



Trade Union  
Advisory Committee  
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## **Upholding the right to decent, adequate and secure pensions**

TUAC comments  
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The 2019 Global Strategy Group (GSG) meeting on 27-28 November will focus on “Ageing OECD Societies: Responding to the Challenges, Harnessing the Opportunities”. As such, Members and Partners are invited to reflect on measures to harness the economic and social opportunities of ageing societies, address the challenges, and exchange views on best practices. Thus providing an opportunity to identify emerging issues and discuss potential policy actions to address these issues.

The TUAC welcomes the theme of this year’s GSG meeting and considers it a much needed opportunity to discuss how to uphold the right to decent, adequate and secure pensions.

### **The role of pensions**

Certainty that you can retire after a long work-life and still maintain a decent income is pivotal for workers. Pensions intend to offer people this certainty and economic security in old age, once they can no longer earn their living themselves.

However, decades of pension reforms aiming at reducing employers and state’s exposure to pension financial risks have left many workers and their families fearing of the adequacy of their pension plans. Mega trends like demographic changes as well as low growth and low returns on retirement savings, as well as less stable employment careers are now raising questions on whether pension systems are well equipped to ensure decent and adequate pensions for all. This is the case even in countries, like the Netherlands, widely considered to have one of the world’s best funded and most generous pension systems where millions of pensioners are now facing possible reductions for the first time.<sup>i</sup>

### **Different pension schemes – different risks and benefits**

Pension schemes are under pressure regardless of their financing method, be it as on a pay-as-you-go (PAYG) basis, or on a pre-funded basis. Reforms of the latter shifting from defined benefit (DB) to defined contribution (DC) have increased pension insecurity. During the financial crisis, pre-funded pension schemes took a major hit due to the collapse in stock markets and in non-marketable assets. The zero-bound interest rate environment since then, is choking little by little pre-funded schemes.

At first sight, PAYG systems are relatively shielded from the consequences of financial crises, being financed by inflows from the working population. However, rising

unemployment and wage compression in the years following the crises, a direct impact was felt on the “asset side” of PAYG. The post-crisis austerity measures has also had a direct or indirect impact through a number of channels (raising the retirement age, cutting benefit levels, raising workers’ contributions, and strengthening links between contributions and benefits).

### **More pension inequality for women and for the youth**

Beyond averages, specific groups are struggling for more than others. This applies especially for women and people in non-standard forms of work who more often find themselves left with an inadequate pension scheme due to lower contribution accumulations or left out of pension schemes all together. There are numerous evidence of the gender gap that characterise pension systems: women being often at disadvantage on most if not all key pension parameters. In particular, they tend to have lower wages than men for the same job and qualifications, and more frequent career interruptions.

The same challenges are faced by people employed in non-standard forms of work. The OECD has found that workers in non-standard forms of work have limited access to, and lower pension income prospects from, funded pension arrangements than full-time permanent employees do.<sup>ii</sup> As such, the design of funded pensions is not fully adapted to non-standard forms of work. This presents a growing challenge. According to the 2019 OECD Pensions at a Glance report, non-standard employment, such as self-employment, temporary or part-time work, now accounts for more than one-third of employment across OECD countries.<sup>iii</sup>

### **A societal understanding of “pension sustainability”**

Providing people with a pension is a complicated task. Compared with other social protection mechanisms such as unemployment and healthcare public and private pensions are distinguished by a greater intergenerational dimension. Compared with life and non-life insurance, pension schemes are exposed to a broader diversity of risks, including longevity. Life expectancy rates (or mortality rates) are inherently difficult to measure and are most often link to social factors – including occupational hardship, vulnerable groups, and lower income households. Pre-funded pension financing is also constrained by the need to match assets with liabilities.

The fundamental question is about the definition of pension sustainability: for whom? and for what? Given the complexity and complications of setting up a pensions scheme, from a pure short-termist perspective serving employers, the most sustainable solution to pensions is would simply be to not have one. Sustainability therefore cannot be treated from a pure financial and accounting perspective; a broader societal approach is needed.

Overall, pension reforms in the OECD over the last decade have left pension systems more financially sustainable. The efforts to ensure sustainability has however come at a cost for workers and working families. As the OECD 2018 Pensions Outlook notes, a rising number of pension schemes are struggling to provide affordable and adequate pension for all workers, in particular for women and people in non-standard forms of work.<sup>iv</sup> On a longer term, the report raises concerns about the lack of public trust in pension systems.

These findings are another dire reminder that pension reforms should do a far better job at balancing financial sustainability objectives with the prime objective of fulling people’s

right to adequate, decent and secure pension. They also point to the threats created by unstable employment relations and rising job precarity.

