How to Increase Coverage - The Main Challenge for Pensions

El envejecimiento de la población en los países económicamente más desarrollados plantea grandes retos a la adecuación y sostenibilidad del sistema de pensiones. El sistema público de pensiones, principalmente de reparto, no va a poder proveer una renta de jubilación adecuada en el futuro. Una solución posible es incrementar los ahorros para la pensión con la previsión social complementaria. Las pensiones complementarias de empleo tienen mayor cobertura que las individuales, debido a su obligatoriedad, bien porque la legislación le obliga o bien porque hay una cuasiobligatoriedad basada en un acuerdo colectivo. Hay una nueva figura, la adhesión automática, calificada de *soft-compulsion* **(obligatoriedad suave) que está utilizándose crecientemente con buenos resultados en países donde no existe la obligatoriedad de pensión. En general, es necesario apoyar más a la pensión complementaria de empleo pero muchos países de Europa han optado por medidas políticas que no apoyan la previsión social complementaria.**

Ekonomiaren aldetik garatuen dauden herrialdeetako biztanleria zahartzeak erronka handiak sortarazten ditu pentsio-sistemaren egokitasunaren eta iraunkortasunaren inguruan. Pentsio-sistema publikoek, gehien bat banaketan oinarrituta, etorkizunean ezin izango dute erretiro-errenta egokia bermatu. Egon litekeen irtenbide bat da erretirorako aurrezkiak handitzea, gizarte-aurreikuspen osagarrien bidez. Enpleguko pentsio osagarriek banakakoek baino estaldura handiagoa dute, askotan nahitaezkoak baitira, araudiak hala eskatzen duelako edo hitzarmen kolektiboek ia ia nahitaezkoak egiten dituztelako. Badago modu bat, atxikipen automatikoa, zeina soft-compulsion (derrigortasun biguna) erakoa jotzen baita; pentsio-derrigortasunik ez dagoen herrialdeetan gero eta gehiago erabiltzen ari da, eta emaitza onak eman ditu orain arte. Oro har, enpleguko pentsio osagarriak gehiago sustatu behar dira, baina Europako herrialde askotan hartutako neurri politikoek ez dute bultzatzen gizarte-aurreikuspen osagarria.

The ageing of the population in the economically more developed countries poses great challenges for the adequacy and sustainability of pension systems. Public, mainly pay-as-you-go social security pensions will not provide for an adequate retirement income in the future. One solution is to increase pension savings with coverage supplementary pensions. Occupational pensions have a wider coverage than personal pensions because of its often compulsion based on legislation or quasi-mandatory based on collective agreements. A new phenomenon is softer compulsion with auto-enrolment, which is increasingly used with good results in countries where making pensions mandatory is not a policy option. In general, more workplace pensions are needed but many countries in Europe have instead opted for policy measures that do not support supplementary retirement savings.

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1. PENSION COVERAGE

1.1. Challenges and pension coverage today

Pension coverage is a central issue globally. It is a question of how pension systems in total cover the entire population or the labour force. This is naturally linked with the situation in the country in question. Most developed industrial or post-industrial countries have to deal with an ageing population and with the sustainability and adequacy of pensions. Challenges in this framework include issues such as the worsening old age dependency ratio, increasing poverty levels and how to secure the existing replacement levels. The deteriorating level of public social security pensions is a major reason for the shift to private pension provision. Many countries have partially privatised their social security pensions. But if this is not done successfully the retirement incomes will not be adequate. The question is how to increase the coverage of private pensions, mainly funded private pensions, occupational or individual pension savings.[1] Sometimes reductions in social security pension benefits have been accompanied by improvements in private pensions, but often this has not been the case (Whitehouse, 2013, p. 32).

[1] There are many definitions of occupational and individual or personal pensions and there is an ongoing debate as to which is the best definition. For example the OECD has linked access to occupational schemes to employment or occupation and defined individual schemes for which membership is not required by law and which are independent of any employment link (even if members are mostly employed people). Occupational pensions or workplace pensions, as they are also often called, are in addition referred to as the second pillar, and individual or personal pension savings as the third pillar. But there is no official pillar structure. Whether occupational or individual pensions are more important varies from country to country.

