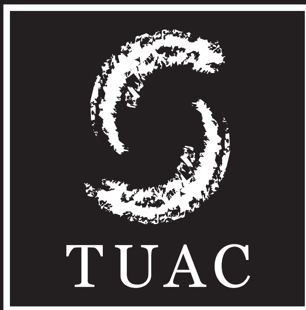


Trade Union
Advisory Committee
to the OECD
Commission syndicale consultative auprès de l'OCDE

PENSION RIGHTS AND SUSTAINABILITY IN TIMES OF CRISIS

AN OECD CONTEXT, A TRADE UNION PERSPECTIVE

PARIS, 4 DECEMBER 2020

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.

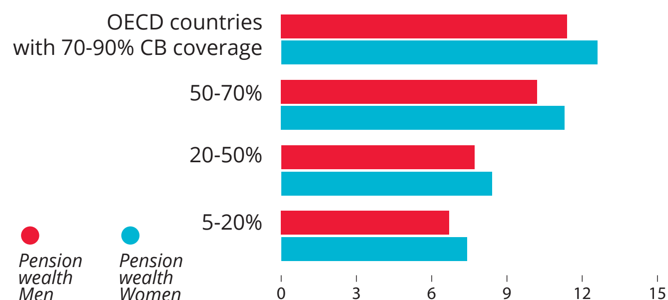
A broader approach is needed, one that looks at both the financing basis, the societal aspects and intergenerational solidarity. Policymakers wanting to "fix" the pension equation should first address how stop shrinking the financing basis of pensions, by measures aiming to reverse the decrease in labour-income 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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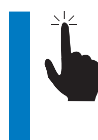

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The COVID-19 Crisis and past pension reforms

The COVID-19 crisis started as a health crisis, but has proven deeper than initially expected, putting immense pressure on our economies and particularly the world of work. In its latest Economic Outlook Interim Report, the OECD predicts negative GDP growth in 2020, but remains very cautious about its forecast, claiming that uncertainty is dominant and that economic performance remains highly dependent on the behaviour of the COVID-19 pandemic. The key concern now is whether the pandemic will continue to have a severe impact in the months to come, realising a double-hit scenario with renewed lockdowns to economic activity, or if it will be contained and managed, the so-called basic single-hit scenario.[i]

The impact on pensions

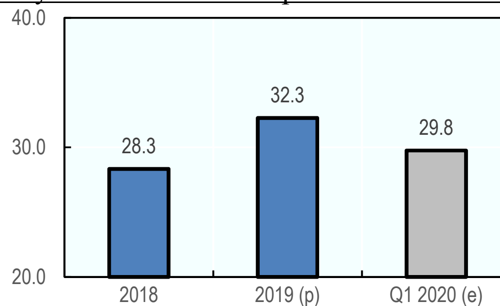
The crisis' impact on pensions is multi-faceted. Like other economic crises, it is felt through reduced pension contributions with the expected rise in unemployment and the downward pressure on wages. Unemployment and loss of income will for many workers result in a lower capability to contribute to retirement savings plans. The increased unemployment will therefore lead to large gaps in the pension outcome in second pillar pensions. The fact that many governments have introduced deferral of employer social contribution payments as part of the package of measures to support businesses is further increasing uncertainty on the financial sustainability of pension schemes. On benefit sides, workers' decision on early retirements and, in any event, no further extension of such will not alleviate pressure on pension cash payouts. The short-term pressure on pension systems is immense. To give a concrete example, the French second

tier pay-as-you-go (PAYG) system, managing flows of more than EUR300Bn Euros annually, covering the entire private sector, is expected to run into a temporary EUR 25bn deficit next year. In comparison, the initial deficit foreseen pre-COVID was just EUR2bn.

Looking at pre-funded pension schemes, the impact might not be immediate, unlike PAYG schemes, but the crisis will add further stress to an already tense macroeconomic environment. With the permanence of zero-bound interest rates well before the crisis, pension funds were already under pressure to meet their long-term liabilities. Now, the expected turmoil on financial markets will add further risks on their assets side. An OECD report shows a decrease in the value of assets in retirement savings accounts from falling financial markets, as well as an increase in liabilities from falling interest rates in retirement savings arrangements with retirement income promises (e.g. defined benefits retirement plans, and life annuity arrangements).[ii] Many pension funds entered the COVID-19 crisis with funding levels below the levels of the previous 2008 crisis. The COVID-19 crisis is now aggravating the situation further, as it will hit pension-funds on both sides: that is the asset side with an expected depression of asset values, and the funding side with contributions by workers expected to be lower, due to the rise in unemployment, and the rise of precarious jobs.

