

DEPARTMENT OF SOCIAL POLICY AND INTERVENTION



Bernhard Ebbinghaus

Professor of Social Policy, Department of Social Policy & Intervention

Senior Research Fellow, Green Templeton College, University of Oxford

Remodelling Pillars and Tiers:

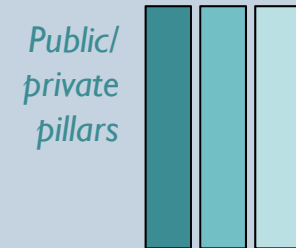
The Social Consequences for Coverage and Adequacy of Pensions in Europe

Pensions Authority Conference,
Dublin, 2 March 2017

Challenges to retirement income policies in Europe

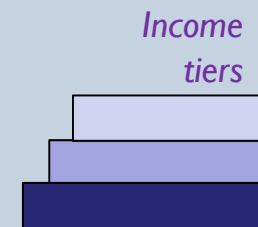
(well-known) **economic challenges**:

- Demographic ageing
- Globalization: economic competition
- Financial limits: public debt, Maastricht criteria
- **Goal:** *financial sustainability* → reforming the **pillars** of pension systems
- **Reforms:** shift toward marketization & privatization of pensions



(additional) **social challenges** (old or new social risks?):

- Flexibilization: atypical, precarious careers (coverage?)
- Reconciling work and family (child credits?)
- Plural family/household forms (individualised benefits?)
- **Goal:** *social sustainability* → readjusting the **tiers** of pension systems
- Reducing poverty & social inequality today and in future



Pillars before and after the 2008-crash



Global paradigm shift since 1990s:

„Reforming pensions is one of the biggest challenges of the 21st century!“ (OECD)

- **I: Public** (pay-as-you-go) **pensions**
- **II: Occupational pensions** (largely funded) (by employer or collective negotiations): defined benefit (DB) or defined contribution (DC)
- **III: Personal pensions** (funded, DC)

But: post-crash **financial crisis** (2007/08-)

- I: Sovereign **debt** crisis: more pressures on PAYG
 - II: DB pensions: **underfunded** firm-sponsored funds
 - II/III: DC pensions: **low returns** → later retirement?
- *Individualized risks*: increase in poverty & inequality?

Puzzle: How to square financial & social goals?

Multipillar / multitier pension architecture

<i>Pillar: responsibility & governance</i>	I. Pillar (public)	II. Pillar (private)	III. Pillar (private)
	<i>Tier: income function</i>	Public	Occupational
3rd Tier (topping up)	mandatory PP (DC)		Savings
2nd Tier (contributory/ earnings-related)	Social insurance	Private OP (DB / DC)	Private PP (DC)
1st Tier (minimum)	Basic (all), targeted (means-test)		

