Public Pension Systems in Advanced Asia Pacific Challenges and Reform Options

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Plan of Presentation

I. Pension Challenges

II. Reform Options

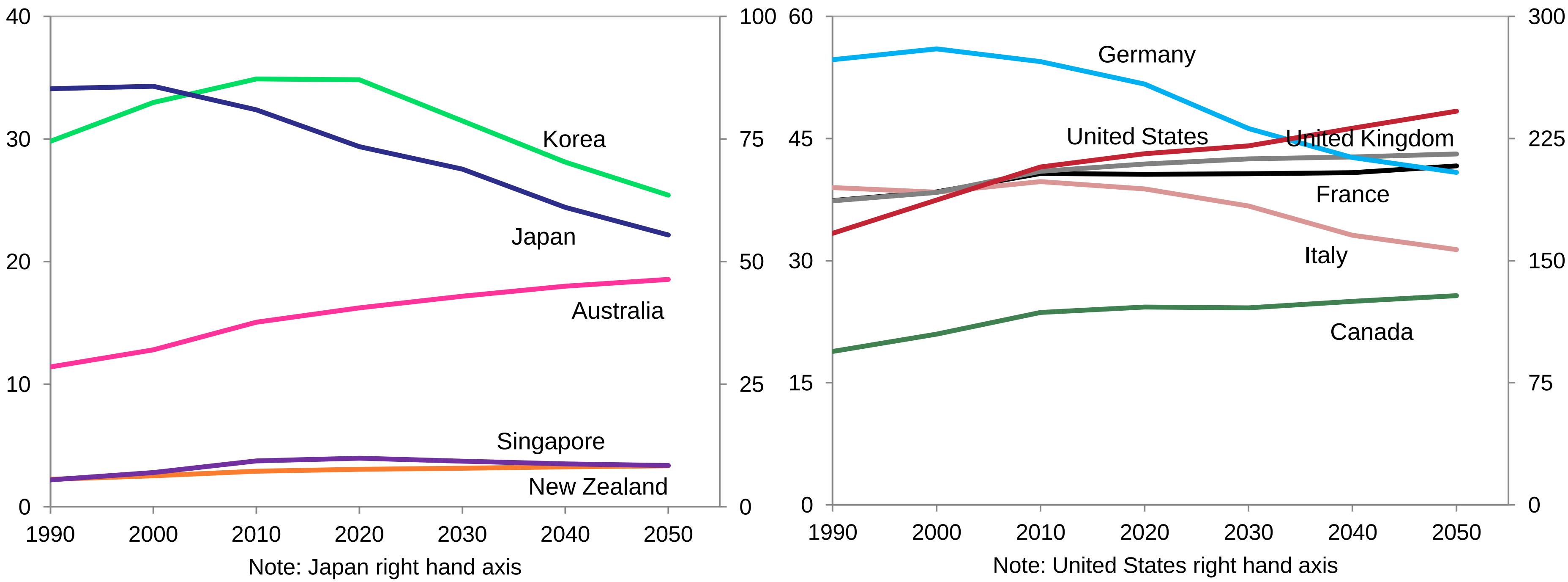
III. Risks to Reform Options

IV. Conclusions