As noted by the OECD "*The spread of COVID-19 worldwide and its knock-on effects on financial markets during the first quarter of 2020 are likely to have reversed some of these gains [gains made in recent years since the financial crisis]. Early estimates suggest that pension fund assets at the end of Q1 2020 could have dropped to USD 29.8 trillion, down 8% compared to end-2019*".

Figure 1: Preliminary forecast of OECD pension fund assets at end Q1 2020



Source: OECD, Pension Market in Focus 2020

Governments have taken steps to support pre-funded pension schemes in response to the crisis, with measures targeted at active members, employers, retirees and/or the pension scheme as a whole. Measures included rule changes to limit the materialisation of short-term investment losses, additional guarantees to secure solvency of the scheme and/or the sponsor of the scheme, wage subsidies covering pension contributions, and short-term relief for individuals or their employers.[iii] Other measures, such as early withdrawals of pension financial assets are more controversial. They offer short-term financial relief for workers, particularly those in precarious situations with badly paid wages who lack income support in poorly designed labour markets regulation – but they come at the cost of their long-term pension rights.

Different pension schemes – different risks and benefits

To be sure, there are as many differences between national pension systems as there are between labour market systems. The OECD has categorised labour market systems in five groups depending on where collective bargaining prevails: from highly centralised (i.e. collective bargaining at sector-level and national level) to fully decentralised (firm-level). The same level of diversity, if not more, exists for pension systems across OECD economies, as shown in the annex. The key variables are the coverage (first tier with universal application and second tier with occupational-related schemes), the mode of financing (tax- or residence-based versus contributory systems by workers and their employers), the distribution of financial and longevity risks (defined contribution versus defined benefit, with various hybrid arrangements in between), and the mode of financing second-tier with pay-as-you-go PAYG (whereby current workers finance current retirees) versus pre-funding (current workers accumulating assets for their future retirement).

PAYG systems are, by definition, harnessed in intergenerational solidarity principles and most often offer the best guarantees in terms of coverage of the population. They are also relatively shielded from the consequences of financial crises, being financed by inflows from the working population. However, rising unemployment and wage compression have a direct impact on the "asset side" of PAYG. Recent austerity measures have 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). PAYG systems are not immune from "political risks" either – depending on the political and sometime ideological inclination of the ruling party.

Decades of regressive reforms

The COVID-19 crisis did not hit otherwise robust and socially just economies, and many of the key challenges that we are facing today pre-date the current crisis. OECD economies were indeed already facing a combination of slow economic and employment growth, widening inequalities in outcomes and access to opportunities. The erosion of social justice principles is particularly true regarding labour rights and pension rights.

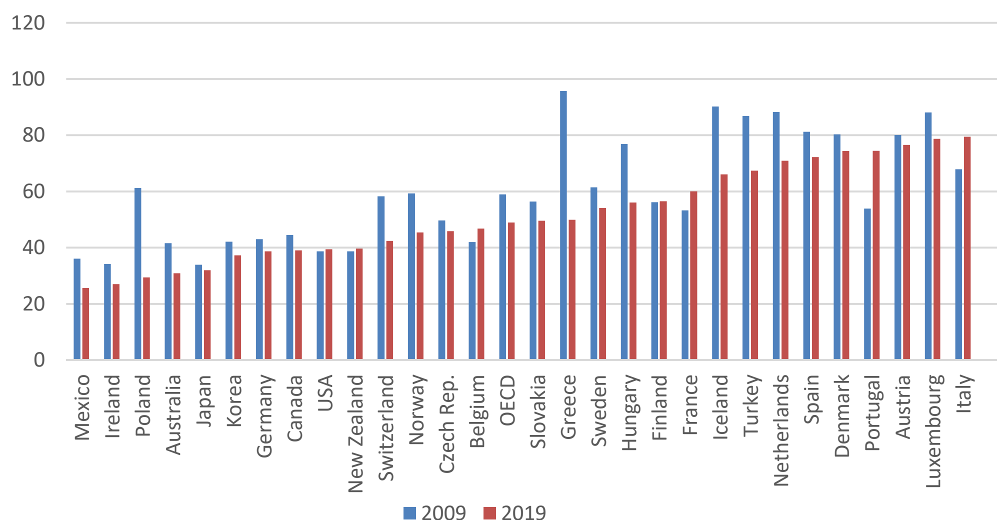
Compared with the post-2008 crisis, labour market institutions – collective bargaining and minimum wages – have lower coverage and are less protective. On that, much of the "recovery" in employment levels and competitiveness over the past decade spurred from the degradation of labour rights and the compression of wages. Collective bargaining coverage in OECD countries has dropped from 38% in 1998 to 32% in 2017, leading to increasingly insecure labour markets with limited job security and the rise of non-standard forms of work with workers facing limited second pillar pension coverage.