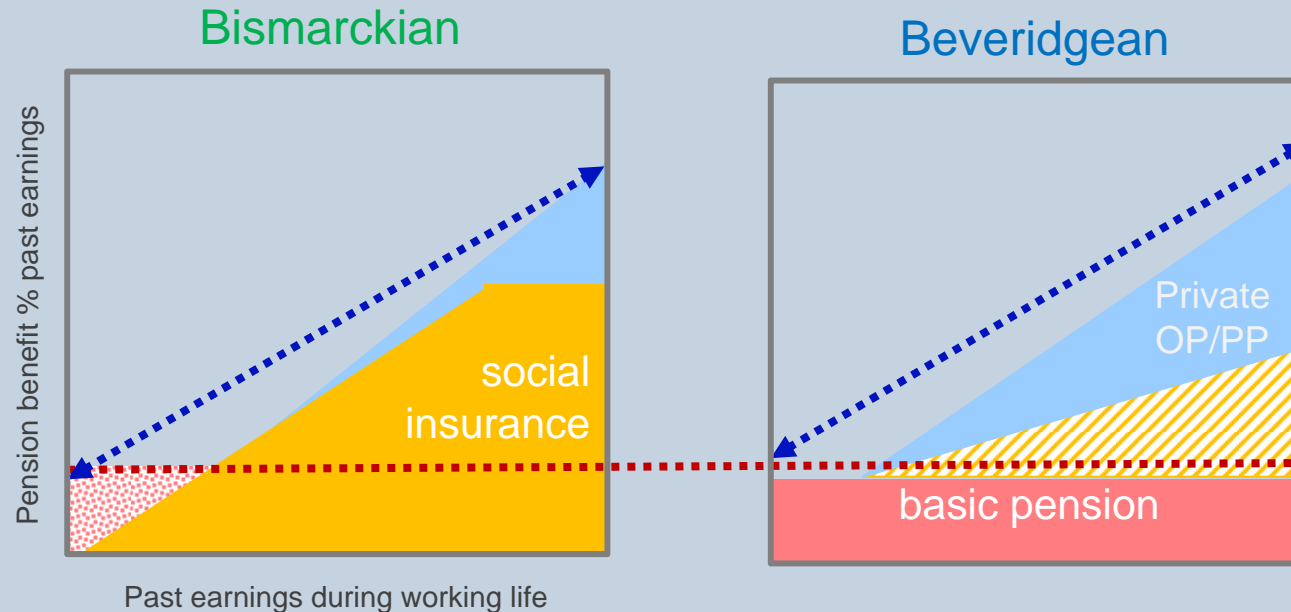
Privatization

Income maintenance:
inequality?

Minimum income:
poverty?

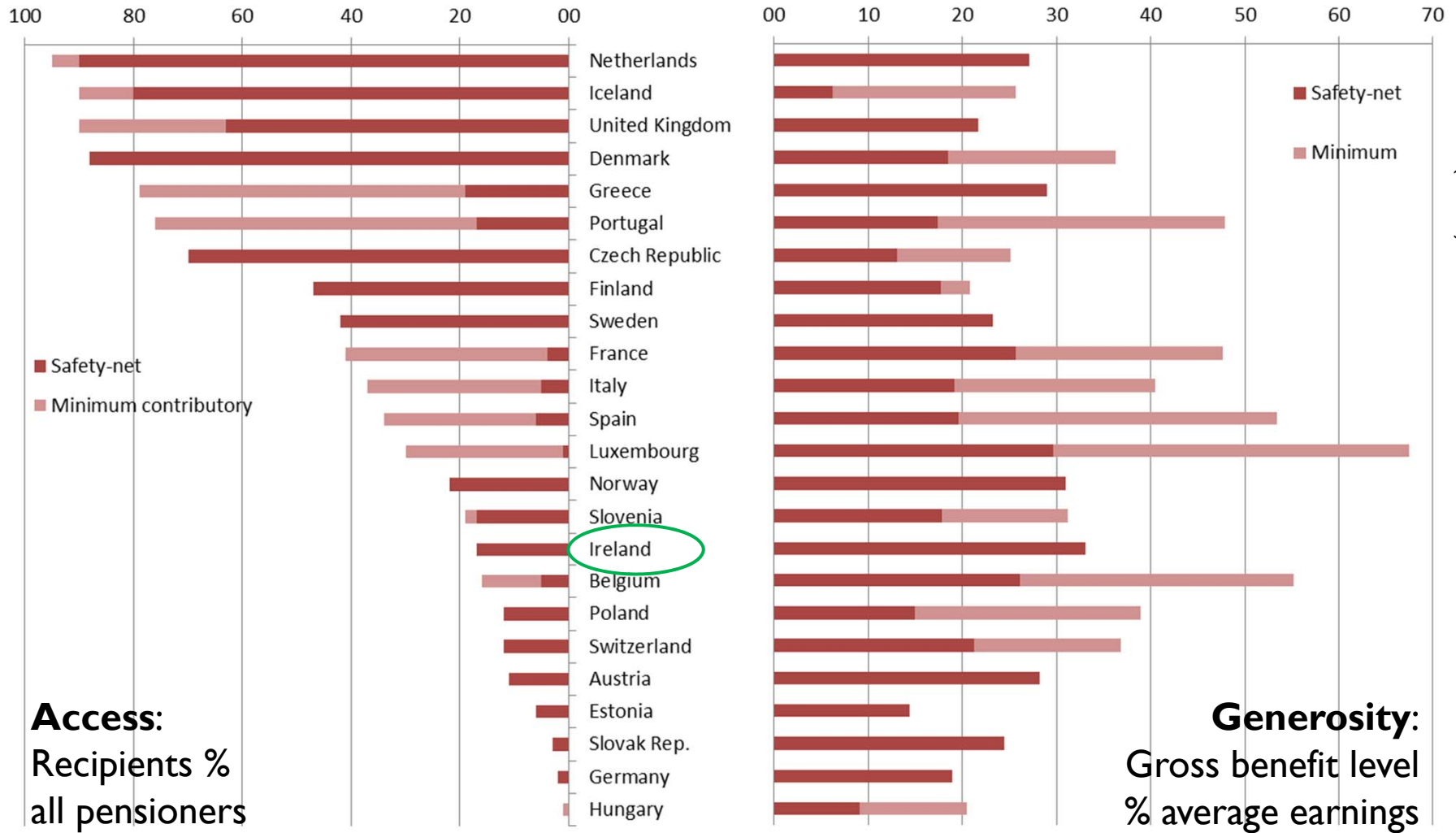
Ebbinghaus, B. (ed.) (2011), *The Varieties of Pension Governance: Pension Privatization in Europe*, Oxford: Oxford University Press.