I. Pension Challenges
Working-age population

Population aged 15-64

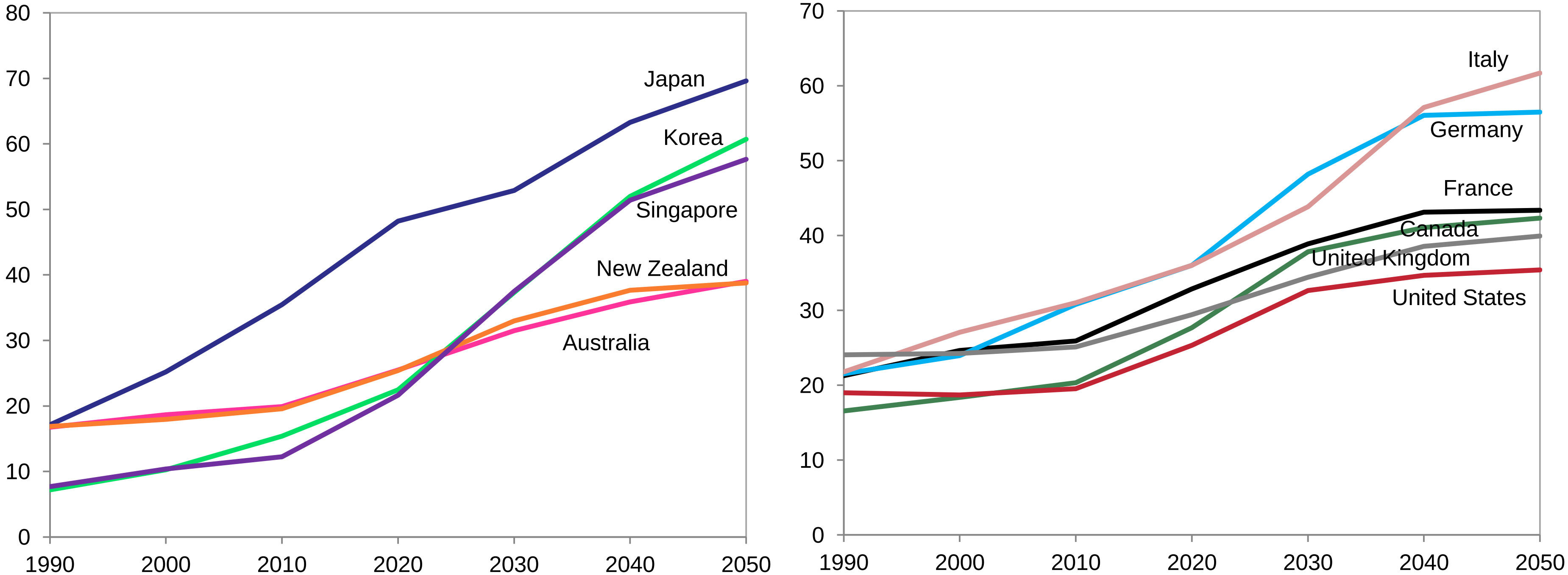
(in millions)



Source: UN.

I. Pension Challenges
Old-age dependency ratio

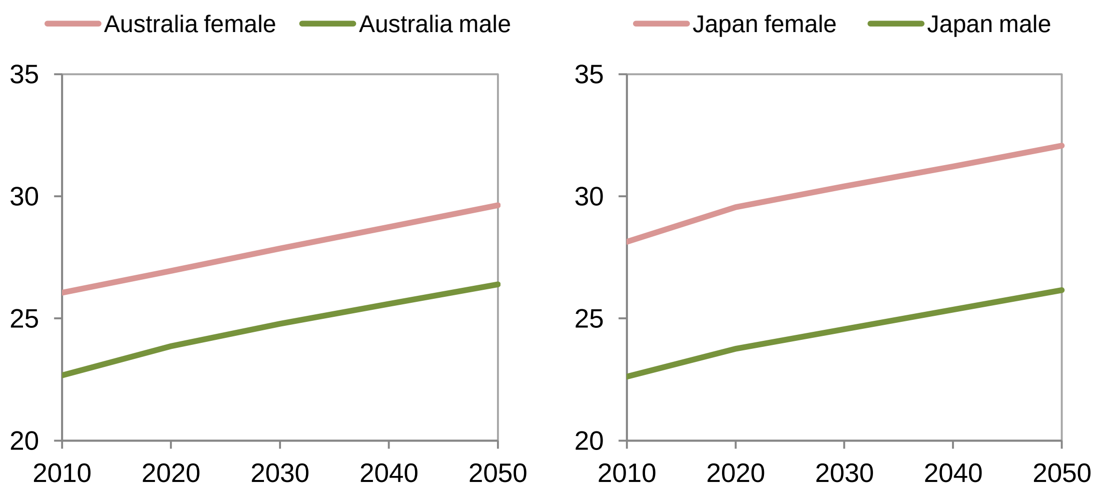
Population 65 and older as a share of population aged 15-64



Source: UN.