In the same way, past pension reforms have primarily at financial sustainability leaving gaps for many workers facing the crisis today. It is true that pension reform is in fact part of a "life cycle". Systems need to adapt to changing social and demographic conditions (ageing of the population, declining fertility rates, increasing life expectancy) and transformation of the labour market (high and persistent unemployment, a decline in the quantity and quality of stable jobs, an increase in the spread of the informal economy). Reform however does not necessarily imply that the system is broken or is failing, but rather that it needs adjustments.

Yet, the bulk of past reforms have aimed for more than just adjustments. They have in many cases created paradigm shifts, changing the risk-sharing arrangements with almost a single objective, reducing or containing costs, and not on mitigating the negative social impact. Post-war, pension systems were dominated by PAYGO defined benefit schemes. Since the late 1980s, a paradigm shift occurred, in part under the pressure of international financial institutions and the OECD whose policy recommendations have consistently pushed for rapid and significant reforms. In Latin America, the case of Chile in 1981 is well documented and in the post-Berlin Wall era, many Eastern European countries (including Estonia, Hungary, Poland, the Slovak Republic and Czech rep.) introduced privately funded individual defined contribution (DC) schemes, with the active support of the World Bank and the OECD. Within continental Europe, the paradigm shift has been less brutal, as seen in the decade-long reform process in Sweden in the 1990s. More recently, the Netherlands have gone through a series of reforms aiming for a gradual shift from "pure" DB to more hybrid DB-DC schemes. In federal countries, like the United States and Canada, the notion of pension reform is more difficult to grasp, insofar as pensions are often a prerogative of sub-federal government. In Canada however, the first tier federal-wide Canada Pension Plan was reformed and strengthened. Whereas in the US, the share of DB occupation plans has declined in favour of individualised DC plans.

The quality of pension systems has been reduced as a result of previous decades' reforms. 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%).

Figure 2: Gross replacement rate for workers earning average income 2009 versus 2019



Source: OECD Pensions at a Glance 2009 (p117, http://dx.doi.org/10.1787/651488213727 & 2019 (p147, http://dx.doi.org/10.1787/651488213727).

The inequality aspects

In its recent flagship report on inequality, the OECD points to the unequal distribution of pension systems when combining all tiers: first and second, and private pension plans: The "*upper-income households that receive, proportionally, more cash benefits than any*

other income class [...] 1.5 times greater on average [...]. The chief driver is the uneven distribution of pensions in some countries. In Mexico and Portugal and, to a lesser extent, Chile, Israel and the United States, elderly upper-income households get a share of benefits that far outstrips their share of the population. In Mexico, for example, they account for 18% of the old-age population and 54% of old-age benefits".[iv]

The OECD also reports that, while old-age poverty is still higher than for the population as a whole, poverty risks have shifted from older to younger groups in most OECD countries since the mid-1990s. As such, old age poverty rates decreased since the mid-1990s in 12 out of 19 OECD countries. By contrast, poverty rates increased over recent decades for most parts of the population - and in particular for young adults. The above may look counter-intuitive considering the past regressive reforms. It should however be highlighted that these trends are in relative terms (half of the national median household income). In a context of general household income depression and decrease in labour share of national income, old age groups and pensioners have been able to fare better, presumably in large part thanks to the pension plans that were designed in the 1970s and to which they belong to.

The pension gap for women and for non-standard forms of work

Challenges in the labour market and related issues of fiscal sustainability (of pension schemes, but also broader social safety nets) are not a recent phenomenon. Reports show that, beyond averages, specific groups are struggling more than others are. This applies especially to 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.[v] There is much evidence of the gender gap that characterises pension systems: women being often at a 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.[vi] 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.[vii] Further to this, the latest Employment Outlook 2020 shows that the increasing "flexibility" of labour markets has led to an increase in non-standard forms of employment, defined as either part-time workers or workers with frequent transitions and breaks between one job and the next. According to the OECD, 22% of workers across OECD countries are non-standard workers, while 69% of employees with past unemployment experience have a history of non-standard dependent employment. This can hamper the ability of such workers to access social protection and unemployment benefits, but also their ability to sufficiently contribute towards pension schemes.

