



ASSESSING HOW MUCH INDIVIDUALS NEED TO SAVE FOR RETIREMENT, AND WHETHER THEY CAN AND DO SAVE ENOUGH

Work in progress



Ensuring sufficiently high contributions to achieve retirement income objectives: Assessing the current situation

Retirement
income gap

Voluntary
contributions
needed to close
the gap

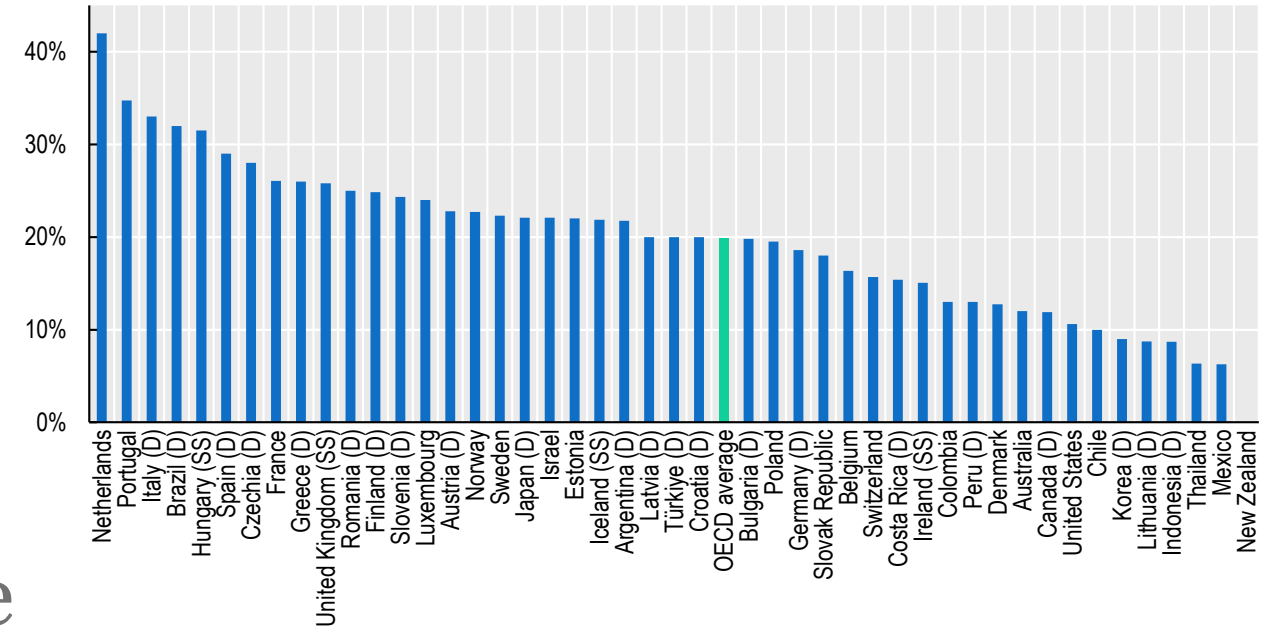
Design w.r.t.
voluntary
contributions

Current levels
of voluntary
contributions



Context: Mandatory contribution rates

- Large variation across countries
- Contributions not only cover old-age pensions
- Employees usually pay less than half
- Lower contributions for the self-employed in half OECD countries

