
Pension reform: Juggling aging and money



By [Zoe McKay](#)

The baby-boomer time bomb is set to go off in the next few years, just as both public and private pension providers are trying to cut costs dramatically. Now what?

Pensions have long been at the forefront of the political debate in many OECD countries particularly as the glut of Post-World War II baby-boomers reached retirement age. All of a sudden, or so it seemed, retirement savings programmes that were designed for different demographics and economic outlook showed signs of strain.

Governments that had always relied on publicly-funded pensions by redistribution had a time bomb on their hands with too many soon-to-be retirees in line and not enough workers footing the bill. Unpopular measures were rolled out in countries like France, Germany and the U.K. raising the retirement age and cutting benefits. Begrudgingly everyone bit the bullet.

All of a sudden things seem to have gone very quiet. But has the problem been solved or just overshadowed by the recent economic turmoil? **Monika Quiesser**, Head of Social Policy Division at the OECD, says that's because

today pension sustainability may not be the most pressing problem to come in certain countries...

“We have seen a real movement starting in the early 90s where countries have been realising that there is a demographic time bomb ahead, and that they needed to do something about it,” says Quiesser.

“The majority of countries have been increasing retirement age for example [...] you can still take early retirement but you need to make do with a much smaller benefit because you get increments and decrements depending on the time you retire. A couple of countries have also seriously been reducing benefit levels. In fact some countries have gone so far that actually the big risk for the future is more one of pension adequacy rather than financial sustainability of pension systems.”

A downwards slope

So-called “pensioner poverty” is already tangible in certain countries. Recently, associations in Britain warned that a growing number of pensioners in the U.K. are facing “fuel poverty” and suffer from the cold in an attempt to keep their rising energy bills down. Hypothermia deaths have doubled over a five-year period – with pensioners representing the majority of those fatalities.

German pension reform is another example of a system on track to sustainability but raising potential problems. “Germany has massively reformed the pension system and has put it on a financially sustainable path [...] pension value is now linked to a number of indicators including the ratio between pensioners and contributors, which means that as the population ages and there are less contributors for an increasing number of pensioners, the pension benefit will fall.” Says Quiesser, “Since there is a very strong link between contributors and benefits in the German pension system, we are concerned that in the future there might be an increase in old-age poverty”

Not just a rich country’s problem

This pension problem is not confined to the more affluent, established economies but is also beginning to preoccupy the recently emerged economies too... In a recent report, the OECD's analysts warned that things are moving much faster in Asia, and at a different scale. “The demographic

transition – to fewer babies and longer lives – took a century in Europe and North America. In Asia, this transition will often occur in a single generation. Asia’s pension systems need modernising urgently to ensure that they are financially sustainable and provide adequate retirement incomes,” they warn.

The report concludes that not only is the number of people in Western-style pension plans in many Asian countries very low, but in some countries the pension schemes that do exist are so generous they may not be affordable in the long run.

In China, for example, 189 million people have some kind of formal pension. That is a lot in absolute terms, but it represents just 17 percent of the Chinese population. In comparison, the OECD average for developed economies is 63 percent. In Japan, 75 percent of the population has a pension. They forecast, for example, the pensions that China is aiming to pay will ultimately cost almost 50 percent of workers' salaries, while Vietnam's will cost over 40 percent. In the U.S. and Japan, meanwhile, the average pension costs just 15 percent of salaries.

So what is the solution?

Quiesser comments without judgment: “Those countries that were always convinced that private pensions were not a good idea because they felt that it was playing with savings that were needed for a well-deserved retirement, have become more convinced in that position,” says Quiesser, whereas “countries that were always reserving a large part for private pension have not put that into question fundamentally. They say ?we need to regulate better, we need to put in place more checks and balances but nobody was prepared to throw private pensions out of the window.”

Supply side solution

So perhaps the solution is not so much one of finding one right type of pension scheme, but trying to get as many people into the active workforce as fast as possible?

“The prime concern everywhere, or in the majority of OECD countries at the moment is jobs. Jobs, jobs, jobs. We have seen so many people of all ages losing jobs but we have a particular situation here that contrary to previous

recessions, it is young people that are very much hit by this recession. Young people are not finding jobs, are becoming unemployed, and this is a very serious and risky situation as there is a risk of long-term scarring,” says Quiesser.

“I think we have to look at the current economic situation both in a long-term and in a short-term perspective. In the long-term, structural reforms are needed in many countries and not only in social sectors, not only in the pension systems but also in other areas of the economy. And the crisis can be a good time to address some of these concerns. But in the short-term, there is simply no way one can just cut social spending - particularly for those people who have just lost their jobs because these people have no other resort. It is very clear that you cannot save money in that short-term.”

Monika Quiesser spoke to INSEAD Knowledge at the Women’s Forum in Deauville, France, held between 13th – 15 October 2011.

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