Perhaps just as concerning, these issues have eroded public belief that pension systems will deliver on their promises once workers reach retirement age. Interestingly, a recent OECD report concludes that reforms in OECD countries have slowed since the large wave of reforms following the economic and financial crisis and several measures legislated between September 2017 and September 2019 have even rolled back previous reforms which had aimed at improving the financial sustainability of the pension system.<sup>v</sup> This is most welcome after decades of pension reforms aiming at reducing employers and state’s exposure to pension financial risks, which have left many workers and their families fearing of the adequacy of their pension plans.

**Pension reform principles**

Historically, pension systems are rooted in national settings and country-specific regulations. Regional grouping can be made with respect to the systems of financing – pay-as-you-go (PAYG), tax, pre-funding – and risk-sharing – from pure defined benefit (DB) schemes to pure defined contribution (DC) schemes.

A robust pension system should be based on fair risk-sharing between workers, employers, and government. A pension system for the future should be predictable and deliver pension benefits above poverty or low income lines. Thus permitting a continuity in living standards throughout the retirement period. The pension system should ensure universal coverage and the governance of the pension funds must recognise “workers’ capital” meaning a collective organisation of the funds (& not individualisation) with regulation facilitating an active and responsible investment policy. And pension system should aim at simplicity, so that workers can trust and understand the system.

*Pension systems for the future - a trade union view*

<b>A desirable pension system...</b>	<b>Policy requirements / implications</b>
Delivers pension benefits above poverty or low income lines,	Robust PAYG or tax-financed public pension system and social safety nets
The occupational component is treated as deferred wages	Pension and wage negotiations are intricately linked
Permits continuity in living standards throughout the retirement period	Wage-indexed (& not price indexed), protection against market and longevity risk such as in defined benefit schemes (& not defined contribution)
Delivers pension benefits to as many people as possible	Universal coverage, unrestricted access to collective bargaining, portability of pension rights
Is transparent and understanding	Public pension communication
The governance of the fund recognises “workers’ capital”	Collective organisation of the fund (& not individualisation), regulation facilitate active & responsible investment policy
Is predictable	Continual reform is inherently problematic

However, even the most well designed pension system will not deliver if the economic and the structure of the labour market does not follow suit. Labour market policies have a central role to play: ensuring decent working conditions and pay for all workers – thus moving people from precarious and informal work to the formal sector with permanent work contracts and decent working conditions; reducing the gender employment and pay gap is equally important. Low wage growth, less stable employment careers and insufficient regulation or collective bargaining leads to low pension coverage among some groups of workers.

It also called for carefully designed monetary policies that combine with active fiscal policies to support long-term growth and ensuring interest rates can meet the twin objective of supporting growth and investment and ensuring stable financial sector for long term investment schemes, including pre-funded schemes.

Lastly, addressing tax evasion and leveraging progressive forms of taxation and corporate taxation can help improve the sustainability of public finances.

### **The role of sector-wide collective bargaining**

Pension and wage negotiations are intricately linked and collective bargaining and especially sectoral agreements remain useful means to ensure decent pensions. According to the OECD, increasing the coverage of collective bargaining systems including through the administrative extension of sectoral agreements, will help to achieve a broad sharing of productivity gains.<sup>vi</sup> When considering pensions, this should encourage an incentive for promoting the coverage of collective bargaining systems, either through social partner organisations with a broad membership base or, in the absence of such, through administrative extension of sectoral agreements.

Further to this the recent OECD report on collective bargaining<sup>vii</sup> highlights empirical evidence that show that more centralised collective bargaining systems “*are also correlated with lower wage inequality for full-time employees*”. Thus helping to address inequalities in private pensions as well.

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<sup>i</sup> Financial Times, (2019), Dutch government tries to avoid cuts to pension payouts, <https://www.ft.com/content/b42f5424-07c4-11ea-9afa-d9e2401fa7ca>

<sup>ii</sup> OECD, (2019), Are funded pensions well designed to adapt to non-standard forms of work?, OECD Publishing, Paris

<sup>iii</sup> OECD, 2019; Pensions at a Glance; <https://www.oecd.org/pensions/countries-should-strengthen-pension-systems-to-adapt-to-changing-world-of-work.htm>

<sup>iv</sup> OECD, (2018), 2018 Pensions Outlook

<sup>v</sup> OECD, 2019; Pensions at a Glance; <https://www.oecd.org/pensions/countries-should-strengthen-pension-systems-to-adapt-to-changing-world-of-work.htm>

<sup>vi</sup> OECD, (2018), Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy

<sup>vii</sup> OECD, (2019), “Negotiating our way up” Collective bargaining put under the OECD’s magnifying glass