Private pensions provide about 20 percent of retirement income on average in the developed OECD countries and in most of them this share has increased in recent decades. This trend is expected to continue, as there has been an introduction of compulsory private pensions and, as mentioned, there is a need to compensate for cuts in public sector pensions with private savings (Whitehouse, 2013, p. 46). There has been no overall increase in private pension coverage yet, although there are some examples. One of them is New Zealand, which introduced the so called «KiwiSaver» scheme in 2007, based on automatic enrolment and subsidised by the government. This new scheme has increased the coverage rate of private pensions in New Zealand from less than 10% of the working age population up to 61 % to date[2]. Germany has also been able to increase the coverage rate of funded pensions substantially during the last decade with the so called «Riester-pensions». This system is also supported by a government subsidy, and coverage has risen from 2.5 % of the working age population in 2001 to a current level of about 50 %.

The coverage of funded private pensions varies greatly from country to country and from one individual to another, especially in voluntary pension systems (Antolin, P., S. Payet and J. Yermo). In OECD countries low private pension coverage correlates with the voluntary nature of the schemes. Even the highest rates of coverage found in these countries are only around 50% of the working age population. This is not considered necessarily sufficient, as these countries have replacement rates from public pensions of around 60% or less, if and when the replacement level is considered as a target. In most cases future replacement levels are expected to be below 60% (Antolin, P., S. Payet and J. Yermo, p. 7). For example in Ireland at the end of 2009, only 41.3% of workers (including those in the public sector) aged 20 to 69 were enrolled in a funded pension plan, either occupational or personal. Ireland and New Zealand are OECD countries which do not have a mandatory earnings-related pillar to complement the State pension and thus both countries face the challenge of providing levels of pension saving that suffice to achieve replacement rates high enough to avoid old age poverty. The level of the basic pension in New Zealand is 40% of the average wage and in Ireland the figure is 29%. New Zealand has also been successful with the above mentioned KiwiSaver-scheme. Thus the need for new types of private pension savings is most likely much greater in Ireland (Hennigan, 2014). The adequacy and sustainability of a pension system and the need for private pension savings need to be assessed by taking the whole pension system into consideration. This makes comparisons between different systems difficult. However, for most there is an increasing need for more private pension savings. Another issue is the extent to which countries and the people understand this. Many countries, and many organisations such as World Bank, OECD and European Union and its various institutions, are seeking to improve people's level of understanding and financial literacy.

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[2] See http://www.stuff.co.nz/business/money/9281054/Change-in-KiwiSaver-needed.

It is important to remember that most people in the world live without any pension system and their problems are different from those found in the economically more developed regions, such as OECD countries. In developing countries the questions are whether society (including both the public and private sectors) is in fact capable of supporting a pension system, because in many of them saving for retirement income is not among the most important issues: other needs, such as food, housing, health etc. are often much more pressing (Hu, Y. and F. Steward, 2009).

Many developing countries attempt to build up comprehensive pension systems, but there are prerequisites for all pension systems. According to Nicholas Barr (2002) these include effective central government, fiscal stability, economic growth, well-established financial markets, and adequate public and government understanding of and trust in them. It is quite evident that there can be no sound development of funded pensions without real economic growth (Holzman, 2012).

1.2. **Different dimensions of coverage**

There are major differences in the private pension coverage between sectors, organisations of different sizes, women and men, part-time and full-time workers, workers doing so called atypical work, etc. (EIRO, 2004).

The OECD has studied and compared private pensions extensively and continues to do so. The table below is from a research paper published in 2012.

COVERAGE RATE OF PRIVATE PENSIONS IN SELECTED OECD COUNTRIES USING DIFFERENT REFERENCE POPULATIONS

Country	As a % of the working age population	As a % of the labour force
Australia	85.7	90.6
Germany	47.1	51.6
Netherlands	88.6	93.4
Spain	18.6	22.7
United Kingdom	43.3	53.0
United States	47.1	56.7

Source: OECD calculations using survey data. Antolin, Payet and Yermo (2012, p. 9).

Many of these countries have been able to raise coverage levels recently. However, the highest coverage rates are found in countries with mandatory private pension systems: these include Australia, Chile, Estonia, Finland, Iceland, Israel, Sweden and Switzerland, which have coverage levels of around 70% or more of the working age population. Iceland has the highest coverage rate of any OECD country, at 85.5% of the working age population.

