



Retirement trends in Europe – so many countries, so many systems

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A New Millennium.
A New Challenge for Actuaries

Retirement trends in Europe – so many countries, so many systems

- Underlying factors
 - demographics
 - labour markets
- Retirement benefit and pension systems in different countries
 - state
 - occupational
 - private (personal, individual)
- Outcomes – level of pensions

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Demographics

Rapid aging projected for all countries in the region:

- increasing longevity, and
- often, low birth rates (below replacement level)

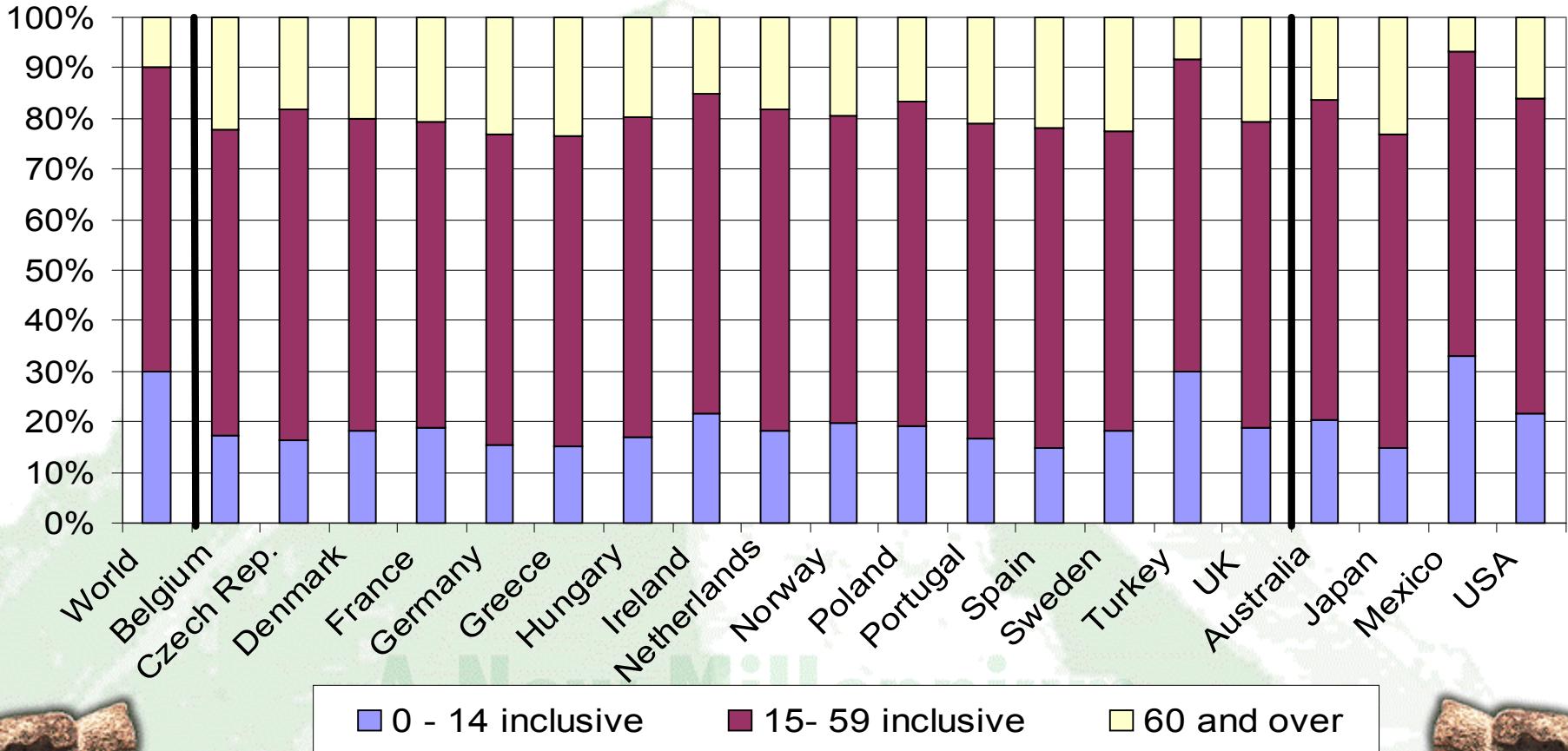
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A New Challenge for Actuaries