I. Pension Challenges
Life expectancy trends

- Life expectancy trends, gender and socio-economic status
  - Life expectancy higher for females than males
  - Widening gap in life expectancy between lowest and highest socioeconomic groups

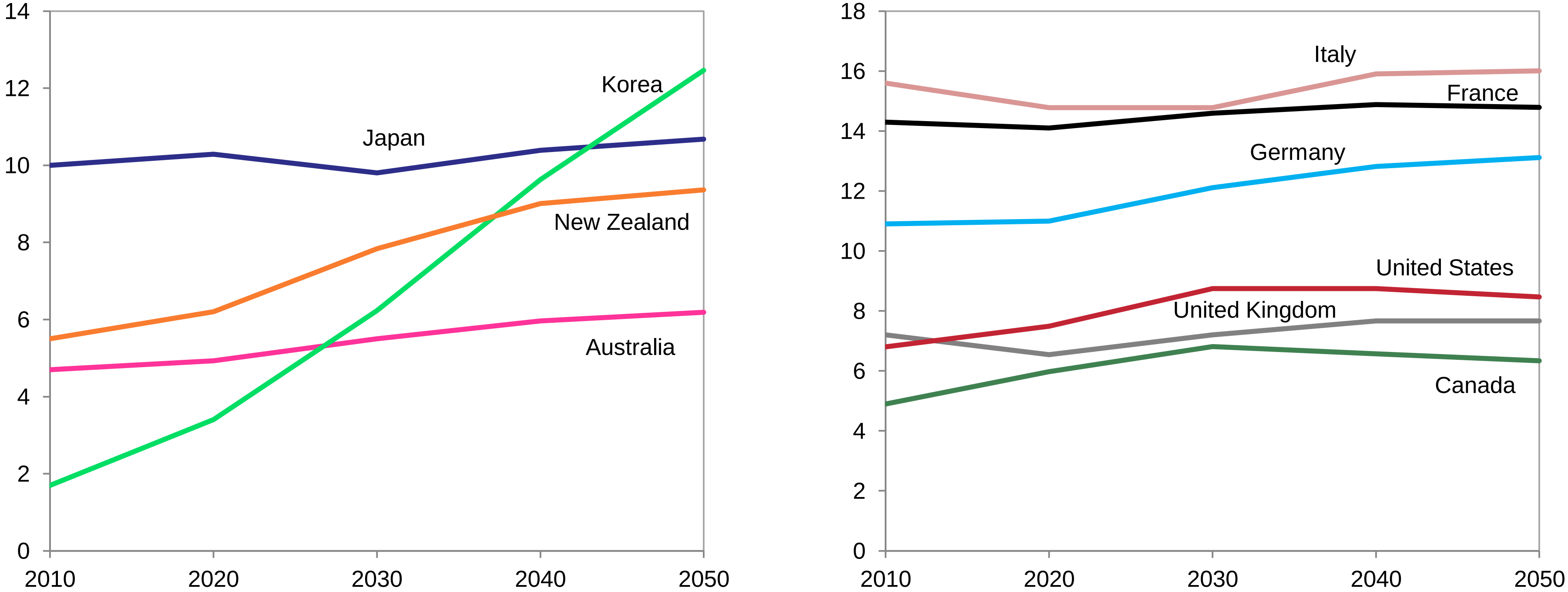


Source: UN.