Top-down pension reform on auto-pilot?

In its recent flagship report on pensions, the OECD expresses deep concern that "*pension policies over the last two years are reforms backtracking and not implementing previously legislated policies*".[viii] Several measures legislated between September 2017 and September 2019 have rolled back previous reforms. For the OECD, "backtracking" measures are those that have favoured workers and families, through suspension of the increase in retirement age (Denmark, Canada, Italy, the Netherlands, the Slovak Republic, Czech Republic and Spain).

From there the OECD suggests a top-down command and control approach to keep focussed on the financial accounting stability of pensions. Governments, we are told, have to take steps repeatedly to ensure that pension policies deliver secured retirement incomes in financially sustainable and economically efficient ways irrespective of the economic and political conditions.[ix] The OECD in fact recommends linking some key pension parameters to "automatic rules" that can reduce the temptation by elected governments to roll back past decisions. In a sense, faced with a backlash against regressive reforms, the OECD seems to call for top-down reform on autopilot.

A trade union perspective

Providing people with a pension is a complicated task. Compared with other social protection mechanisms such as unemployment and healthcare, pension design requires factoring in a number of risks that are difficult to measure (employment risk, longevity risk, financial risk). 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. Simplistic measurement, for example aiming at national averages, can disregard differences between socio-economic groups.

A robust pension system should be based on fair risk-sharing between workers, employers, and government as well as intergenerational solidarity.

The current crisis (and the 2008 financial crisis) has once again demonstrated the economic and moral necessity of governments assuming economic risks that working people should not be expected to bear. In pension terms, this means the ability of the public pension system to insulate pension entitlements from market downturns and interest-rate risk.

During the COVID-19 countries, many OECD countries have successfully looked to social dialogue and tripartite agreements as important parts of the process to soften the negative consequences for businesses and workers. Member governments should build on these experiences and involve the social partners in the important task to ensure a robust, sustainable and decent pension system.

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 shielding workers from market and timing risks.

Finally, pension systems should aim for simplicity, so that workers can trust and understand the system.

Table I. Trade union perspectives on pensions

A desirable pension system is a system that:	Policy requirements / implications
• delivers pension benefits above poverty or low income lines;	• Robust PAYG or tax-financed public pension system and social safety nets;
• treats occupational pension contributions as deferred wages;	• Pensions are not a "promise" that employers or government can get away with, they are a deferred right • wage-indexation
• permits continuity in living standards throughout the retirement period;	• wage-indexation • protection against market and longevity risk (i.e. DB scheme)
• delivers pension benefits to as many people as possible;	• Universal coverage • Harnessed access to collective bargaining, both firm- and sector-levels • portability of pension rights
• is transparent and simple to understand;	• Public pension communication • Access to independent, un-conflicted pension education and awareness
• has a governance of pension schemes that respects social partners;	• Collective organisation of the fund (& not individualisation) including substantial (i.e. 50%) representation of workers
• supports responsible investment practice;	• For both PAYG (flows) & pre-funded schemes (stocks), regulation to facilitate active & responsible investment policy
• has in-built consultation processes for social partners.	• Top-down unilateral government reform is failing.

Falling labour share and the shrinking financing base of pension schemes

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. The push for driving pension reform down the financial bottom line if any has come at a cost for workers and working families. As the OECD 2018 Pensions Outlook noted, 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 thus also raising concerns about lack of public trust in pension systems.[x]

The fundamental question is about the definition of pension sustainability: for whom? and for what? In the most simplistic way, and if short-term accounting figure are to dominate pension debate, one could ask provocatively: why bother in the first place? Given the complexity and complications of setting up a pensions scheme, from a pure short-termist perspective, the most financial "sustainable" solution to pensions would simply be to not have one. The answer is that financial sustainability of pension should not be treated from a pure financial and accounting perspective, "all being equal". A broader approach is needed, one that looks at both the financing basis (which historically has been limited to labour income), the societal aspects (the indirect impact and benefits of pension coverage and quality) and how to ensure a fair sharing of the costs of ageing and pension provisions amongst different generations.