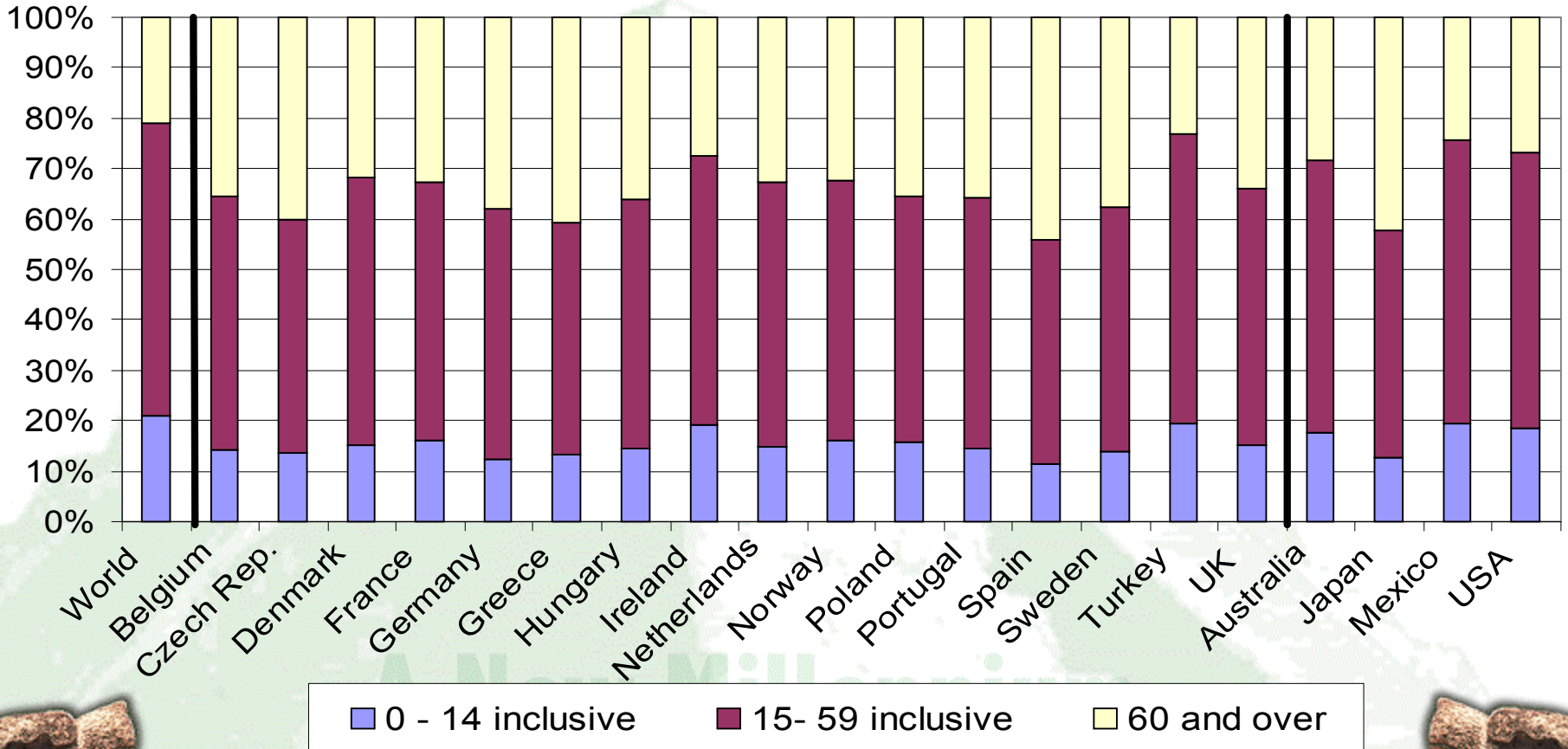
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Population by age band - 2000 (UN data, 2000 revision)