Pillars & tiers: poverty / inequality in old age



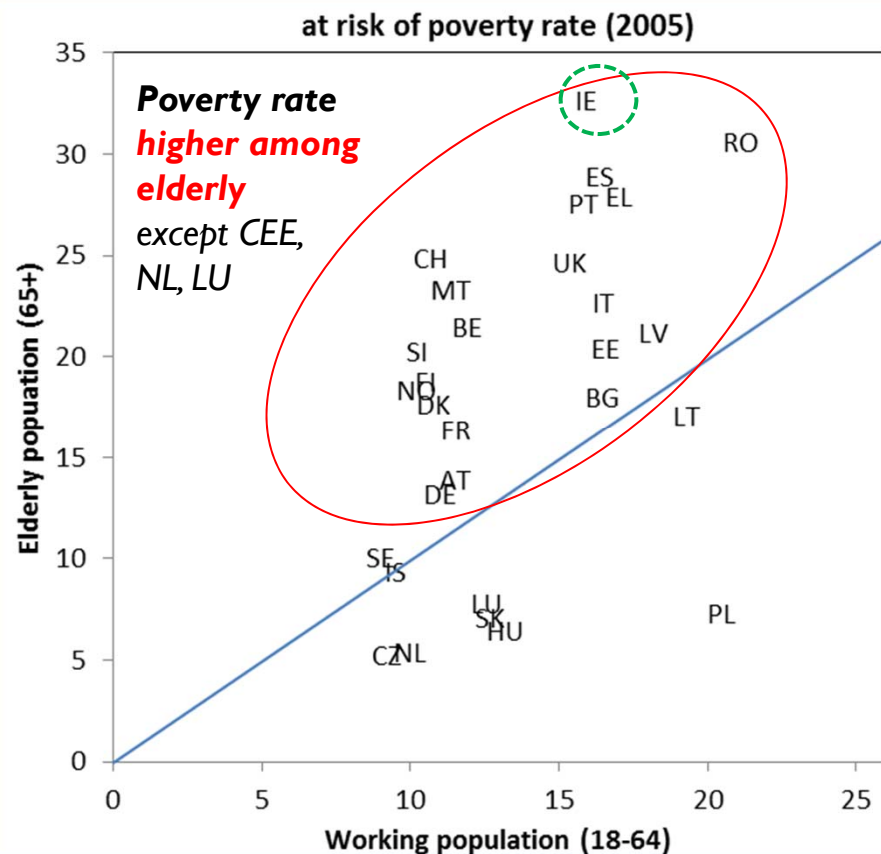
- **Poverty:**
 - **Bismarckian: Minimum** (social pension) / **targeted** social assistance
 - **Beveridgean: Basic pension** for all residents; flat-rate benefit enough?
- **Inequality:**
 - Reproduction of **market inequality** through **contributory** pensions (DB, DC)
 - **Labour force participation & job tenure** important (SI, OP/PP) → coverage?
 - **Financial market risks** of **funded** pensions (e.g. 2008 crash)