The financing side of pension systems needs a particular consideration. It is undeniable that many pension schemes are under pressure, because of the population ageing. However, that is not the only factor. It is also the outcome of a shrinking financing basis: labour income, which is the basis for financing most of the pension schemes, both PAYG, tax financed and pre-funded. The continuing decrease in the labour share of national income across OECD economies, and for decades, constitute a worrying matter in its own, but it is definitely a very worrying matter for pension schemes' sustainability. If the root causes of the unsustainability of pension systems lie first in the financing basis of pensions then policymakers wanting to "fix" the pension equation should first address how to stop the shrinkage of the financing basis of pensions. This for example by measures aiming to reverse the decrease in labour income share and (but not "or") considering complementary sources of financing.

Yet, governments and policymakers more broadly are often tempted to proceed the opposite way and to carve out the pension debate from the broader labour income share and social protection context. Just like labour reforms, there is a view that pension reform can "fix it" on its own. That is that labour market reform "will deliver" jobs and good jobs by itself, and that pension reform similarly "will deliver" good retirement by itself – disregarding the interaction and dependencies between the pension system, the labour market and the broader macroeconomic context.

Reversing the financialisation of pensions

We also need to reassess the wisdom of government pension reforms that have increasingly emphasised investment returns at the core of plan-funding, "mark-to-market" valuation of pension assets and liabilities, and individual members' capacity to bear risk.

With the gradual erosion of PAYG funding and the shift toward full and partial pre-funding, workers' retirement savings and incomes have become more vulnerable to financial market shocks, especially as DC and capital accumulation schemes have replaced defined benefit (DB) and similarly pooled arrangements. Arguably, the stampede to pre-fund and the financialisation of pensions have contributed to the collapse in interest rates (and the 'bull market in everything'), which has further ratcheted up pension costs, uneven and uncertain returns, and pressure for benefit reductions. A catch-22 scenario.

Like other downturns, the current crisis vindicates trade union insistence that long-term arrangements for retirement income provision should share cost and risk equitably: not just among plan members, but between employers and plan members as well.

For current pre-funded schemes, much could be done to help smooth and spread risks temporarily, to protect workers from income shocks, and importantly, to resist the myopic and pro-cyclical regressive reforms during downturns – cutting benefits, but also allowing for contribution holidays or cashing out pensions. Targeted administrative and regulatory relief can help pensions avoid regressive changes threatening permanent damage to long-term arrangements.

In other words, the crisis reinforces the need to move away from, rather than towards, greater financial market dependence, and the need to increasingly de-link retirement income provision from financialised rewards and markets (and sometime pure luck) or any other financialised factor or criteria.

Pension design and the role of labour market institutions

Even the most well designed pension system will not deliver if the economics 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 lead to low pension coverage among some groups of workers.

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. 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.[xi] 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 highlights empirical evidence that show that more centralised collective bargaining systems "*are also correlated with lower wage inequality for full-time employees*" [xii]. Thus helping to address inequalities in private pensions as well. As shown in the tables below, the evidence is clear: pension generosity is linked to the type of collective bargaining and to collective bargaining coverage.

Table II: Collective bargaining systems & pension generosity

Collective bargaining systems	**Average replacement rate**			**Pension wealth**		**Countries**
	Public	**Private**	**Total***	**Men**	**Women**	
Predominantly centralised and weakly co-ordinated CB	50.3	59.7	61.2	10.8	12.1	Italy, Portugal, Spain, Iceland, Belgium, France, Finland, Switzerland & Slovenia
Organised decentralised and co-ordinated CB systems	41.5	60	62.3	10.4	11.4	Austria, Denmark, Netherlands, Sweden, Germany & Norway
Largely decentralised CB systems	39.6	44.7	54.6	9.1	9.9	Luxembourg, Ireland, Japan, Greece, Slovak Rep. & Australia
Fully decentralised CB systems	33.3	39.1	47.7	6.9	7.5	Canada, Chile, Czech Rep. , Estonia, Hungary, Korea, Latvia, Lithuania, Mexico, New Zealand, Poland,

						Turkey, United Kingdom, United States

* including mandatory public, mandatory private and voluntary schemes.
Average replacement rate for a worker with average earnings. Gross (before tax) pension wealth in nb of annual average earnings measured for a worker with average earnings. Source: OECD Pension at a Glance 2019 & OECD Employment Outlook 2019, compiled by TUAC