The OECD notes that the main reason for this is that in all of these countries private pensions are mandatory. There are also mandatory systems that have not yet been able to reach a high coverage rate because they have been introduced only recently (Norway and Poland). Another reason for low coverage may be the large size of the informal labour market (Mexico). The OECD has also studied the pension coverage of workers in the informal sector (Hu, Y. and F. Stewart, 2009), who are generally low income earners or self-employed, working in small and often unregistered companies or in the household sector in agriculture, construction and services. There is plenty of informal work in the OECD and in EU countries. The OECD recognises that specific measures are needed for the informal sector to improve private pension coverage, such as flexibility in contributions and withdrawals as well as monetary incentives to participate. Some countries have also made private pensions mandatory for the informal sector (Australia, Hong Kong/ China). This of course cannot be effective without effective enforcement.

Organisational factors play an important role in private pension coverage. Occupational pensions are much more common in bigger companies than in small or medium-sized enterprises. The role of SME's is very important in the labour market and they are expected to provide a great deal of growth and employment. Thus this development is also relevant for the future of occupational pensions (European Commission, 2012).

Coverage also varies between different labour market sectors. In many countries coverage is higher in the public than in the private sector. Personal characteristics may also determine whether employees are covered by occupational pensions: these include sex, the nature of the employment relationship (full-time, part-time, seasonal, temporary agency work, etc.). The experience in UK has been that male professionals are twice as likely to have occupational pensions than unskilled men (EIRO, 2004). In particular, women in atypical work have shown a far lower coverage rate than women who work full time, and the gap with men who work full time is even greater.

Results of this type depend very much on the system of industrial relations and the role of collective bargaining in each country. If there are agreements which are also applicable to those not included in the full time workforce (the so called *core employees* distinguished from others and especially from the so called *precariat*), then the problems with occupational pension coverage tend to be smaller. But this is seldom the case.[3]

[3] There have been various improvements in legislation, as for example in the Netherlands where since 1994 it has been illegal to exclude part-time employees from occupational pensions and fixed term employees should not be treated less favorably than employees with open-ended contracts.

1.3. Different forms of pension coverage

Statutory social security pensions, the so called first pillar, have broad coverage. The line between first pillar and second pillar occupational pensions is not always very clear. For example, in Denmark the labour market supplementary pension (Arbejdsmarkedets Tillægspension, ATP) can defined as a 'bridge' between the first and second pillars. In France the whole pension system can be considered as a mixed system of the first and second pillars. French supplementary pensions, which have very broad coverage, are often called the second floor of the first pillar. In Finland too the first and second pillars are in fact combined as the statutory scheme is earning-related and covers all employees with no limitation for pensionable earnings or pensions. Thus there is not the same need for supplementary pensions as in most other countries (EIRO, 2004; Barr, 2013, p. 16 pp).

It is difficult to get information about the coverage of different types of private pension schemes. Moreover, the same people may be covered by more than one scheme. Table 2 shows an attempt by the OECD (Antolin, P., Payet, S. and Yermo, J., p. 10) to overcome these difficulties.

The coverage in funded pension plans is around or above 40 - 50% in most countries from where there is data. Countries with mandatory or quasi-mandatory systems have much higher coverage rates.

According to the table there are nine OECD countries with mandatory defined contribution (DC) plans (Australia, Chile, Estonia, Israel, Mexico, Norway, Poland[4], Slovak Republic, and Sweden), two have mandatory hybrid arrangements (Iceland and Switzerland) and one (the Netherlands) has a quasi-mandatory defined benefit (DB) occupational pension system as a result of industry-wide collective bargaining. Many of these countries also have a high level of private pension coverage.

There is a strong decline in many defined benefit (DB) schemes. This is due to many factors, including the value of DB liabilities due to rising life expectancy, new accounting rules, low interest rates used for discounting and poor market returns on investments. The volatility of DB liabilities has become increasingly difficult for sponsoring companies to handle. The decline in DB has been drastic in the USA[5] and also in the UK and Ireland, for instance, private sector DB schemes are for the most part closed to new participants and also often to new accruals.

[4] Poland is going to switch from a mandatory occupational system to a voluntary one. See «Battle to save Polish second-pillar pension system continues » News IPE article, 7 October 2013By Krystyna Krzyzak.

[5] Bureau of Labor Statistics' Monthly Labor Review: defined benefit pensions cover 18 percent of private-sector workers, down from 35 percent in the early 1990s.