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Population by age band - 2050 (UN data, 2000 revision)



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Labour market trends

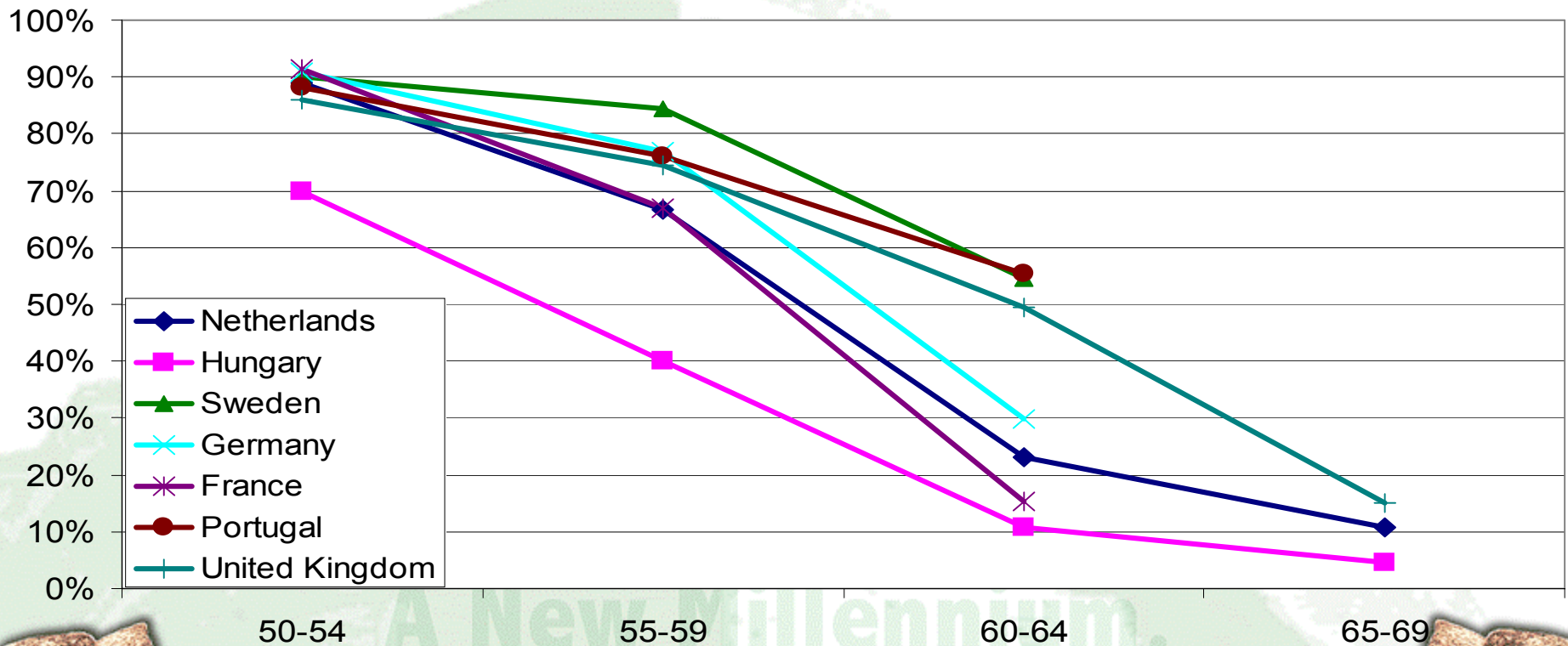
- desire to retire early?
- effects of past economic “shocks”
- few in most European countries work after age 60
- pattern is largely independent of formal state pension age