Table III: Collective bargaining coverage & pension generosity

Collective bargaining coverage	**Average replacement rate**			**Pension wealth**		**Countries**
	Public	**Private**	**Total**	**Men**	**Women**	
70-90%	48.9	65.7	67.2	11.4	12.6	Italy, Iceland, Belgium, France, Finland, Austria, Denmark, Netherlands, Sweden & Spain
50-70%	45.1	51.2	53.4	10.2	11.3	Portugal, Slovenia, Norway, Germany, Luxembourg, Australia
20-50%	38.8	41.5	52.7	7.7	8.4	Switzerland, Ireland, Greece, Czech Rep. , Slovak Rep., Canada, Hungary, United Kingdom
5-20%	30.5	37.9	46.1	6.7	7.4	Japan, Chile, Estonia, Korea, Latvia, Mexico, New Zealand, Poland, United States, Lithuania, Turkey

* including mandatory public, mandatory private and voluntary schemes.
Average replacement rate for a worker with average earnings. Gross (before tax) pension wealth in nb of annual average earnings measured for a worker with average earnings. Source: OECD Pension at a Glance 2019 & OECD Employment Outlook 2019, compiled by TUAC

The relationship between well-functioning labour institutions and a well-functioning pension system is clear. Irrespective of this, increases in life expectancy cannot be met with an automatic increase in retirement age. The retirement system must on all occasions be able to integrate the arduous working conditions and the age of entry into the labour market for those who started working at a very young age. At the same time, the extension of life expectancy and the need to work longer must imply adequate employment policies for senior populations.

Further to the interdependencies of labour market and pension reform policies, the current crisis also demonstrates the need for carefully designed monetary policies when seeking to ensure sustainable, adequate and decent pensions. These policies must be combined with active fiscal policies supporting long-term growth and ensuring interest rates can meet the twin objective of supporting growth and investment and ensuring a 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 social dialogue in the political economy of reform

Looking at the post-2008 crisis wave of pension reforms, Hedva Sarfati & Youcef Ghellab[xiii] offers a bleak picture of the lack of involvement of social dialogue and a clear trend towards “state unilateralism”. Based on the detailed findings of more than 10

countries post-crisis, the authors raise concerns about the "minimalist approach to social dialogue", despite the historical involvement of social partners in both design and implementation of pension schemes. Interestingly, they point to a contrast between the unilateral state approach top down approach of pension reform and the "the first reactions to the 2008 global financial and economic crisis, during which social dialogue played a significant role in devising effective crisis responses to mitigate its impact and accelerate recovery". In others, social dialogue may reach a "peak" in the immediate aftermath of the crisis, but rapidly fades away as structural reforms come in. Employers' organisations have in general tended to approve State Unilateralism, and for a simple reason, reforms were aiming at reducing public deficits and debts and to restore competitiveness.

The authors also point to the detrimental effect of hasty reforms: "*The haste with which the pension reform process has been undertaken in some countries also raises the question of the sustainability of the reforms, as it misses an inclusive discussion of the broad range of issues at stake, including the employment of the youth and older workers (recruitment and retention), and the problem of providing fair and adequate benefits to workers*".[xiv] Furthermore, where governments initiated social dialogue consultations, the process suffered several limitations:

- Little weight on the social partners' views and alternative proposals ("some governments see tripartite consultations as little more than a mere pedagogic exercise, the purpose of which is simply to explain");
- Process "diluted" in a broader "national debate" resulting in an effective marginalization of the role of the social partners; and
- In some instances, the value of any social dialogue undertaken has been nullified when the final legislation enacted or submitted by government to parliament differed substantially from the text on which consultations had been based.

In addition, the authors highlights "*Past experience, notably in Canada, Finland, Denmark and Sweden during the deep recession of the 1990s (including a serious banking crisis in the latter three countries), clearly demonstrates that negotiated reforms have always worked better, particularly in times of crisis. Indeed, social dialogue is an essential ingredient of the design of smart and innovative policies and, more importantly, their effective implementation. There is no credible and viable alternative to social dialogue as a tool for devising and delivering sustainable pension reforms*."

As we move ahead, governments should avoid the mistakes of the past and take social dialogue seriously in any future design and implementation of pension reforms. Serious dialogue means substantive dialogue, and is not limited to public communication and "awareness" campaign (as much as these are needed), it means ensuring trade unions have a say in the initial design of reforms and that their views are effectively taken on board. There is no place for "state unilateralism" in the pension debate.