COVERAGE OF PRIVATE PENSION SCHEMES BY TYPE OF PLAN, 2010

As a % of the working age population

	Mandatory / Quasi-mandatory	Voluntary		
		Occupational	Personal	Total
Australia	68.5	n.a.	19.9	19.9
Austria	n.a.	12.3	25.7	..
Belgium	n.a.	42.3	..	..
Canada (1)	n.a.	33.5	33.1	..
Chile	73.7	n.a.	..	..
Czech Republic	n.a.	n.a.	61.2	61.2
Denmark	ATP: 83.8 QMO: 58.0	n.a.	23.6	23.6
Estonia	67.1	n.a.	..	..
Finland (2)	75.5	7.4	21.3	28.8
France	n.a.	17.3	5.3	..
Germany	n.a.	22.5	36.9	47.1
Greece	n.a.	0.3	..	..
Hungary (3)	45.4	n.a.	18.9	18.9
Iceland (1)	85.5	n.a.	42.0	42.0
Ireland (4)	n.a.	31.0	12.0	41.3
Israel	75.9	..	..	..
Italy	n.a.	7.6	6.2	13.3
Japan	n.a.	..	..	..
Korea	n.a.	14.6	36.5	..
Luxembourg	n.a.	3.3	..	..
Mexico	57.7	1.6	n.a.	1.6
Netherlands	88.0	n.a.	28.3	28.3
New Zealand	n.a.	8.2	55.5	..
Norway	65.8	..	22.0	..
Poland	54.8	1.3	..	..
Portugal	n.a.	3.1	5.6	..
Slovak Republic (5)	43.9	n.a.	..	..
Slovenia	n.a.	..	..	38.3
Spain (6)	n.a.	3.3	15.7	18.6
Sweden (4)	PPS: ~100 QMO: ~90	n.a.	27.6	27.6
Switzerland	70.1	n.a.	..	..
Turkey (7)	0.9	0.2	4.2	..
United Kingdom	n.a.	30.0	11.1	43.3
United States	n.a.	41.6	22.0	47.1

QMO = Quasi-mandatory occupational.

Coverage rates are provided with respect to the total working age population (i.e. individuals aged 15 to 64) for all countries except Ireland and Sweden, for which coverage rates are provided with respect to total employment.

Data only represent individuals who contributed to a pension plan in 2010.

The data for mandatory private pension plans refer to the statutory earnings-related pension system (e.g. TyEL plans).

After the government decision to effectively close down the mandatory private pension system at the end of 2010, the vast majority of its members transferred their pension rights to the state's PAYG pension system. At the end of September 2011 only 1.5% of the working age population was still in the mandatory private pension system.

Coverage rates are expressed as a percentage of the population in work, not of the working age population.

The data for mandatory private pension plans refer to both mandatory and voluntary personal plans as the split is not available.

Data refer to 2005/06.

Data for occupational voluntary plans do not include provident funds (VASA).

Source: OECD Global Pension Statistics, estimates and OECD calculations using survey data.

In the USA pension coverage is much higher in the public sector (78%) and among unionised workers (67%) in the private sector. But only 13% of non-union private-sector workers are covered. The drop in private-sector coverage reflects both a decline in unionisation and a decline in coverage among both union and non-union workers, and this decline in pension coverage has affected especially non-unionised workers.

In the USA DB schemes have to some extent been replaced by DC schemes as many workers are now enrolled in 401(k) plans, which are DC. But these have proven to be a poor substitute for DB as the savings levels are very low and will not provide for an adequate pension.

2. PENSION POLICIES

2.1. National policies to increase coverage

Many governments have designed and implemented policies intended to increase private pension savings. The recent economic crisis has led in Europe to some reversals, in which some Central and Eastern European countries have totally or partially nationalised their private pensions in order to improve their public finances.

The clearest way to increase private pension coverage is to make the scheme mandatory. By compulsion it is possible to achieve high, uniformly distributed levels of coverage. Compulsion is not a possible policy option in all countries, so softer measures must be used in some cases. There is plenty of evidence to support the fact that voluntary-based pension savings are very often inadequate. Compulsion has also disadvantages, such as especially the risk of forced over-saving for retirement. Automatic enrolment offers a middle way between mandatory and voluntary systems. It is often therefore called «soft compulsion» (Whitehouse, 2013, p.43).