I. Pension Challenges
Increases in Public Pension Spending

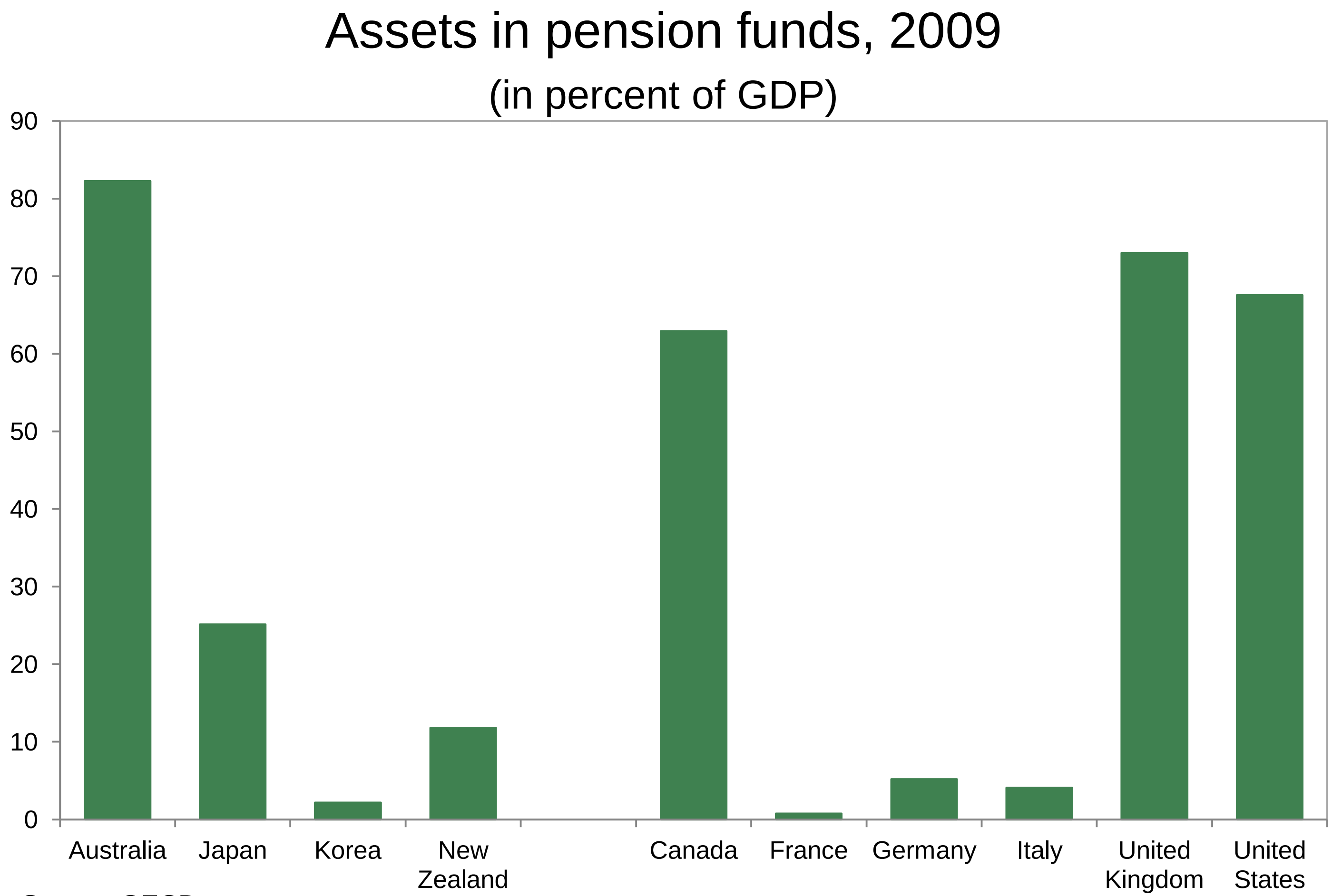
Pension spending, 2010-50

(in percent of GDP)



Sources: OECD, EC, ILO, and IMF staff estimates.

I. Pension Challenges
Different Approaches



Source: OECD.