Annexes

I. Assets in pension funds and all retirement vehicles in 2019

country	% change	in USD million	% of GDP
Australia	6.3	1,779,374	132.0
Austria	13.5	27,293	6.1
Belgium	18.0	44,674	8.4
Canada	7.3	1,531,845	89.1
Chile	19.4	215,373	80.8
Colombia	16.6	83,737	26.0
Czech Republic	8.0	22,445	9.0
Denmark	12.4	169,434	48.7
Estonia	20.7	5,342	17.0
Finland	..	132,184	49.4
France	20.5	22,468	0.8
Germany	8.4	285,522	7.4
Greece	8.6	1,750	0.8
Hungary	8.9	6,098	3.8
Iceland	17.6	41,036	167.6
Ireland	20.8	140,425	36.0
Israel	17.9	259,905	63.8
Italy	11.9	168,510	8.4
Japan	0.4	1,443,125	28.4
Korea	16.4	191,061	11.6
Latvia	21.2	629	1.8
Lithuania	24.9	4,520	8.3
Luxembourg	12.8	2,050	2.9
Mexico	18.8	225,519	17.5
Netherlands	17.5	1,746,262	191.4
New Zealand	20.7	65,769	31.1
Norway	10.9	43,938	10.9
Poland	-2.0	40,874	6.8
Portugal	12.1	24,524	10.3
Slovak Republic	12.8	13,324	12.6
Slovenia	11.6	3,234	6.0
Spain	11.8	133,214	9.5
Sweden	..	22,007	4.1
Switzerland	12.6	1,018,080	141.1
Turkey	37.3	21,325	3.0
United Kingdom	16.1	3,582,910	123.3
United States	15.6	18,750,788	87.5
OECD Total	**13.9**	**32,270,568**	**60.1**
Albania	26.8	27	0.2
Angola	13.1	554	0.8
Armenia	58.2	524	3.8

Brazil	5.9	218,406	12.2
Bulgaria	16.9	9,037	13.6
Costa Rica	19.7	20,503	32.2
Croatia	15.4	18,083	30.0
Egypt	10.0	4,873	1.5
Georgia	n.a.	180	1.2
Ghana	33.4	3,138	5.0
Guyana	13.2	337	8.3
Hong Kong, China	11.4	166,431	44.4
Indonesia	8.3	20,332	1.8
Jamaica	16.6	5,353	33.5
Kazakhstan	15.1	28,224	16.5
Kenya	13.6	13,071	13.2
Kosovo	17.0	2,220	27.8
Malawi	23.1	1,150	15.0
Malaysia	29.6	855	0.2
Namibia	2.2	10,660	75.2
North Macedonia	17.7	1,413	11.2
Pakistan	15.1	185	0.1
Peru	14.0	52,753	22.6
Romania	30.0	15,139	6.3
Russia	8.9	99,560	5.6
Serbia	12.7	432	0.8
Suriname	0.8	480	12.6
Thailand	8.0	40,794	7.3
Ukraine	-1.7	108	0.1
Total	**11.3**	**734,823**	**9.2**

Source: Pension market in focus 2020

II: National pension systems

Structure of retirement-income provision through mandatory schemes (Latest legislation applying to future retirees entering the labour market in 2018 at age 22)						
	First tier				Second tier	
	Residence-based		Contribution-based			
	Basic	**Targeted**	**Basic**	**Minimum**	**Public**	**Private**
Australia		x				FDC
Austria				x	DB	
Belgium				x	DB	
Canada	x	x			DB	
Chile		x				FDC
Czech Republic			x	x	DB	
Denmark	x	x			FDC	FDC
Estonia			x		Points	FDC
Finland		x			DB	
France				x	DB + Points	
Germany		x			Points	
Greece	x				DB	
Hungary				x	DB	
Iceland	x	x				DB
Ireland			x			
Israel	x		x			FDC
Italy					NDC	
Japan			x		DB	
Korea			x		DB	
Latvia				x	NDC + FDC	
Lithuania			x		Points	
Luxembourg			x	x	DB	
Mexico				x		FDC
Netherlands	x					DB

New Zealand	x					
Norway		x			NDC	FDC
Poland				x	NDC	
Portugal				x	DB	
Slovak Republic				x	Points	
Slovenia				x	DB	
Spain				x	DB	
Sweden		x			NDC + FDC	FDC [q]
Switzerland				x	DB	DB
Turkey				x	DB	
United Kingdom			x			
United States					DB	
Argentina			x	x	DB	
Brazil				x	DB	
China				x	NDC + FDC	
India				x	DB + FDC	
Indonesia				x	DB + FDC	
Russia			x		Points	FDC
Saudi Arabia				x	DB	
South Africa		x				

