play an important role in helping individuals mitigate investment and longevity risks. Nevertheless, these products and their associated guarantees present challenges. The lack of consistency with respect to what is meant by an annuity product and the terminology used to describe the different types of products calls for defining a common language. A coherent framework for retirement is needed to accommodate and encourage the use of annuity products. Increased product complexity, however, highlights the need for appropriate financial advice and comprehensible product disclosures to ensure that consumers purchase products suitable for their needs. The regulatory framework should put in place tools for managing risk and the incentives to do so, in order to encourage appropriate risk management by annuity providers. Approaches based on principles are better suited than static formulas, as they enable capital requirements to adapt to changing product designs, ensuring sufficient capital to back the annuity liabilities and to guarantee their sustainability.

Well-designed financial education can improve people's financial knowledge, attitudes and skills for retirement, and can help decision making

Low financial literacy poses serious challenges, as individuals are increasingly responsible for managing their own retirement wealth. Financial education initiatives for retirement planning should be implemented, taking into account national circumstances and the extent of retirement planning challenges due to the features of different national pension systems and of the financial environment. Governments and other stakeholders should ensure that information about pension systems, pension reforms, and private pension plans is available, clear and not overwhelming for individuals. Information about costs, performance, service quality, investment allocation and risk level should be comparable and standardised. Information regarding all of an individual's pension plans should be combined and pension statements should be complemented with calculators/simulators in order to maximise the impact of information. There should be national financial education strategies to ensure people are able to acquire general financial skills. Additionally, practical tools for policy makers exist, such as a matrix of financial education needs and tools to support retirement decision making, and a checklist.

Most OECD countries have been aligning the pension systems for civil servants and private sector workers

In half of OECD countries, civil servants' future pension promises measured in terms of replacement rates are 20 percentage points higher for a full career than those of the private sector. This includes in Belgium, France, Germany and Korea, which maintain separate sector pension systems. Legacy costs exist in another quarter of those OECD countries that have aligned their pension systems since the 1990s. An integrated pension framework covering all workers identically might yield benefits in various dimensions. On the equity side, it is difficult to argue today that civil servants/public sector workers require higher income replacement in retirement than their private sector counterparts. On the efficiency side, there are significant economies of scale in managing unified pension systems, for example in contribution collection, recordkeeping and benefit payment. Moreover, restraining labour mobility across sectors (e.g. vested periods or limited portability) is inefficient, introducing rigidities in individual career management

and restricting workers' capacity to adapt to sectorial shifts and new employment opportunities. A common pension scheme would make such choices easier and facilitate labour mobility.

© OECD

Reproduction of this summary is allowed provided the OECD copyright and the title of the original publication are mentioned.

Multilingual summaries are translated excerpts of OECD publications originally published in English and in French.

They are available free of charge on the OECD Online Bookshop www.oecd.org/bookshop

For more information, contact the OECD Rights and Translation unit,

Public Affairs and Communications Directorate at: rights@oecd.org or by fax: +33 (0)1 45 24 99 30.

OECD Rights and Translation unit (PAC)

2 rue André-Pascal, 75116

Paris, France

Visit our website www.oecd.org/rights



[Read the complete English version on OECD iLibrary!](#)

© OECD (2016), *OECD Pensions Outlook 2016*, OECD Publishing.

doi: 10.1787/pens_outlook-2016-en