I. Pension Challenges
Gender and Inter-/Intra Generational Equity

- **Fairness of the public pension system across**
  - **Genders within a generation. What is effect of labor market (non-) participation on accrual of entitlements? For example, do females accrue entitlements while providing care at home, e.g. for their children or elderly relatives? Singles versus married couples?**
  - **Income groups within a generation**
  - **Public and private sectors within a generation. Public Service Pensions can be substantially more generous than state pensions**
  - **Generations. Does public pension system favor particular generations financially in terms of benefits paid relative to contributions made?**

II. Reform Options

- Raise Retirement Age

- Reduce Replacement Rates

- Increase Payroll Contributions or other Revenue

- In practice use a combination of the above

II. Reform Options
Raise Retirement Age

- Measures
  - Increase Statutory Retirement Age with rising life expectancy
  - Reduce Early Retirement Incentives with the aim to raise Effective Retirement Age
  - Tighten Eligibility, e.g. raise minimum contribution years
- Attractive Option
  - No Need to Reduce Benefit Generosity
  - Short- and Long-Term Positive Effect on Output
- Equity Issues
  - Same Retirement Age for all Socio-Economic Groups could Raise Equity Issues. Increase Contribution Years instead?
  - Protect those who cannot work longer

II. Reform Options
Raise Retirement Age

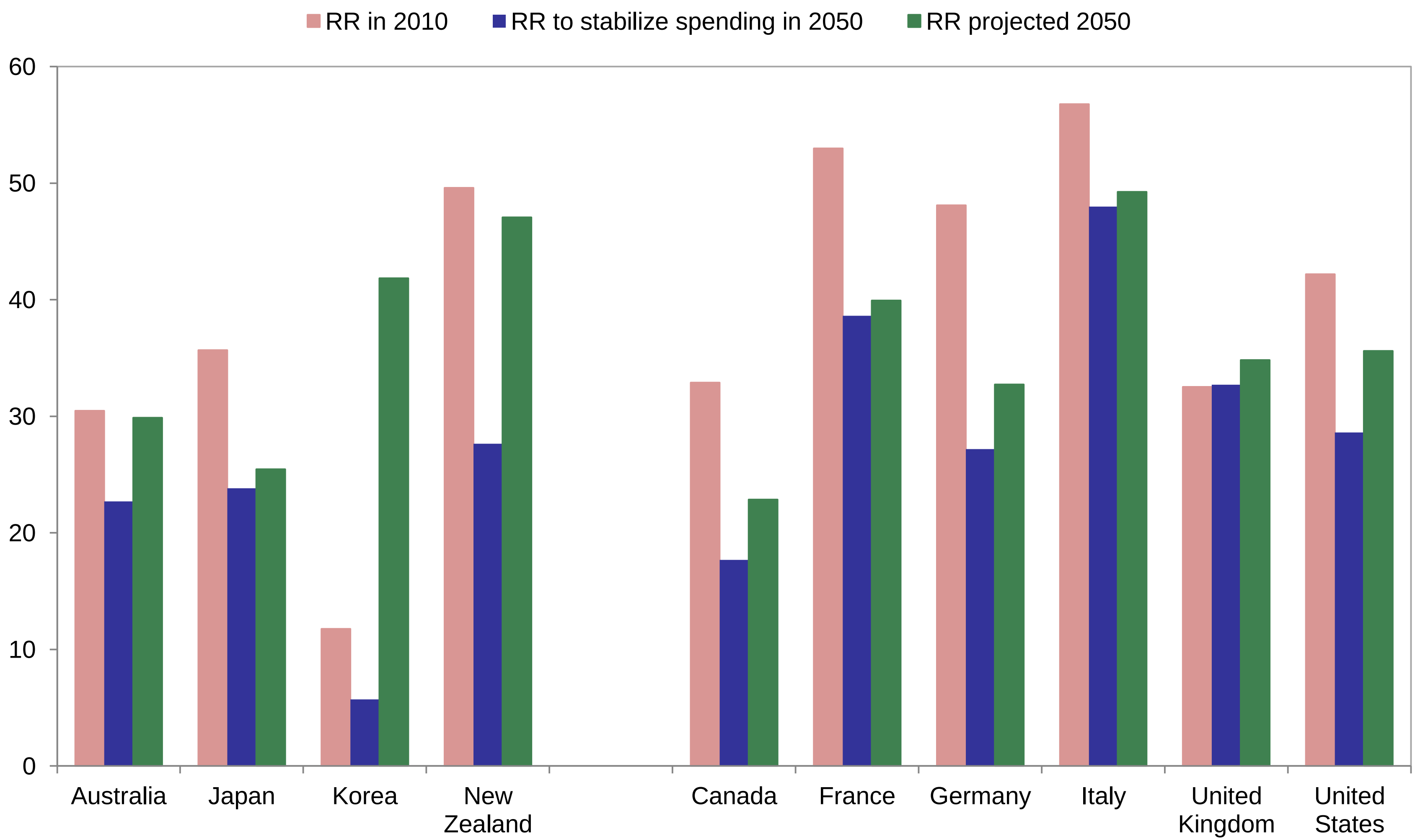
Statutory retirement ages and life expectancy								
	Male				Female			
	2010	2030	2050	Projected increase in life expectancy at 65 during 2010 and 2050	2010	2030	2050	Projected increase in life expectancy at 65 during 2010 and 2050
Australia	65	66	67	3.4	62	66	67	3.3
Japan	64	65	65	3.2	62	65	65	3.7
Korea	60	62	65	3.2	60	62	65	3.4
New Zealand	65	65	65	3.4	65	65	65	3.4
Canada	65	65	65	2.8	65	65	65	3.2
France	60.5	62	62	3.1	60.5	62	62	3.0
Germany	65	65	65	3.6	65	65	65	3.4
Italy	59	66	68	3.0	59	66	68	3.4
United Kingdom	65	66	68	3.1	60	66	68	3.5
United States	66	67	67	3.0	66	67	67	3.4