Source: OECD Pension at a Glance 2019

DB: Defined Benefit, DC: Defined Contribution (individual accounts), NDC: notional or non-financial defined contribution (PAYG schemes with individual accounts that apply a notional rate of return to contributions adjusted to life expectancy). FDC: Funded Defined Contribution (collective DCs), Points (PAYG with accumulation of pension points based on earnings, points are monetised at the retirement through a formula determined and regularly revised by social partners).

III Collective bargaining systems and the pension replacement rate

Replacement rate at retirement for a worker earning average income

	System of Collective bargaining	Coverage	Public	Private	Voluntary	Total
Australia	Largely decentralised collective bargaining systems	50-60%	0	30.9		30.9
Austria	Organised decentralised and co-ordinated collective bargaining systems	90%	76.5			76.5
Belgium	Predominantly centralised and co-ordinated collective bargaining systems	90%	46.8		14.2	61
Canada	Fully decentralised collective bargaining systems	20-30%	39		25.1	64.1
Chile	Fully decentralised collective bargaining systems	10-20%	0	31.2		31.2
Czech Rep.	Fully decentralised collective bargaining systems	40-50%	45.9			45.9
Denmark	Organised decentralised and co-ordinated collective bargaining systems	80-90%	23.7	50.7		74.4
Estonia	Fully decentralised collective bargaining systems	10-20%	19.4	27.6		47
Finland	Predominantly centralised and co-ordinated collective bargaining systems	80-90%	56.5			56.5
France	Predominantly centralised and weakly co-ordinated collective bargaining	90% or more	60.1			60.1
Germany	Organised decentralised and co-ordinated collective bargaining systems	50-60%	38.7		13.5	52.2
Greece	Largely decentralised collective bargaining systems	40-50%	49.9			49.9
Hungary	Fully decentralised collective bargaining systems	20-30%	56.1			56.1
Iceland	Predominantly centralised and weakly co-ordinated collective bargaining	80-90%	3.1	63		66.1
Ireland	Largely decentralised collective bargaining systems	40-50%	27		35.8	62.8
Italy	Predominantly centralised and weakly co-ordinated collective bargaining	80-90%	79.5			79.5

Japan	Largely decentralised collective bargaining systems	10-20%	32		23.8	55.8
Korea	Fully decentralised collective bargaining systems	10-20%	37.3			37.3
Latvia	Fully decentralised collective bargaining systems	10-20%	44.6			44.6
Lithuania	Fully decentralised collective bargaining systems	5-10%	23.6			23.6
Luxembourg	Largely decentralised collective bargaining systems	50-60%	78.8			78.8
Mexico	Fully decentralised collective bargaining systems	10-20%	3.2	22.5	17.3	43
Netherlands	Organised decentralised and co-ordinated collective bargaining systems	80-90%	29	42		71
New Zealand	Fully decentralised collective bargaining systems	10-20%	39.7		17.8	57.5
Norway	Organised decentralised and co-ordinated collective bargaining systems	60-70%	39.6	5.9		45.5
Poland	Fully decentralised collective bargaining systems	10-20%	29.4			29.4
Portugal	Predominantly centralised and weakly co-ordinated collective bargaining	60-70%	74.4			74.4
Slovak Rep.	Largely decentralised collective bargaining systems	20-30%	49.6			49.6
Slovenia	Predominantly centralised and weakly co-ordinated collective bargaining	60-70%	38.8			38.8
Spain	Predominantly centralised and weakly co-ordinated collective bargaining	70-80%	72.3			72.3
Sweden	Organised decentralised and co-ordinated collective bargaining systems	90%	41.6	12.5		54.1
Switzerland	Predominantly centralised and weakly co-ordinated collective bargaining	40-50%	21.4	21		42.4
Turkey	Fully decentralised collective bargaining systems	5-10%	67.4			67.4
United Kingdom	Fully decentralised collective bargaining systems	20-30%	21.7		29.1	50.8
United States	Fully decentralised collective bargaining systems	10-20%	39.4		30.9	70.3
OECD			39.6			55.2

CB coverage are from 2013-2015. Source: OECD Pension at a Glance & OECD Employment Outlook

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