First pillar & tier: basic safety net & minimum pensions

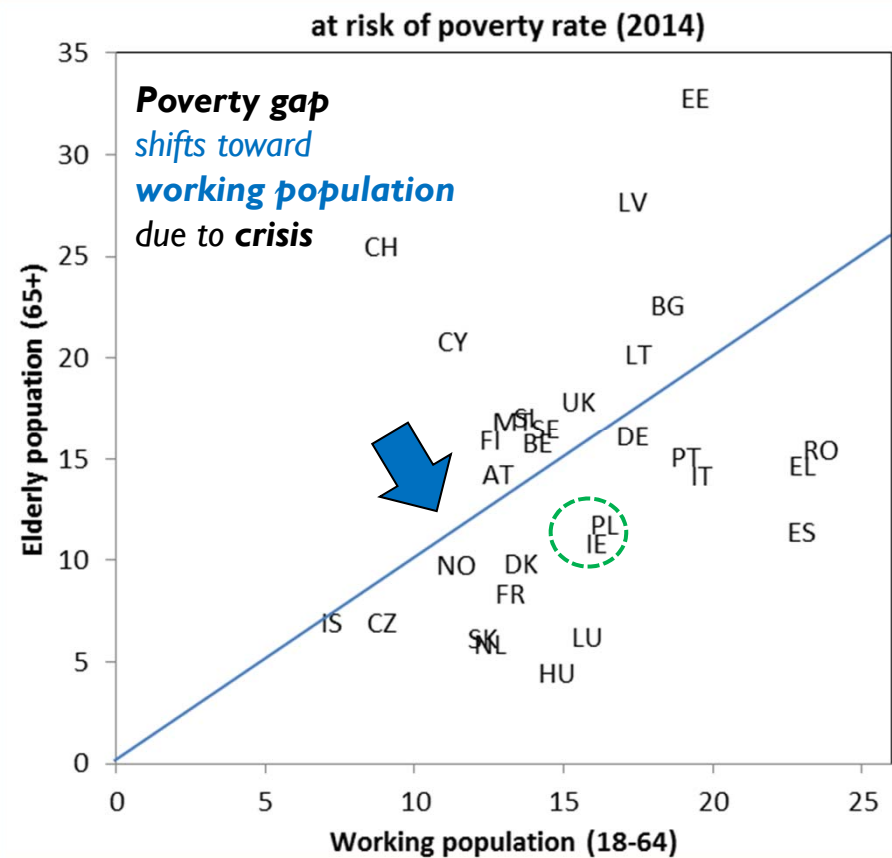


Poverty risk: working vs. elderly population (EU-SILC)

