Contents

Pre	face		XIII
Ack	nowledgments		xvii
1	Lessons from the Structure of the		1 6 8
	Key Findings Policy Implications		22
	References		30
2	Fiscal and Demo	ographic Challenges	31
		ntries' "Fiscal Starting Point"	32
		ablic Pensions Today	42
	Value of the "F	Pension Promise"	55
	The Demograp	hic Outlook	64
	Understanding the Impact of Looking at Effective		
	Retirement Ages		78
	Synthesis of Fiscal and Demographic Challenges		85
	References		91
	Appendix 2A	Pension Data in Detail	95
	Appendix 2B	Methodological Assumptions for	
	Appendix 2C	OECD Pension Modeling Why the Decline in the Number of Children Is Unlikely to Help Offset the Public	101
		Expenditure Levels in Most OECD Countries	104

3	The Distributional Challenge	107
	The Two Philosophies of Pension Provision:	
	Universality versus Insurance	109
	How Well Do Different Pension Systems Alleviate	
	Old Age Poverty?	121
	Intergenerational Transfers	137
	Average National Retirement Ages and Differing	
	Life Expectancies—A Distributional Issue in	
	National Pension Systems?	166
	A Closer Look at the Distributional Effects of	
	Public Pensions	174
	State and Local Government Accounting and	
	Retirement Finances	185
	Concluding Remarks	195
	References	197
	Appendix 3A Data and Definitions	205
	Appendix 3B	212
4	The Employment Incentive Challenge for Aging Populations	221
•	Economic Dependency Ratios Going Forward—Some	
	Countries Will Have to Act	222
	A Closer Look at Employment Rates for Older Workers	228
	Most OECD Older Workers Will Be Better	
	Educated in the Future	246
	Why Do People Withdraw Early from the Workforce?	251
	The Retirement Decision	256
	Phased Retirement Option	268
	Concluding Remarks	269
	References	270
	Appendix 4A Exorcising the "Lump-of-Labor" Ghost	
	One More (Last?) Time	273
5	Individual Accounts	277
	The Context in Support of Individual Accounts	278
	Disadvantages of Individual Accounts	279
	Structures and Brief Histories of Selected Countries'	
	Individual Accounts	
	Participation/Contribution Density	291
	Administrative Costs and Fees	298
	Elderly Poverty and Replacement Rates	301
	Financing the Transition and Effects on National Saving	309
	Overall Conclusions	313
	References	316

6	Notional or N	lonfinancial Individual Accounts	321
	Notional Ac	counts in Sweden	323
	Notional Ac	counts in Other Countries	334
	US Proposa	ls to Establish Private Accounts	338
	Conclusions		344
	References		345
7	Challenges t	o Corporate Pension Provision	347
	"Good Old	Days" Revisited—How Extensive	
	Was the l	US Corporate Welfare State?	348
	Recent and	Current Corporate Pension Provision	363
	Why the Sw	ritch from Defined Benefit Pension Plans?	381
	Choice of C	orporate Defined Benefit or Defined	
	Contribu	tion/Hybrid Pension Provision in the OECD	405
	Recent Tren	ds in Corporate Pension Provision in	
	Other OF	ECD Countries	408
	Summary o	f the Challenges	431
	References		437
	Appendix 7		
		How the French Government Took	
		Over the Pension Liabilities of	
		Electricité de France and Made Billions	443
8	Conclusion		449
	Targeted Be	enefit Adjustments to Deal with the	
	Fiscal Sh	ortfall	451
		ne Retirement Age	469
Increasing Revenues for the Social Security System		471	
		ogram of Individual Accounts	471
	_	Reform of Social Security and Automatic	
	D 1 .		
		g Mechanisms	474
	References	g Mechanisms	474 481
Abk		g Mechanisms	
Abk	References previations	g Mechanisms	481
Ind	References oreviations ex	g Mechanisms	481 483
Ind Tab	References oreviations ex		481 483
Ind Tab	References oreviations ex	Tax and Social Security treatment of	481 483 487
Ind Tab	References oreviations ex les ble 2.1	Tax and Social Security treatment of benefits, 2003	481 483 487
Ind Tab Tab	References oreviations ex oles ole 2.1 ole 2B2.1	Tax and Social Security treatment of benefits, 2003 OECD typology of pension systems	481 483 487
Ind Tab Tab	References oreviations ex les ble 2.1	Tax and Social Security treatment of benefits, 2003	481 483 487