Also

- increasing female participation
- more self-employment, short-term contracts, part-time working
- later entry into workforce => shorter working lives

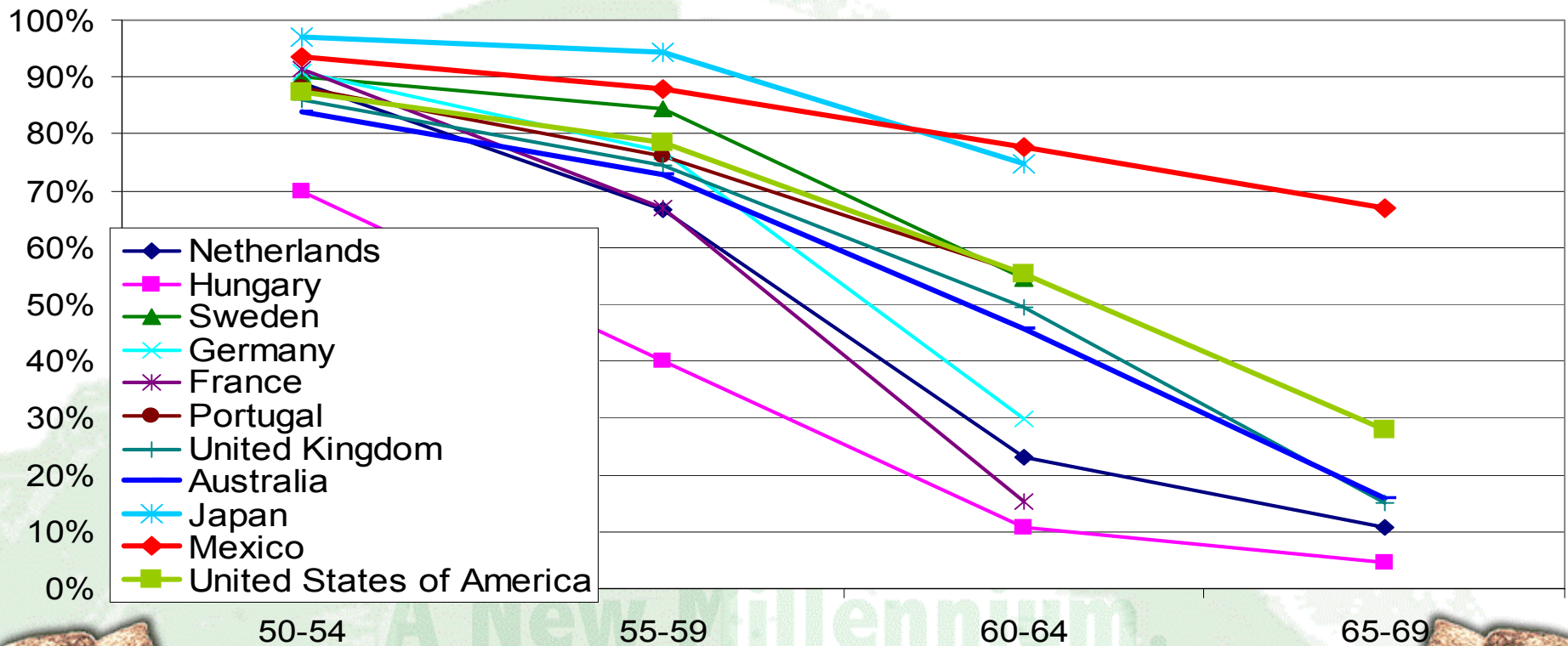
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Labour force as percentage of population by age - men (OECD data 1998)