a) **Poverty (60% level) 2005:**
Working vs. elderly population

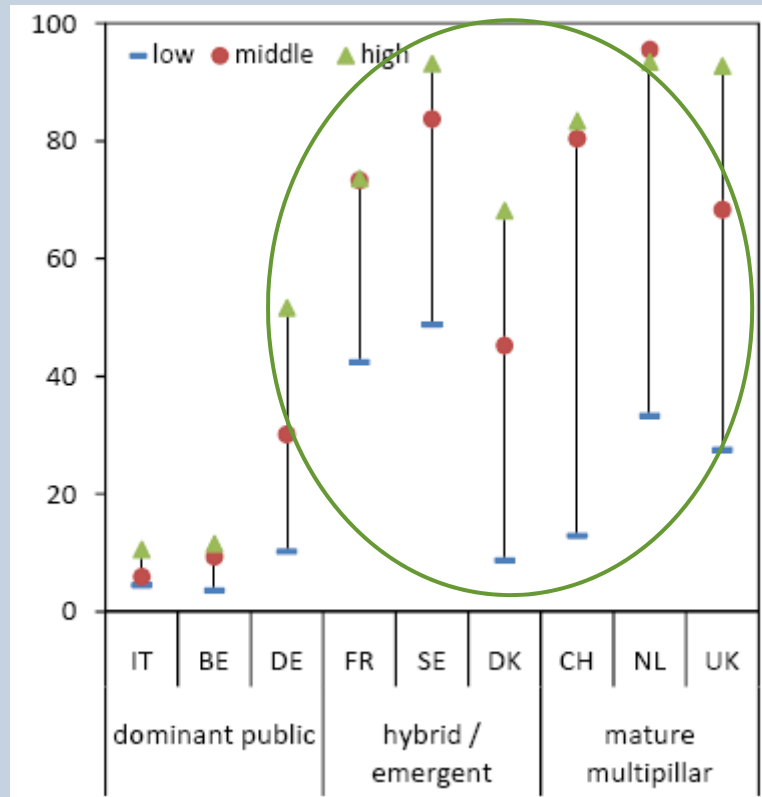


b) **Poverty (60% level) 2014:**
Working vs. elderly population

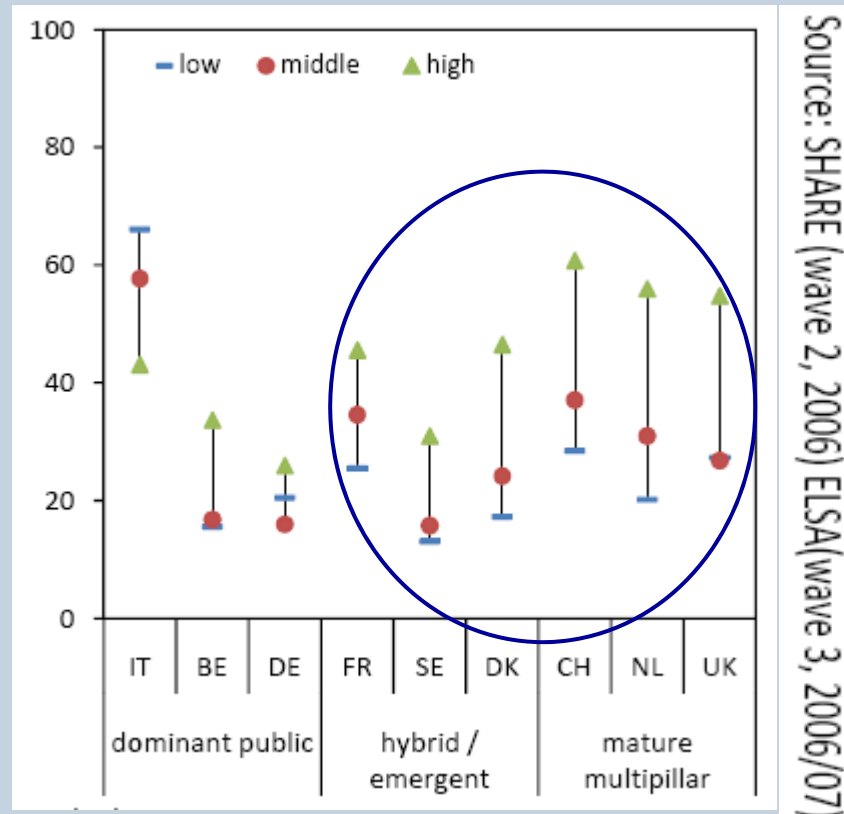


Inequality: private pension recipients & benefits, mid-2000s

Recipient Rate by Income Group in %



Recipient's Private Pension Share by Income Group in %



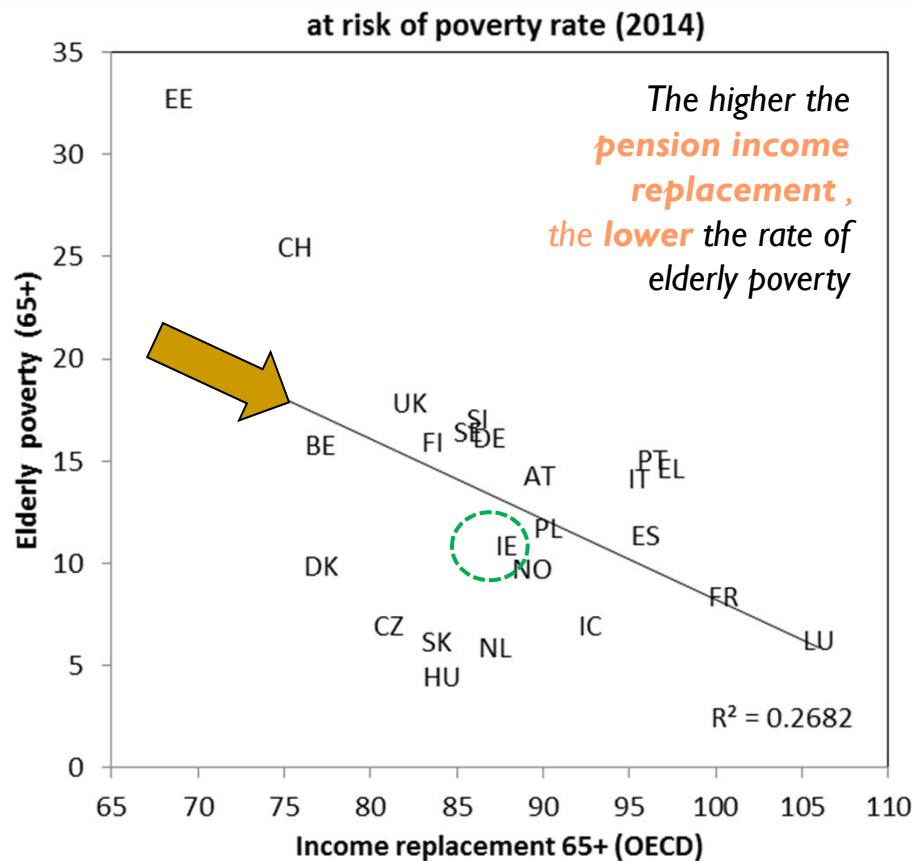
Source: SHARE (wave 2, 2006) ELSA (wave 3, 2006/07)