Table 2A.1	Breakdown of total prefunded assets toward	
	pension provision in 2006	98
Table 3B3.1	Selected Retirement Confidence Survey	
	findings on retirement preparations	
	among Americans	131
Table 3.1	Recent phased-in raises of the retirement	
	age in selected OECD countries	154
Table 3.2	US total population life table, 2003	169
Table 3.3	Civil service and general national	
	pension schemes, retirement ages	
	and replacement rates	178
Table 3A.1	Values of poverty thresholds for single	
	adults used to measure relative poverty	
	at half of median disposable income	206
Table 3A.2	65+ income distribution, by source and	
	income group, circa 2000	208
Table 3B.1	Comparative details of 85 major public	
	employee retirement funds in 2006	212
Table 4.1	Examples of country reforms of early	
	retirement options	261
Table 4.2	Recent OECD reforms toward actuarial	
	neutrality in pension systems	265
Table 5.1	Replacement rates under Mexico's social	
10010011	security system	286
Table 5.2	IMSS-IVCM disbursements by old age	
	retirement and disability categories	287
Table 5.3	Comparison of Mexico's pay-as-you-go	
4	and reformed old age security systems	288
Table 5.4	Impact of retirement and pension income	
	on total poverty in Chile, 1997	304
Table 5.5	Real rates of return on Mexican SIEFOREs,	
	2001–04	306
Table 7B1.1	OECD tax treatment of individual private	
	pensions, 2003	356
Table 7.1	Percentage of all wage and salary workers	
	aged 21–64 who participated in an	
	employment-based retirement plan,	
	1987 and 2005	369
Table 7.2	Major post-ERISA changes and additions	
	to employee pension benefit legislation	383
Table 7.3	Trends in annual plan sponsor administrative	
	costs for US defined benefit and defined	
	contribution plans, 1981–96 and 1998	384
Table 7.4	US corporate defined benefit plans, 2003–06	400
	1	

Table 7.5	Selected data on voluntary occupational	
	pension plans in the OECD	406
Table 7.6	Japanese corporate pension provision, 1966–2006	422
Table 7A.1	Reconciliation of Electricité de France balance	
	sheet, January 2004	445
Table 8.1	Worker participation in tax-favored retirement	
10020	plans, by income group, 1997, 2000, and 2003	456
Table 8.2	Percentage of participants contributing the	
10010	maximum to tax-favored retirement plans,	
	by plan type and income group, 2003	458
Table 8.3	Employee contributions to 401(k)-type, IRAs,	
Tuble 3.5	and self-employed retirement plans,	
	by income group, 1997, 2000, and 2003	459
	by meetine group, 2000, 1000	
Figures		
Figure 1.1	Gross public pension expenditure, 2005 and 2050	9
Figure 2.1	General government fiscal positions, 2006	33
Figure 2.2	OECD countries' "starting point" in 2006	40
Figure 2.3	Total (old age + early retirement + survivor)	
11guic 2.5	public gross pension cash benefit	
	expenditure, 1990–2003	44
Figure 2.4	Total taxation of pension benefits, 2003	48
_	Actual cost of public expenditures on pension	
Figure 2.5	cash benefits, 2003	54
Figure 2.6	Net retirement income from mandatory pension	
1180110 =10	programs, by preretirement net earnings in	
	multiples of average wage (for men)	57
Figure 2.7	Average mandatory pension promise,	
19010 -11	as a multiple of average wage, 2004	62
Figure 2.8	Working-age population (15–64 years)	
118010 2.0	in selected OECD countries, 2006–50	65
Figure 2.9	Total fertility in selected OECD countries,	
118010 2.5	1970–2004	68
Figure 2B3.1	Fertility, women's educational attainment,	
118010 220.1	and employment, 2000–04	71
Figure 2.10	South Korea's workforce (15–64 years)	
0	under different fertility scenarios, 2005-50	72
Figure 2.11	Cumulative number of new work permits/	
1180110	immigrants needed in the G-7 to stabilize	
	old age support ratio at 2005 level, 2005–50	74
Figure 2.12	Population aged 65+, selected OECD countries	
- 100110 - 112	and regions, 2006–50	77
Figure 2.13	Effective and official retirement ages	
1.001.0 2.10	in the OECD, 2004	80