Sources: OECD, SSA.

II. Reform Options
Reduce Replacement Rates

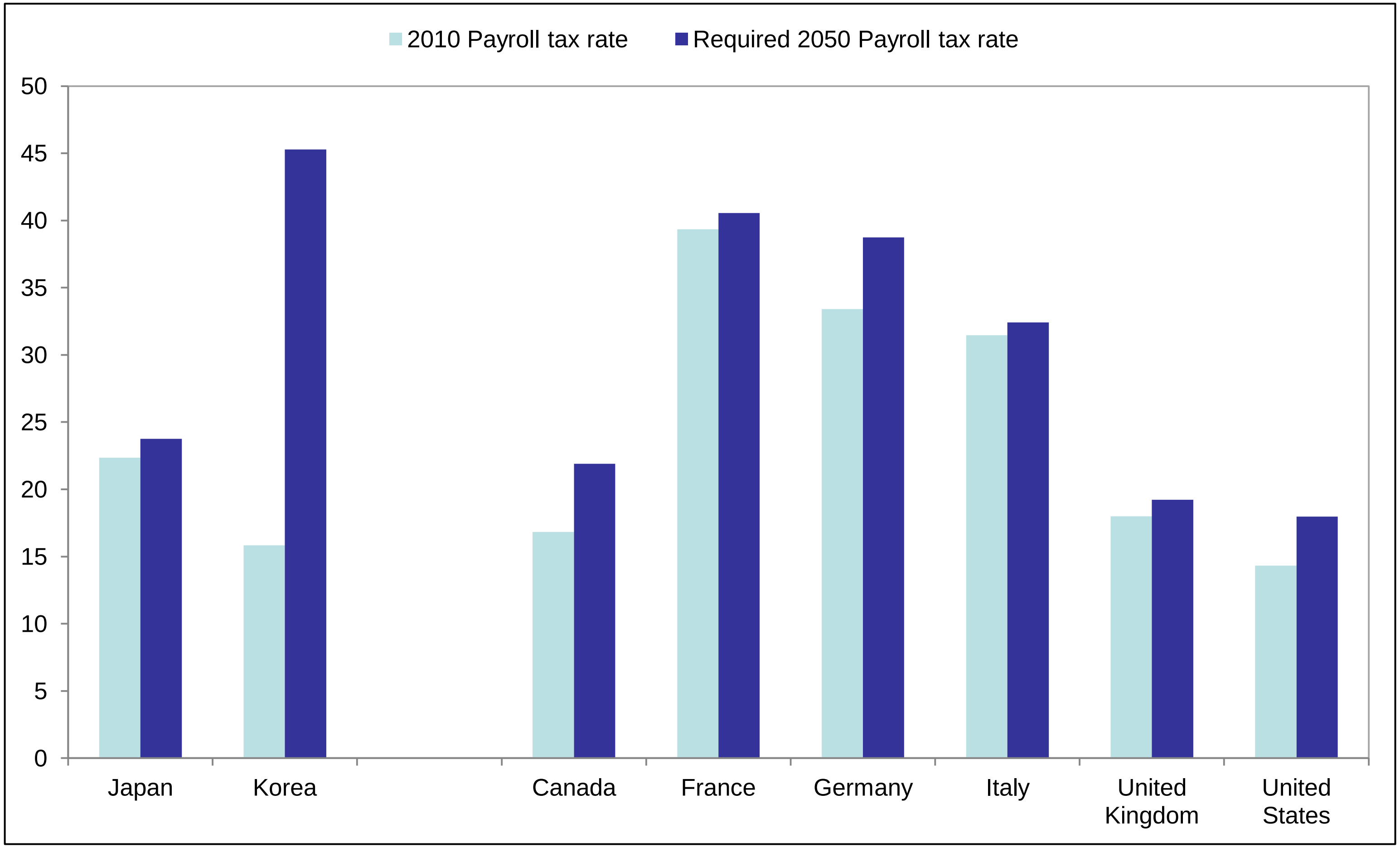
- Measures
  - Indexation to inflation rather than earnings
  - Move from final salary to career average to calculate pension entitlement
  - Macroeconomic Indexation (Japan) or sustainability factor (Germany, Sweden), which change benefits according to ratio of beneficiaries and contributors
- Equity Issues
  - Complementary Reforms to Private Pensions to Ensure Adequacy
  - Need to Prevent Pension Poverty