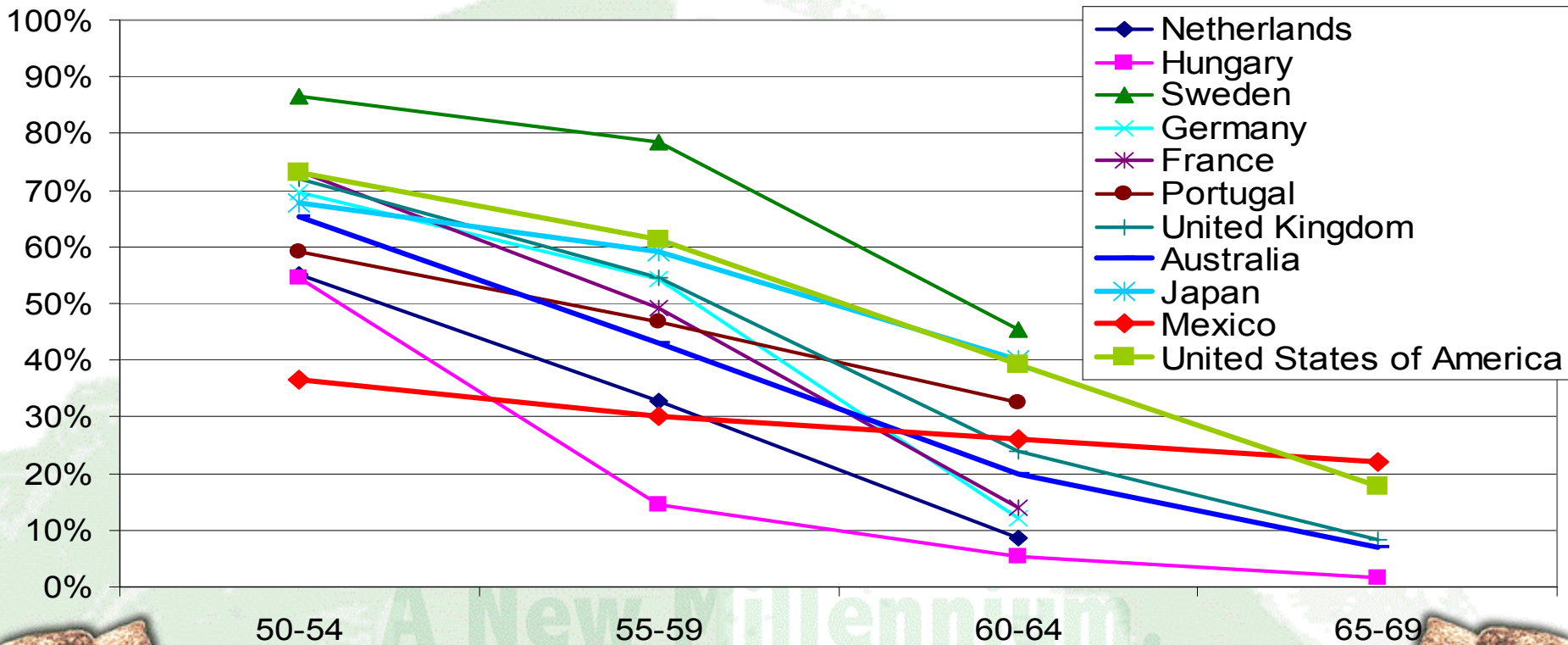
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**Labour force as percentage of population by age -
men (OECD data 1998)**



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**Labour force as percentage of population by age -
women (OECD data 1998)**



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Labour market trends



(Matt, Daily Telegraph)

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Key concepts

- “Bismarckian” arrangements
 - big, DB, PAYE social security pensions

Except Ireland, UK, Netherlands, some of Scandinavia

- Reform?
 - concern over future affordability, labour market effects, capital market effects?
 - but also of inter-generational solidarity, risks of investment

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France

Earnings-related social security pension gives up to 50% of pay up to ceiling (~ average pay)

Compulsory participation in “occupational” (industry- or economy-wide) pension plans

- provide benefits on different tranches below and above social security ceiling
- operated on PAYG principle, notional DC
- managed by employee and employer representatives

A few additional funded occupational arrangements

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France



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Germany

Currently

- big Bismarckian social security arrangement, aim of 70% replacement rate, plus
- for some, occupational pensions (either externally funded or book reserves)