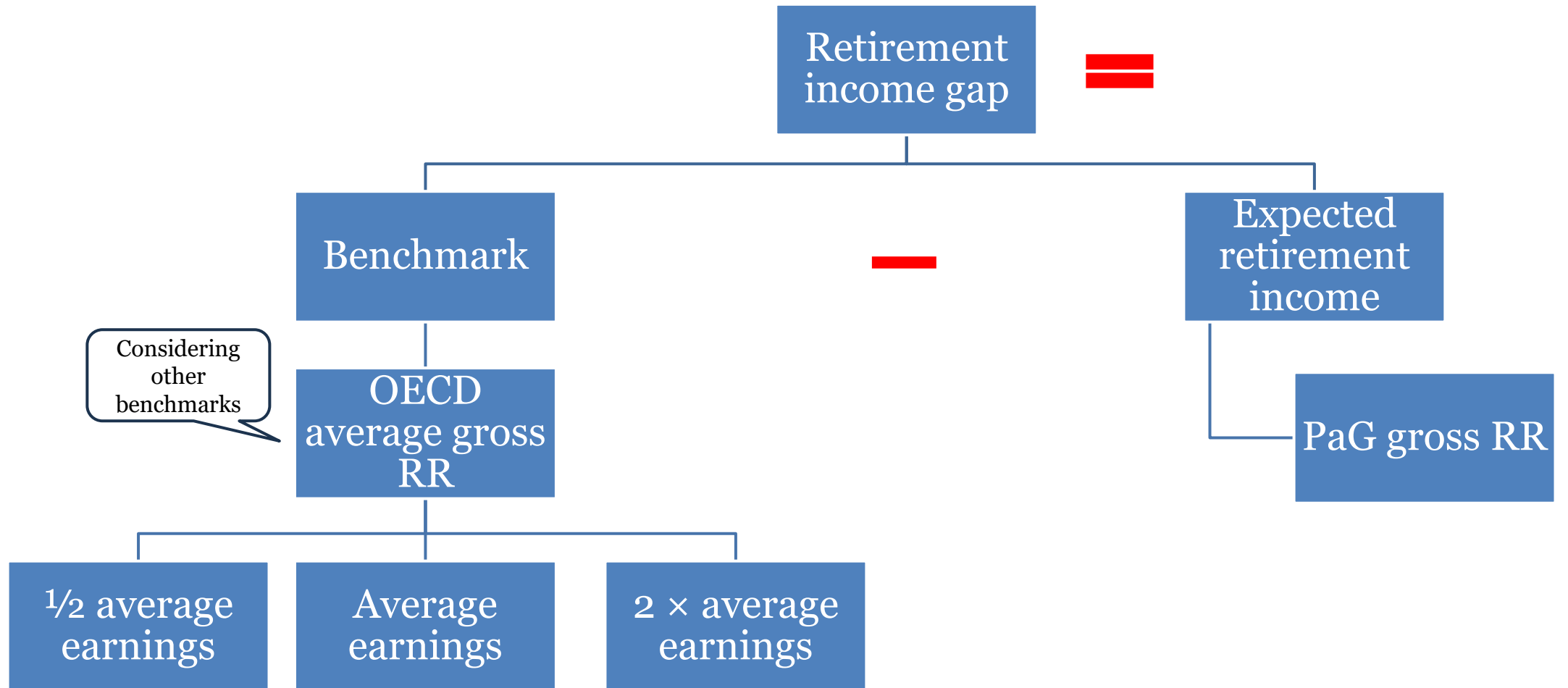




RETIREMENT INCOME GAP



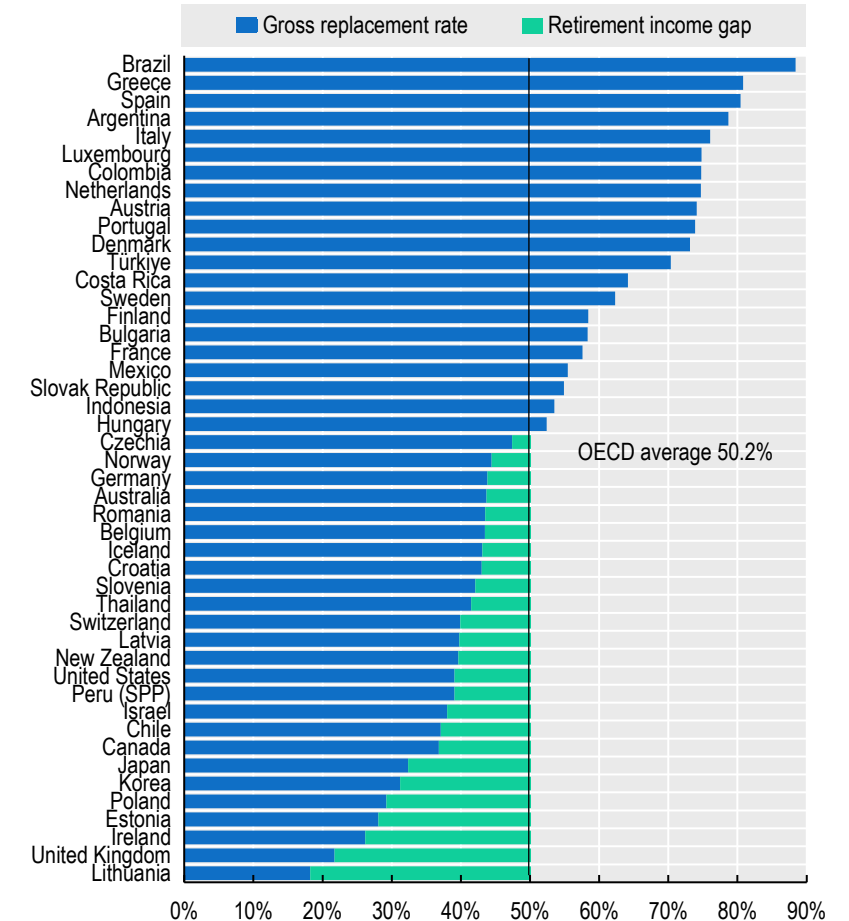
Calculation of the retirement income gap