- **Higher income** groups more likely to be covered by private pensions
- **Middle (& lower) income** groups covered when **(quasi)mandatory pensions**
- **Large income share** (50%) particularly for higher income groups
- **Private funded pensions** important in UK, CH, NL and Nordic countries

Source: B. Ebbinghaus & J. Neugschwender, Ch. 14, *The Varieties of Pension Governance*, OUP 2011

First & second tier pensions & poverty

First & second tier pensions:
income replacement (EU-SILC)



- **At risk of poverty (60%) 65+:**
- **Bismarckian** social insurance:
 - Social pensions (F, Lux): **low**;
 - (South, CEE): **medium/low**
 - Social assistance (means-tested, DE): **medium**
- **Beveridgean** basic/multi-pillars:
 - **Generous** basic pension (DK, NL): **low** 60%-poverty
 - Low BP & targeted benefits (UK, Ireland): **medium**
 - Low BP only (EE, CH): **high**
 - Encompassing (SE, FI) with targeted minimum: **medium**

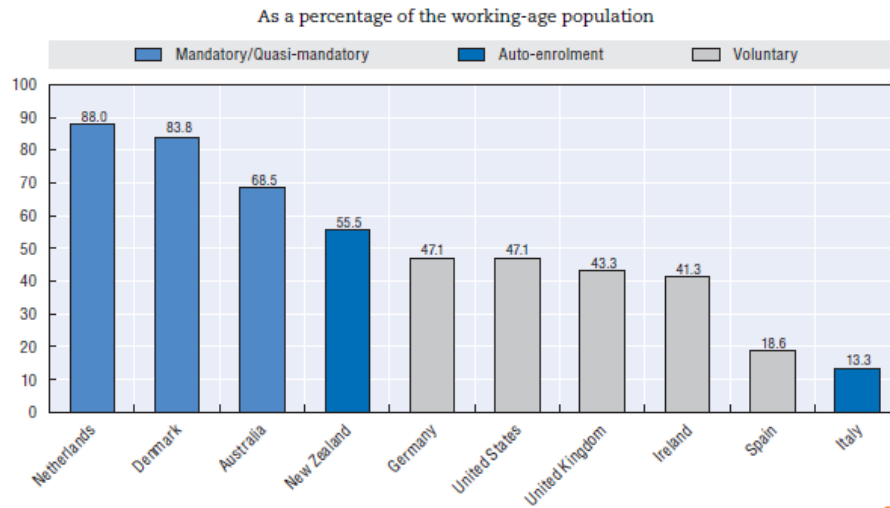
Access: Occupational pension coverage, Ireland 2005-15

% employed (aged 20-69)	2005	2015	2005-15	NACE Economic Sector	2005	2015	2005-15
Total	55.9	46.7	-16.5%				
Male	59.5	47.2	-20.7%	A Agriculture, forestry and fishing	35.7	28.5	-20.2%
Female	51.0	46.2	-9.4%	B-E Industry	66.0	52.1	-21.1%
Age group				F Construction	46.1	34.1	-26.0%
20-24	27.8	14.1	-49.3%	G Wholesale & retail trade; repair	39.3	26.5	-32.6%
25-34	53.5	36.1	-32.5%	H Transportation & storage	60.6	42.6	-29.7%
35-44	66.3	55.3	-16.6%	I Accommodation & food service	23.7	13.1	-44.7%
45-54	64.8	54.4	-16.0%	J Information & communication	67.3	58.9	-12.5%
55-69	54.4	49.3	-9.4%	K-L Financial, insurance & real estate	78.2	75.2	-3.8%
Nationality				M Professional, scientific & technical	59.5	49.5	-16.8%
Irish nationals	58.0	49.4	-14.8%	N Administrative & support service	37.2	24.9	-33.1%
Non-Irish nationals	32.1	29.2	-9.0%	O Public administration	93.4	89.1	-4.6%
ILO Employment Status				P Education	72.2	72.6	0.6%
Self-employed & relatives	48.4	29.9	-38.2%	Q Human health & social work	63.0	58.5	-7.1%
Employee	57.4	50.2	-12.5%	R-U Other NACE activities	34.2	23.3	-31.9%
Hours of work							
Full-time	61.2	55.0	-10.1%				
Part-time	29.9	22.3	-25.4%				

