TUAC
Trade Union Advisory Committee to the OECD
Commission syndicale consultative auprès de l'OCDE

PENSION RIGHTS AND SUSTAINABILITY IN TIMES OF CRISIS

AN OECD CONTEXT, A TRADE UNION PERSPECTIVE

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EXECUTIVE SUMMARY

Certainty that you can retire after a long work-life and still maintain a decent income is pivotal for workers. The purpose of pension systems is to offer people this certainty and economic security in old age, once they can no longer earn their living themselves. Decades of pension reforms aiming at reducing employers and state's exposure to pension financial risks and the fallout of the COVID-19 crisis have however left many workers and their families fearing the adequacy of their pension plans.

In the longer term, low interest rates and a low wage growth environment, rising job precarity and overall demographic changes have raised questions about whether pension systems are sufficiently equipped to ensure decent and adequate pensions for all. The current crisis may be unique in modern history. However, it does not change the fundamentals. The overall goal of our pension systems remains the same – a simple, easily understandable system that ensures universal coverage, a predictable, secure and adequate retirement for all.

This TUAC paper will discuss the challenges facing pension systems today and provide guidance on how to address and overcome these, thus ensuring a decent retirement for all workers.

Key take aways:

The crisis' impact on pensions is multi-faceted. Like other economic crises, it is felt through reduced pension contributions. With the permanence of zero-bound interest rates well before the crisis, pension funds were already under pressure to meet their long-term liabilities

The COVID-19 crisis did not hit otherwise robust and socially just economies. Inequalities had been widening well before. The erosion of social justice principles is particularly true regarding labour rights and pension rights

Past reforms have in many cases created paradigm shifts, by changing the risk-sharing arrangements with almost a single objective: reducing or containing costs and far less on mitigating the negative social impact.

Comparing the pension replacement rates between 2009 and 2019 for 30 OECD countries covered, in 23 countries the replacement rate has decreased (by over -1%), in 3 countries it has stagnated (within +/-1%) and only in 4 countries did it increase (above +1%).

The regressive direction of pension reform have particular impact on women and precarious workers who more often find themselves left with an inadequate pension.

The OECD suggests a top-down, command and control approach to pension reform to help keep focussed on financial sustainability of pensions. It recommends linking some key pension parameters to "automatic rules" that can reduce the temptation of elected governments to roll back past decisions. Top-down reform on autopilot is, we are told, the best way forward.

For trade unions, a robust pension system should be based on fair risk-sharing between workers, employers and government. It should be predictable, deliver pension benefits above poverty, but beyond that should ensure continuity in living standards throughout the retirement period. It should ensure universal coverage and the collective dimension of pensions.

Pension reforms have most often been dominated by a single statement: demographic change is making our pension systems "unsustainable" and accordingly we need to cut down on pension generosity.

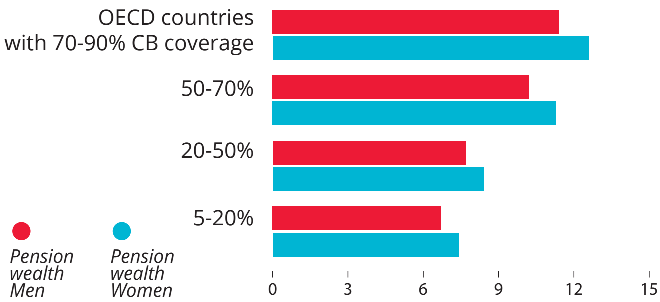
A broader approach is needed, one that looks at both the financing basis, the societal aspects and intergenerational solidarity. Policymakers wanting to "fix" the pension equation should first address how stop shrinking the financing basis of pensions, by measures aiming to reverse the decrease in labour-income share and (but not "or") consider complementary sources of financing.

The crisis reinforces the need to move away from, rather than towards, greater financial markets' dependence and the need to increasingly de-link retirement income provision from financialised rewards and markets (and sometime pure luck).

Pension reform cannot be considered in a vacuum, but should be part of broader labour-market policy reform, as well as taking into account monetary and fiscal policies. For trade unions, labour-market policies, pensions and wage negotiations are linked together and collective bargaining and especially sectoral agreements remain useful means to ensure decent pensions.

There can be no quality pensions without quality jobs and quality labour-market institutions. Pension and wage negotiations are intricately linked and collective bargaining and especially sectoral agreements remain useful means to ensure decent pensions. The evidence is clear: pension generosity is linked to the type of collective bargaining and to collective bargaining coverage.

Pension wealth per collective bargaining coverage



Gross (before tax) pension wealth measured in number of annual average earnings for a worker with average earnings. Source: OECD Pension at a Glance 2019 & OECD Employment Outlook 2019, compiled by TUAC.

Governments should take social dialogue seriously in the political economy of pension reform. Reforms post-2008 points to the opposite: social dialogue first reached a "peak" in the immediate aftermath of the crisis, but rapidly faded away as structural reforms came in and "state unilateralism" took control. Top-down hasty reforms mean little importance attached to the views of social partners, which in turn are diluted in broader "national debates". In some cases, social dialogue outcomes are nullified when the final legislation enacted simply ignores these outcomes.

There is no place for "state unilateralism" in the pension debate.

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