Figure 2.14a	Standard old age support ratios, 2004 and	
	2050, and effective old age support ratio,	
	2004, men	83
Figure 2.14b	Standard old age support ratios, 2004 and 2050,	
	and effective old age support ratio, 2004, women	84
Figure 2B.1	Net pension income at high wages and	
	total pension promise, men, 2004	103
Figure 2C.1	Gross public expenditure in OECD countries	
	on pensions and education, 2003	105
Figure 2C.2	Share of population with tertiary education, age 25–34, 2005	105
Figure 3.1	Mandatory pension progressivity and the	
O	weighted average mandatory pension	
	replacement level (men), 2004	112
Figure 3.2	OECD poverty rates by age group, 2000	125
Figure 3.3	Old age poverty rates by elderly subcohorts	127
Figure 3.4	Sources of income for the 65+ population,	
O	circa 2000	132
Figure 3.5	Sources of income for 65+ population,	
O	by income group, circa 2000	133
Figure 3B4.1a	Net public benefit expenditures, total	
O	population, by age group, late 1990s	140
Figure 3B4.1b	Net public benefit expenditures, bottom	
O	income quintile, by age group, late 1990s	141
Figure 3B4.1c	Net public benefit expenditures, top income	
O	quintile, by age group, late 1990s	142
Figure 3.6	Increase in life expectancy at age 65,	
	1970–2004	146
Figure 3.7	Estimated years spent in retirement, 2004	148
Figure 3.8	Average effective retirement age, selected	
	OECD countries, 1965–2005	149
Figure 3.9	Increase in expected years in retirement,	
	1970–2004	150
Figure 3.10	Components of increase in years in	
	retirement for men, 1970–2004	152
Figure 3.11a	Observed and implied effective retirement	
	ages for men, 2004	156
Figure 3.11b	Observed and implied effective retirement	
	ages for women, 2004	157
Figure 3.12	US annual employment-based pension	
	income distribution in 2004, by sector	179
Figure 3.13	Share of employed 50+, selected OECD	
	countries, 2001 or most recent	181

Figure 3.14	Pension coverage for US state and local	
O	government and private industry	
	employees, most recent year available	186
Figure 3.15	US employer cost of benefits per hour	
O	worked, all employees in sector	187
Figure 3.16	Quarterly US government contributions to	
	and total payments from state and local	
	pension funds, 2000–2007	190
Figure 4.1	OECD economic dependency ratios	
	(inactive/active), 2005–51	223
Figure 4B1.1	OECD economic dependency ratios in	
O	2030 under different policy scenarios	229
Figure 4.2	OECD employment rates, by age group and	
O	gender, 2004	231
Figure 4.3a	OECD employment rates for men aged 55-64,	
O	1960–2004	233
Figure 4.3b	OECD employment rates for women aged 55-64,	
O	1960–2004	234
Figure 4.4	New Zealand's real GDP growth and	
C	employment rates, by gender and	
	age group, 1986–2004	236
Figure 4.5	Average effective retirement age in Japan,	
O	1960–2005	239
Figure 4.6	Pension distribution among Japanese men,	
C	by age group, 1992, 1996, and 2000	243
Figure 4.7a	Employment and educational attainment	
	among OECD older male workers	
	aged 55–64, 2003	247
Figure 4.7b	Employment and educational attainment	
	among OECD older female workers aged	
	55–64, 2003	248
Figure 4.8a	Current and projected share of OECD	
	population aged 55–64 with at least	
	tertiary education, men	249
Figure 4.8b	Current and projected share of OECD	
	population aged 55-64 with less than	
	upper secondary education, men	249
Figure 4.8c	Current and projected share of OECD	
	population aged 55–64 with at least	
	tertiary education, women	250
Figure 4.8d	Current and projected share of OECD	
	population aged 55–64 with less than	
	upper secondary education, women	250