Retirement income gaps (preliminary results)

Category of worker	Benchmark	Nb of countries falling below	Average gap
Lower-income earner, male	63.3%	26	12.2%
Lower-income earner, female	63.3%	+2	+ 2.0 p.p.
Average earner, male	50.2%	25	12.9%
Average earner, female	50.2%	+1	+ 2.8 p.p.
Average earner, self-employed	50.2%	+5	+ 10.7 p.p.
Higher-income earner, male	41.8%	21	17.1%
Higher-income earner, female	41.8%	+2	+ 2.0 p.p.



■ Using other benchmarks would affect the RI gaps



VOLUNTARY CONTRIBUTION RATE NEEDED TO CLOSE THE RETIREMENT INCOME GAP



Assumptions

- Constant share of earnings contributed annually from age 22 (45) to normal retirement age
- Earnings grow with inflation (2%) and productivity (1.25% real)
- Constant investment return (2.5% real) (1.5% / 3.5%)
- Fees on accumulated assets (1%)
- Purchase lifelong fixed annuity based on fixed discount rate (1.5% real) and survival probabilities from UN World Population Prospects 2024
- Calculate CR that generates a RR = retirement income gap



Needed voluntary contribution rates (preliminary results)

- 10% or more in JPN, LTU, MEX, POL, CHE and THA
- Higher for women
 - Longer life expectancy (gender-specific mortality tables)
 - Lower retirement ages
- Higher for higher-income earners (5.53%) than for average (4.10%) and lower-income earners (3.92%)
- Higher for the self-employed (5.66%)
- Increases with shorter contribution periods
- Increases with lower investment performance



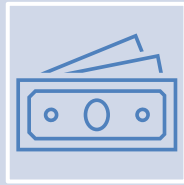
DESIGN WITH RESPECT TO VOLUNTARY CONTRIBUTIONS



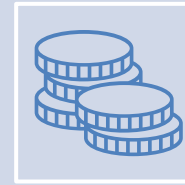
The design may not always induce workers to voluntarily save enough to close their retirement income gap



Contribution ceilings for tax relief purposes usually high enough, except for workers starting to save at 45, higher-income earners, workers without access to employer contributions



Minimum and default contribution rates may be too low



Government matching contributions and subsidies helpful but maximum entitlements are small



Vesting periods and periods without contributions may affect the ability to close the retirement income gap



CURRENT VOLUNTARY CONTRIBUTION LEVELS



Too few individuals may be participating in voluntary pension plans and voluntary contributions may be too low

- Voluntary participation rates at 50% or more of the working-age population in 10 countries only
 - Lower participation among younger workers, lower-income earners, the self-employed and women
- Not all members actively contribute
- Aggregate volume of voluntary contributions remains low in many countries
- Contribution rates concentrated around default and minimum rates



Voluntary contributions by socio-economic characteristics



Contribution rates increase with income in BEL, DNK, NZL and USA but **decrease with income** in AUS, CAN and DEU



Women contribute less than men except in AUS



Contributions tend to increase with age



In conclusion...

Mandatory contributions are already substantial in some countries

Higher-income earners, women and the self-employed may need to contribute more voluntarily to close higher retirement income gaps

People need to start saving early to make voluntary contributions affordable

Plan design may not induce workers to contribute enough voluntarily to close their retirement income gap

Younger workers, lower-income earners, women, and the self-employed often participate and contribute less voluntarily

➤ Need to explore approaches to increasing voluntary contributions for targeted populations



THANK YOU FOR YOUR
ATTENTION