Public Pension Systems in Advanced Asia Pacific: Challenges and Reform Options

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Plan of Presentation

I. Pension Challenges

II. Reform Options

III. Risks to Reform Options

IV. Conclusions
I. Pension Challenges
Working-age population

Population aged 15-64
(in millions)

Note: Japan right hand axis

Source: UN.
I. Pension Challenges
Old-age dependency ratio

Population 65 and older as a share of population aged 15-64

Source: UN.
I. Pension Challenges
Life expectancy trends

- Life expectancy trends, gender and socio-economic status
  - Life expectancy higher for females than males
  - Widening gap in life expectancy between lowest and highest socioeconomic groups

Source: UN.
I. Pension Challenges
Increases in Public Pension Spending

Pension spending, 2010-50
(in percent of GDP)

Sources: OECD, EC, ILO, and IMF staff estimates.
I. Pension Challenges
Different Approaches

Assets in pension funds, 2009
(in percent of GDP)

Source: OECD.
I. Pension Challenges
Gender and Inter-/Intra Generational Equity

- Fairness of the public pension system across
  - Genders within a generation. What is effect of labor market (non-) participation on accrual of entitlements? For example, do females accrue entitlements while providing care at home, e.g. for their children or elderly relatives? Singles versus married couples?
  - Income groups within a generation
  - Public and private sectors within a generation. Public Service Pensions can be substantially more generous than state pensions
  - Generations. Does public pension system favor particular generations financially in terms of benefits paid relative to contributions made?
II. Reform Options

- Raise Retirement Age
- Reduce Replacement Rates
- Increase Payroll Contributions or other Revenue
- In practice use a combination of the above
II. Reform Options

Raise Retirement Age

- **Measures**
  - Increase Statutory Retirement Age with rising life expectancy
  - Reduce Early Retirement Incentives with the aim to raise Effective Retirement Age
  - Tighten Eligibility, e.g. raise minimum contribution years

- **Attractive Option**
  - No Need to Reduce Benefit Generosity
  - Short- and Long-Term Positive Effect on Output

- **Equity Issues**
  - Same Retirement Age for all Socio-Economic Groups could Raise Equity Issues. Increase Contribution Years instead?
  - Protect those who cannot work longer
## II. Reform Options
### Raise Retirement Age

### Statutory retirement ages and life expectancy

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Sources: OECD, SSA.
II. Reform Options
Reduce Replacement Rates

- **Measures**
  - Indexation to inflation rather than earnings
  - Move from final salary to career average to calculate pension entitlement
  - Macroeconomic Indexation (Japan) or sustainability factor (Germany, Sweden), which change benefits according to ratio of beneficiaries and contributors

- **Equity Issues**
  - Complementary Reforms to Private Pensions to Ensure Adequacy
  - Need to Prevent Pension Poverty
II. Reform Options
Reduce Replacement Rates

Source: IMF staff estimates.
II. Reform Options
Increase Payroll Contributions and Taxes

Sources: OECD, IMF staff estimates.
II. Reform Options
Combination of Measures

Sources: OECD, EC, ILO, UN, and IMF staff estimates.
III. Risks to Reform Options

- Reforms insufficient
  - For example, aging more pronounced than predicted
  - Would require further reforms

- Pension strategy does not deliver desired outcomes
  - Shift to private pensions leaves government exposed to contingent liabilities
III. Risks to Reform Options

- Lack of Implementation
  - Governments shy away from implementing unpopular policies or introduce new policies to offset impact of original policy, thus negating previous initiatives
  - Examples: Japan’s Macroeconomic Indexing not fully implemented or Germany’s decision to modify indexation rules to prevent pensions from falling in nominal terms during economic crisis

- Reform Reversal
  - Authorities could undo legislation enacted by previous governments and change pension strategy, e.g. closure of funded pensions in central and emerging Europe
IV. Conclusions

- Achieving sustainable public finances major challenge given pressure of demographic change on public pension and healthcare spending

- Regardless of current arrangements (e.g. funded, unfunded, role of private pensions), no country immune from challenges

- Past reforms welcome but lack of implementation or policy reversals pose genuine risks

- Future reforms need to factor in equity issues
Thank you!