II. Reform Options
Reduce Replacement Rates



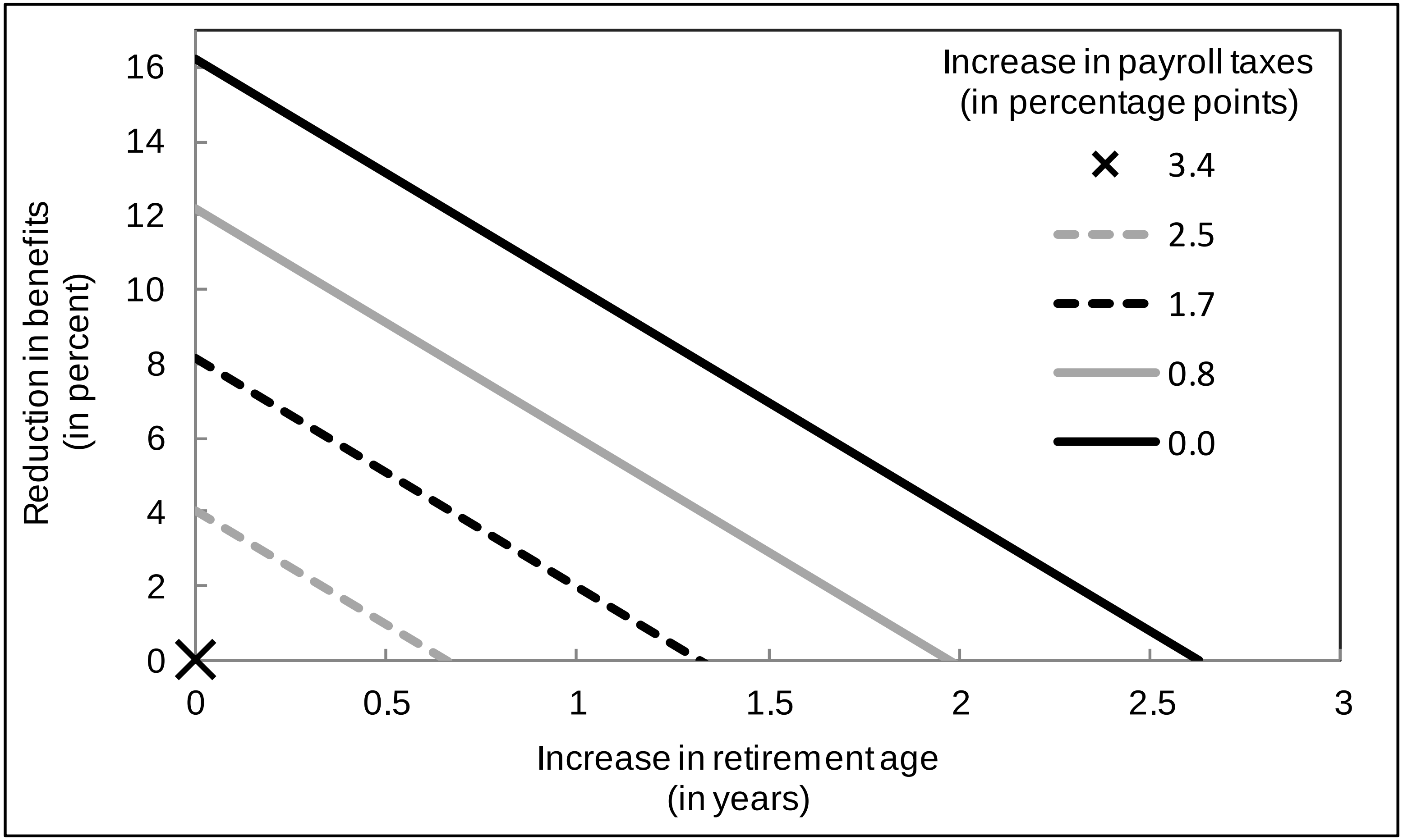
Source: IMF staff estimates.

II. Reform Options
Increase Payroll Contributions and Taxes



Sources: OECD, IMF staff estimates.

II. Reform Options
Combination of Measures



Sources: OECD, EC, ILO, UN, and IMF staff estimates.

III. Risks to Reform Options

- Reforms insufficient
  - For example, aging more pronounced than predicted
  - Would require further reforms
- Pension strategy does not deliver desired outcomes
  - Shift to private pensions leaves government exposed to contingent liabilities

III. Risks to Reform Options

- **Lack of Implementation**
  - **Governments shy away from implementing unpopular policies or introduce new policies to offset impact of original policy, thus negating previous initiatives**
  - **Examples: Japan’s Macroeconomic Indexing not fully implemented or Germany’s decision to modify indexation rules to prevent pensions from falling in nominal terms during economic crisis**
- **Reform Reversal**
  - **Authorities could undo legislation enacted by previous governments and change pension strategy, e.g. closure of funded pensions in central and emerging Europe**

IV. Conclusions

- Achieving sustainable public finances major challenge given pressure of demographic change on public pension and healthcare spending
- Regardless of current arrangements (e.g. funded, unfunded, role of private pensions), no country immune from challenges
- Past reforms welcome but lack of implementation or policy reversals pose genuine risks
- Future reforms need to factor in equity issues

Thank you!