Figure 4.9	Main reasons why older people leave the	
	labor force, 2004	252
Figure 4.10	Persons in early retirement schemes or on	
	unemployment benefits without work search	
	requirements, Belgium and France, 1981–2004	255
Figure 4.11	Tax forces and risk of labor-market exit	
	in the OECD	257
Figure 4.12	Pathways to retirement for German men,	
	1958–95	259
Figure 4.13	Incidence of part-time employment,	
	by gender and age groups, 2006	269
Figure 4A.1	Changes in employment rates for older	
	and younger men, 1970s to present	274
Figure 5.1	OECD average tax wedge and annual	
	hours worked, 2006	279
Figure 5.2	Pension participation in Chile,	
	1981–March 2002	293
Figure 5.3	AFORES activity, Mexico, 1998–2007	296
Figure 7.1	Coverage of US corporate pensions, 1905–95	350
Figure 7.2	Participation of US private-sector workers	
	in retirement plans, medium/large	
	companies, 1980–2006	364
Figure 7.3	Participation in US corporate pension plans,	
	1950–2006	366
Figure 7.4	Distribution of PBGC retired workers and	
	beneficiaries from defined benefit plans	
	under administration, by monthly	
	benefit level, 2006	375
Figure 7.5	Combined financial position of PBGC single-	
	and multiemployer programs, 1980–2007	377
Figure 7.6	US defined benefit plan creation and	
	termination, 1956–80	387
Figure 7.7	US defined benefit and health care provision	
	net funding levels, S&P 500 companies,	
	2002–06	396
Figure 7.8	Asset allocation of US private defined	
	benefit plans, 1994–2007	402
Figure 7.9	Structure of assets of pension funds in	
	selected OECD countries, 2005	403
Figure 7.10	Number of members in Canadian employer-	
	sponsored pension plans, by category,	
	1985–2006	409
Figure 7.11	Membership of corporate pensions in	
	Germany, 2001–06	412

Figure 7.12	Number of Germans with a Riester pension, 2001–07	415
Figure 7.13	Corporate pension plan options in Japan	
	after passage of the DCPL (October 2001) and DBCPL (April 2002)	420
Figure 7.14	Active membership in UK private	
rigate /	occupational schemes, 1953–2005	428
Figure 7.15	Aggregate UK defined benefit plan assets,	
118	liabilities, and balance on S179 basis,	
	March 2003–June 2008	430
Figure 7.16	Share of individuals age 65 or above with	
1180107712	income from any private pension, by	
	income quintile, 1975–2006	433
Figure 7.17	Annual real income of individuals age 65 or	
116416 7.17	above from any private pension, by	
	income quintile, 1975–2006	435
Figure 8.1	US federal tax expenditures toward pensions,	
rigare o.i	by category, 1995–2012e	454
Figure 8.2	Share of total Social Security benefit income	10 1
riguic 0.2	of individuals age 65 and over, by recipient	
	income quintile, 1975–2006	466
Figure 8.3	Social Security benefit income of individuals	100
rigure 6.5	age 65 and over, by recipient income	
	quintile, 1975–2006	468
Cicamo 9 A	OASDI income and cost rates and Trust Fund	100
Figure 8.4	size, projected to 2085	478
	size, projected to 2003	170
Boxes		
Box 2.1	The nonobserved economy: Close to a nonissue	
	for pension sustainability	51
Box 2.2	Pillars of pensions: Pension system typologies	
	and terminology	59
Box 2.3	Government policies to raise total fertility	
	levels: What seems to work	69
Box 3.1	Historical overview of US Social Security	116
Box 3.2	Pension benefit calculation: Detail is a necessary	
	evil to align conflicting policy goals	118
Box 3.3	Americans' (lack of) savings for retirement	129
Box 3.4	Who gets what, from where, and when in life?	138
Box 3.5	The 2006 Danish pension reform and the	
	future retirement age	159
Box 3.6	Public and private pensions in France:	
	Toward egalité	161
Box 4.1	What must greying Europe do?	226

Box 6.1	Italy: A case study in how not to implement a	
	notional defined contribution system	325
Box 6.2	Automatic balancing mechanisms in public	
	pension systems in Sweden, Germany, Japan,	
	and the United States	328
Box 7.1	Tax treatment of corporate and personal	
	pension plans in the OECD	352
Box 7.2	The middle ground: Freezing rather than	
	terminating a defined benefit plan	398