Private pensions are mandatory or quasi-mandatory in 14 of the 34 OECD countries. Occupational plans are compulsory in Finland, Iceland, Norway, and Switzerland and they cover 70–80 percent of the working-age population. There are mandatory personal pensions in eight OECD countries.

The Anglo-Saxon countries in particular have turned to auto-enrolment with an opt-out possibility. The experience in the USA, Australia and New Zealand is considered very positive in terms of increasing coverage. In New Zealand about a third of automatic enrolees have opted to leave the scheme (Whitehouse, 2013, p. 44). The UK began to introduce such a scheme in 2012 with the National Employment Savings Trust (NEST). This is a defined contribution workplace pension scheme, which was set up as part of the government's workplace pension reforms under the Pensions Act of 2008[6]. It is considered a key change in the UK pension landscape. There have been many previous policy initiatives and reforms in the UK, e.g. the requirement for employers to offer stakeholder pensions, which have not been successful (Whitehouse, 2013). But the results of the new auto-enrolment scheme have been very positive so far, with more than two million people saving for a workplace pension as a result of it.[7] The opt-out rate has been very low so far at just 2%.

Many private pensions are voluntary and the need to inform about the need to save for retirement early enough and with high enough contributions is an important part of the policies to improve private pension coverage.

2.2. **EU and international policies**

The EU pension policy from the Lisbon strategy up to the White Paper on Pensions has for more than a decade recognised the importance of funded occupational pensions in providing adequate, sustainable pensions.

Occupational pension funds are crucial in guaranteeing the sustainability of national pension systems. This statement has been echoed many times by European institutions and especially in the European Commission White Paper: An agenda for adequate, safe and sustainable pensions from 2012 (COM, 2012, 55 final). The EU has very limited competences in deciding on the pension systems of its Member States, but pensions are also an important part of EU economic policy, where it does have strong competences. The Commission's 2011 and 2012 Annual Growth Surveys (AGS) highlight key orientations for pension reforms which contribute to growth-friendly fiscal consolidation and can ensure adequate and sustainable pensions. To achieve these objectives, the AGS emphasise the relevance of securing a better balance between years spent working and years in retirement and of promoting complementary retirement savings. The Commission recommends,

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[6] See https://www.nestpensions.org.uk/schemeweb/NestWeb/public/whatIsNEST/contents/what-is-nest.html

[7] «What a great first full year of automatic enrolment. Over 2,350 employers have chosen NEST to meet their new duties. Over 750,000 people are now saving with us for a pension, many of them for the first time» NEST news 23.1.2014.

among other things, supporting the development of complementary retirement savings to enhance retirement incomes (COM, 2012, 55 final, p. 9).

The White Paper adopts a comprehensive approach on pensions, linking them to the ageing European society, the financial and economic crisis and the Europe 2020 Strategy for growth. It states that «people in the future will have to rely more on complementary retirement savings» and that there is «much scope for further development of complementary pension savings opportunities in many Member States» (COM, 2012, 55/2, p. 17).

The OECD has been consistently promoting increasing private pension coverage for a long time. One of the main OECD recommendations as regards pensions is to diversify the sources to finance for retirement and to encourage the complementary role of defined contribution pension plans.

The World Bank has played a central role in the development of pension systems in many parts of the world, including Europe in the form of the Central and Eastern European countries. Much of that policy work has aimed to increase the coverage of pension systems (Rofman, R. and Oliveri, M.L., 2012).

2.3. **Labour market policies**

Pensions are one of the key issues on the industrial relations agenda across Europe. Many national governments have recently reformed their public pension systems, often in consultation with social partners and in many cases with the opposition of trade unions. Occupational pensions have become an increasingly important issue in collective bargaining (EIRO, 2004). The extent of collective bargaining over occupational pensions in each country depends on the importance of such schemes and on the involvement of social partners in them.

In Denmark and Sweden the occupational pension system has been developed by the social partners themselves (EIRO, 2004). There are historic reasons for this (Hagen, 2013). In the Swedish case, participation in an occupational scheme is mandatory for employers who are part of a collective agreement. Employers must set up (and make contributions to) occupational pension schemes which employees will be required to join. Also in Denmark and the Netherlands there is mandatory participation via collective contracts. In the Netherlands mandatory participation for companies has existed since 1949 and the initial aim was to limit competition in wage costs (Steenbeek, O.W. and S.G. van der Lecq, 2007, p.161). In Sweden mandatory schemes were introduced as far back as a hundred years ago.

