TUAC Meeting on Pension Reforms

Paris, 2 December 2015

TUAC held an ad hoc meeting on pensions on 2 December 2015 at the OECD. The meeting provided an opportunity for trade union pension experts to exchange with the OECD Secretariat on the direction taken by recent pension reforms based on the key findings of the OECD Pension at a Glance 2015 publication, released on the same day. The meeting also included a special session with representatives of the OECD Secretariat and the Financial Stability Board (FSB) Secretariat on the growth of the "shadow banking" sector and the impact of the low interest rate environment on pension funds.

Across OECD economies, pension systems are under pressure in a context of severally depressed labour markets and public sector austerity measures. Governments' attention remains focused on ensuring financial sustainability of pension schemes, including by raising the statutory retirement age. At the same time, however, employment rates of older workers remain very low, while the projected replacement rates for future pensioners are likely to fall.

For TUAC participants at the meeting, increasing statutory retirement age may "fix" financial sustainability problems in the short term, but it will not solve the problem of old age poverty in the absence of serious and rapid increases in old age employment rates. All being equal, increasing the retirement age shifts the burden from pension to unemployment insurance schemes and other social safety nets.

Increasing the retirement age for all may also fuel rising inequality. As shown by recent OECD work, life expectancy is substantially lower for low-income workers than for high-income earners, for workers with low education level than for those with high education etc. A uniform rise in retirement age would subsequently result in a transfer of pension wealth (defined as the accumulation of pension benefits during the retirement period) from the low income / low skilled workers to the higher income / skilled workers.

Overall, for TUAC participants the main threat to the financial sustainability of pension schemes lies in the rise of job insecurity that increases the likelihood of career disruptions. The main avenue for restoring pension sustainability is to restore access to labour markets and to employment security.

Representatives of the FSB secretariat presented the key findings of the 2nd edition of the FSB "shadow banking monitoring exercise". This was followed by a presentation by the OECD Secretariat on the impact of the current low interest rate environment on pension funds.

In terms of size, shadow banking is estimated at USD36tr by the FSB – which compares to the USD135tr of the banking sector and the USD29tr of the pension fund sector. Pension funds' exposure to the shadow banking sector occurs primarily through investments in hedge funds but also in private equity funds, which have considerably increased their activities in credit intermediation post-crisis.

The OECD Secretariat gave a presentation on the extent to which the current low interest rate environment is pushing pension funds to review their investment strategy in "search for yields". It is feared that pension funds will engage in excessively risky investment strategies in a "search for yield" and/or that the pension "promise" of guaranteed returns might be considered broken in the future, at least implicitly.

TUAC participants noted that the exposure of pension funds to private equity and hedge funds has a long history within the labour movement. It could be reviewed in light of the central role played by private funds in the growth of shadow banking, but also in light of certain forms of trading, such as securities lending by pension funds to hedge funds.

As expressed at the last two TUAC meetings on pensions, the impact of the current low interest rate policy by a number of central banks is of concern; it is not delivering growth and economic recovery and hence is not alleviating pressure on pension funds' asset side in the short term, while creating increased pressure on pension funds' long term liability side.

Finally, TUAC participants discussed the key issues and future work programme of the OECD Working Party on Private Pensions, as well as the broader OECD and G20 work on long term investment, infrastructure finance and green finance.

Links:

21/12/2015| TUAC Papers | TUAC Ad Hoc Meeting on Pension Reforms , 2 December 2015
http://www.tuac.org/en/public/e-docs/00/00/11/85/document_doc.phtml

01/12/2014| TUAC Papers | TUAC Ad Hoc meeting on Pension reforms
http://www.tuac.org/en/public/e-docs/00/00/0F/A1/document_doc.phtml

Pensions at a Glance 2015, December 2015
http://www.oecd.org/newsroom/further-reforms-needed-to-tackle-growing-risk-of-pensioner-poverty.htm

OECD Business and Finance Outlook, June 2015
http://www.oecd.org/daf/oecd-business-and-finance-outlook-2015-9789264234291-en.htm

FSB Global Shadow Banking Monitoring Report, November 2015 http://www.financialstabilityboard.org/wp-content/uploads/global-shadow-banking-monitoring-report-2015.pdf