Reform

- scale back (slightly) benefits from social security
- encourage more funded pension provision (incl DC)

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Germany



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Hungary

Old system – big Bismarckian social insurance system

Reforms (1994 and 1998)

- increase pension age (60/57 to 62/62)
- scale back benefits from main social insurance
- divert some contributions to “mutual benefit funds”, mandatory DC pension funds (but g’teed, smoothed investment performance), run by members
- voluntary “3rd pillar” – like mutual benefit funds

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Netherlands

State pension

- flat rate, fairly generous
- (and generous disability benefits)

Occupational pensions

- mandatory, often industry-wide, involvement of “social partners”
- legally separate from employer, funded, DB
- target 70% of final salary
- funds are > 100% GDP

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Portugal

Typical big Bismarckian social security plan

- pension from 65 – for each year worked 2% of earnings during best 10 of last 15 years, max 80%
- means-tested safety net if earnings-related pension insufficient
- early pension ages – miners, dockers, fishermen
- disability and other benefits from same arrangement
- costs – high: 34-35% of pay, mainly from employers
- build up some assets to smooth funding?

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Sweden

Old system (for those born < 1938)

- universal flat rate, plus earnings-related pension (60% if 30 years' service, based on best 15 years)

New system (for those born > 1953)

- notional DC – accumulate contributions with GDP growth, divide by annuity based on life expectancy
- some funding to get over “demographic hump”, plus
- premium account – actual DC (2.5% of earnings)

Occupational pension plans supplement social security (earnings above ceiling)

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Sweden



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United Kingdom

Social security – flat rate and small earnings-related components

but flat rate < poverty line, so means-tested top-up

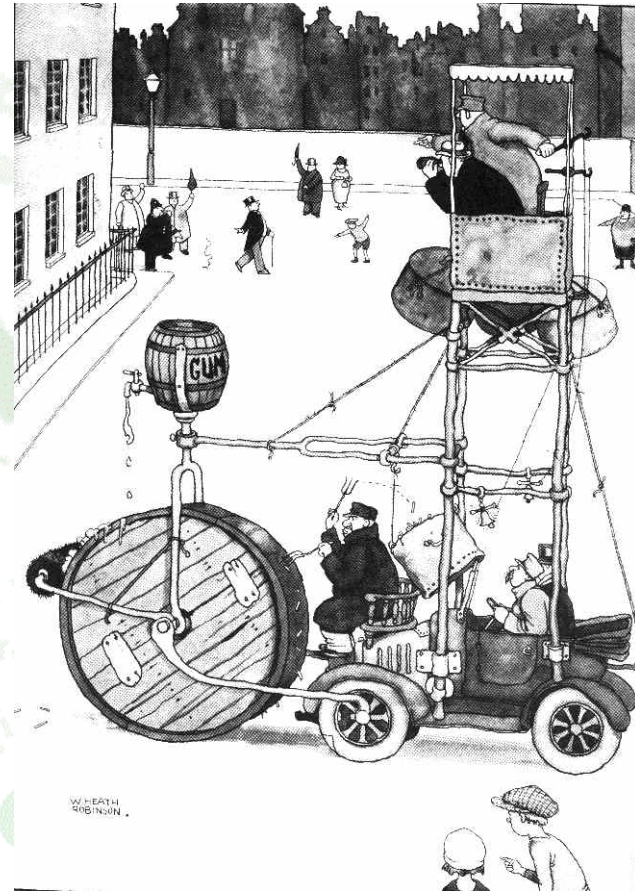
Opt out of earnings-related component (contracting out), if have

- funded occupational pension (DB or DC), or
- personal pension (DC)

Can have not contracted-out occupational and personal pensions

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United Kingdom



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Results:

In most countries in Europe total replacement rates are at least 75%, often better

- despite wide variety of sources of income

Inequality in pensioners' incomes highest in countries with big Bismarckian social insurance arrangements

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Pensioners incomes and inequality

Source: "Older, Getting Wiser", Paul Johnson

