Global Patterns of Pension Provision

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Evolution of global pension policy
Design and performance

• Design
  – Mandatory contributory scheme design - defined benefit or Defined contribution?
  – Voluntary private pensions
  – Non-contributory (social) pensions
  – Civil service pensions

• Performance
  – Adequacy
  – Coverage
  – Sustainability
“...the old age pensions he called for came to be financed with wage based taxes was an accident.”
THE RISE OF DB SCHEMES: 1975
THE RISE OF DB SCHEMES: 2015
THE RISE OF DC SCHEMES: FROM SANTIAGO TO PRAGUE
Share of benefit from DC

Proportion of benefit from private DC vs public DB

Colombia

- Private DC
- Minimum pension

Costa Rica

- Private DC
- Public DB scheme

Low income vs High income
GLOBAL PENSIONS BY TYPE OF MANDATED CONTRIBUTORY SCHEME
Mandated pensions today

Note: Select countries: only national contributory schemes included
Voluntary private pensions are important in only a few countries.
Generosity of the Mandatory Systems is the Strongest Incentive:
Income Replacement Rates and Voluntary Private Pension Coverage in OECD

Source: OECD, Pensions at a Glance, 2007
CIVIL SERVICE PENSIONS

Civil Servants
Separated vs. Integrated
The role of social pensions is growing
Performance - CAS

Sustainability

Adequacy  Coverage
**Implied Target Replacement Rates**

The chart illustrates the implied target replacement rates in various countries compared to the OECD average and the LAC average. The graph shows the gross and net replacement rates as percentages of gross/net wage. Countries are listed from highest to lowest net replacement rate, indicating the percentage of gross wage retained in the event of an injury or illness.
TARGET VERSUS ACTUAL REPLACEMENT RATES

Vietnam
China
Thailand
Mongolia
Korea

Implied Target RR
Actual RR
Pension spending and ageing

The graph shows the relationship between public pension spending as a percentage of GDP and the percentage of the population aged 60+ for various countries. The linear equation is given as $y = 0.4362x - 1.0813$ with an $R^2$ value of 0.6867.
Life cycle of PAYGO scheme
Parametric and systemic reforms

• Parametric
  – Raising effective retirement ages and linking with longevity
  – Raising contribution rates
  – Reducing future accrual rates and taking into account longer wage periods
  – Moving to price indexation
  – Notional accounts or NDCs
• Replacing part or all of DB with DC
Contribution rates
Pension incentives to work/retire

Change in pension wealth from working an additional year, between ages 60 and 65, per cent of annual earnings

Source: OECD Pensions at a Glance
MANDATORY CONTRIBUTORY PENSION COVERAGE
Pension coverage and income level

\[ y = 3.8765x^2 - 50.326x + 165.58 \]

\[ R^2 = 0.8539 \]
Elderly coverage
Summary and looking forward

• For a century, public DB plans spread across the globe and dominated pension provision but...

• Unfunded liabilities are catching up with maturing systems as the demographic transition unfolds resulting in cuts

• In the last two decades, prefunding and especially DC plans have taken on a greater role raising new issues of costs, investments, payouts and supervision

• Coverage has emerged as the key issue for most low and middle income countries with policy discussion centered on the potential role of social pensions and innovative ways of incorporating the informal sector workforce

• Will younger countries learn from the experience of the older countries (or repeat their mistakes)? How will older countries strike the balance between sustainability and adequacy?
Thank you!

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