Source: QNHS Pension Provision, CSO, Dublin 30/5/2016

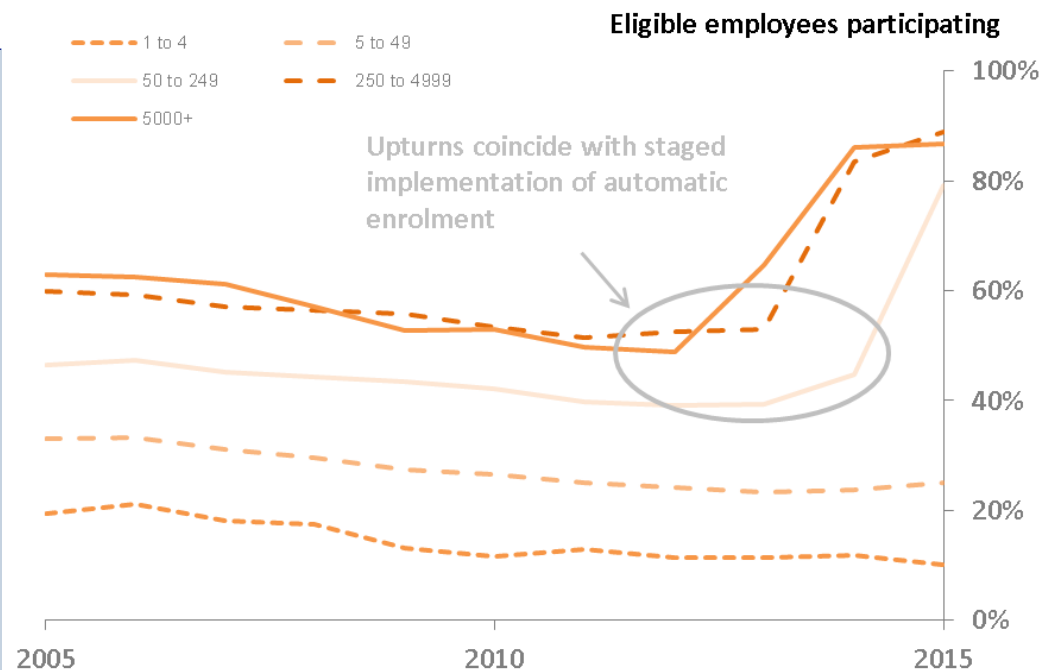
Coverage of private pensions across OECD

Figure 2.8. Coverage rate of private pension plans in selected OECD countries, 2009-10

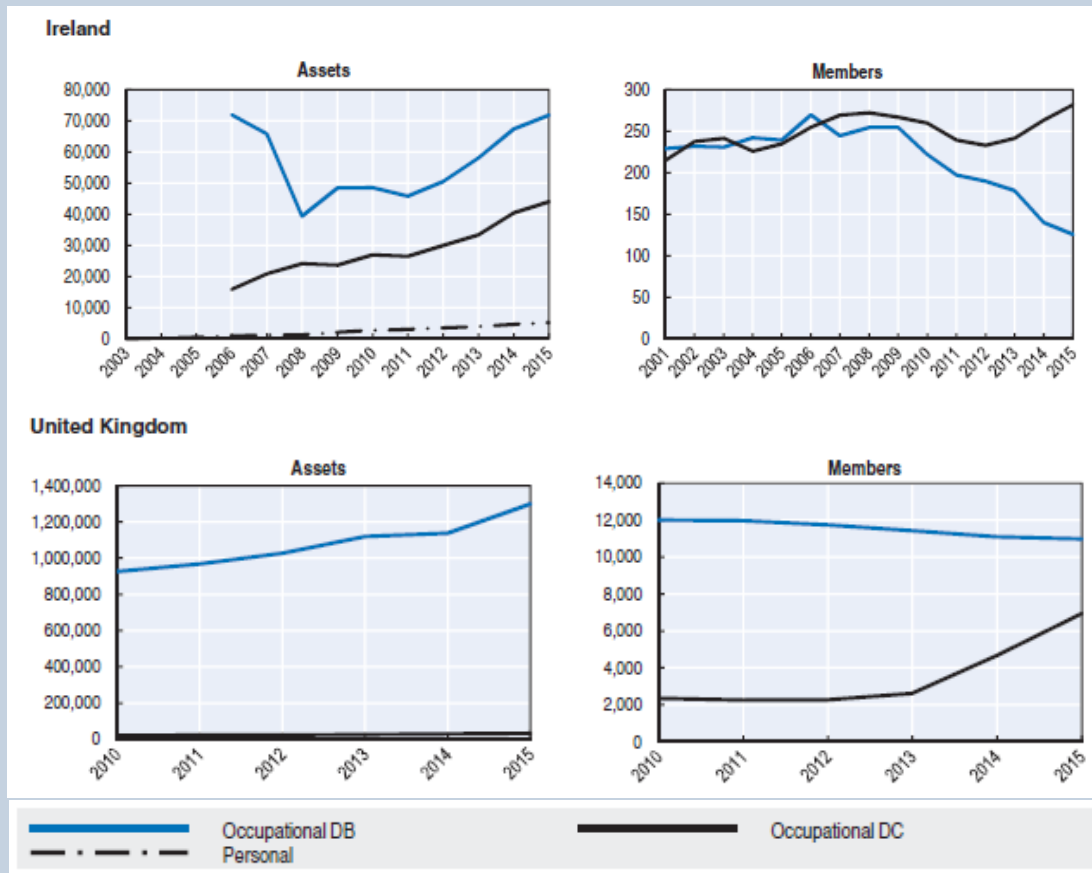


- **Mandatory** schemes: Switzerland, some CEE countries (100%)
 - **Collective** schemes: NL, DK negotiated schemes (nearly 90%)
 - **Automatic** enrolment: NZ
 - **Voluntary** schemes with tax incentives (Germany)
- (Source: OECD 2012)

- **Automatic enrolment in UK:**
 - Since 2012 phasing-in by 2020, stepwise by size of employer
 - Individuals (aged 22-SPAge), earning more than £10000 p.a.
 - Public sector already high
 - Private sector, depending on size of employer and time lag
- (Source: DWP 2015)



Trend towards individualized risks in Ireland & UK: from defined benefit (DB) to defined contribution (DC)



Defined benefit (DB):

- Pooling of risks possible
- Employer responsibility (liability)
- But underfunding problems in crisis

Defined contribution (DC):

- Individualized risks, but portable
 - Lower returns in crisis, will have immediate effect
- => Secular decline in DB, shift to DC schemes for new staff

Source: OECD Pensions Outlook 2016: figure 1.3
(assets: millions national currency, members: in thousands)

Policy outlook: the future of old age inequality...



Future potential causes of poverty & inequality:

- **First tier** crucial for anti-poverty policy: access and generosity
- **Coverage:** low educated, non-standard work, small firms
- **Women** with longer interruptions without child-care credits
- **Survivors**, particularly widows, with insufficient contribution records
- **Private** pension provide no social redistribution
- Market risks of **funded** (DC) schemes during crises
- **All pillars and tiers matter!**



Literature

Monographs:

- **Ebbinghaus, B.** (ed.) (2011), *The Varieties of Pension Governance. Pension Privatization in Europe*. Oxford: OUP 2011, (incl. chapters on pension reforms, on governance, and on inequality)

Journal publications:

- **Ebbinghaus, B.** (2015), The Privatization and Marketization of Pensions in Europe: A Double Transformation Facing the Crisis, *European Policy Analysis* 1(1): 56-73.
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- **Ebbinghaus, B. & D. Hofäcker** (2013), Reversing Early Retirement in Advanced Welfare Economies: A Paradigm Shift to Overcome Push and Pull Factors, *Comparative Population Studies (CPoS)*, 38(4): 807-840.
- **Ebbinghaus, B. & T. Wiß** (2011), Taming Pension Fund Capitalism in Europe: Collective and State Regulation in Times of Crisis, *Transfer* 17(1): 15-28.
- **Ebbinghaus, B. & N. Whiteside** (2012), Shifting responsibilities in Western European pension systems, *Global Social Policy* 12(3): 266 –282.