The level of bargaining is important for the coverage of the pension scheme. In France there is national bargaining on what can be considered occupational pension-type provision, given that the private sector supplementary schemes AGIRC and ARRCO are based on intersectoral agreements and have almost total coverage. In Finland pensions have been negotiated and agreed by central level social partners since the 1960's and the government has transposed these agreements into binding legislation. This has provided for full coverage of the agreed pension schemes.

Sectoral collective agreements are essentially the basis for all occupational pensions in Denmark, the Netherlands and Sweden. Such collective arrangements result in a high degree of coverage, with 90% or even more of the workforce covered by the schemes in these countries (Whitehouse, 2013, p. 43). Coverage of voluntary pension arrangements in Belgium and Germany has also grown, as a result of the establishment of industrywide pension plans.

Negotiating pensions on intersectoral and sectoral levels can be very effective in providing good coverage, but in many countries this is of course not possible as the labour market structures do not permit it (Whitehouse, 2013, p. 43).

In many countries agreements are negotiated at company level. In Austria they are generally based on works agreements between works councils and management. In Ireland there is company-level bargaining over aspects of occupational pensions in unionised workplaces. In Spain, collective bargaining on occupational pensions is rare and occurs only at company level. In countries where the main negotiating level is sectoral there may also be company level agreements (Denmark and the Netherlands). At sector level in Belgium, it is up to the social partners within the relevant joint committee to set up and regulate supplementary pension schemes. Company-level schemes are regulated by works councils (or in their absence by committees for risk prevention and protection in the workplace or trade union delegations). Depending on the circumstances, the pension scheme will thus be based on either a collective agreement or a company's works rules (EIRO, 20113).

Labour market relations are crucial and it has been noted that de-unionisation was the major reason for the fall in pension coverage in the USA over the past few decades. This was preceded by an increase in coverage between 1950 and 1979 due to increases in real income, demand for deferred income and tax incentives.

Labour market policies often establish various thresholds and criteria (e.g. long waiting and vesting periods), which have to be met in order for workers to be covered by an occupational pension. Many of these requirements have been removed in recent years, but they are also being maintained in some countries on the grounds that they help to keep employees with the employer and thus serve an important labour market function.

2.4. Taxes and other incentives

Tax policies play an important role in private pensions. Countries often encourage private voluntary retirement saving via preferential tax treatment for pension schemes. This may mean tax credits, matching contributions and deductions. These include conditions as to the duration of saving and restrictions on the way in which benefits can be withdrawn.

Different techniques may better fit the needs of different people. Tax deductions may favour high income earners who may already have good pension coverage. Tax credits or matching contributions can strengthen the value of tax incentives for low income earners and thus increase their pension coverage.

In Europe many countries have introduced disincentives for pension savings (Pensions Europe, 2013). These measures have taken different forms and obviously have different intensities. The following initiatives reflect the diversity of tax and pension systems as well as the short-term adjustments made by governments:

– Decrease of the state subsidy to pension funds (Austria).
– Increase of the tax rate applied to pension contributions (France).
– Increase of Social security contributions applied to pension contributions (Belgium).
– Various temporary taxes: Property tax on pension funds (Iceland), temporary annual levy on pension fund assets (Ireland).
– Transfer of assets and/or nationalisation of some pension fund assets: Non-commercial pension funds e.g. universities (Ireland), bank schemes (Portugal), second-pillar pension funds (Hungary).
– Cancellation of stimulation measures for pension savings (the Netherlands).
– Decrease in amounts that can be saved tax-free (UK/Ireland).
– Increase in personal tax applicable to earned incomes, including pension incomes (Spain).
– Increase of tax on premiums for pension insurance (Spain).
– Lump-sum taxation (Austria).

3. CONCLUSIONS

In Europe public pensions as a percentage of wages are expected to fall by an average of 20% by 2060. Consequently people will not be able to maintain their living standard after retirement or may even fall below the poverty level in old age if they have no additional savings. The same is true in many other parts of the world with ageing societies. Efforts should be made to increase coverage to build up a supplementary pension, be it in the form of defined benefit (DB), defined contribution (DC) or hybrid schemes combining elements from both. Thus, employers who are currently offering schemes should be allowed to continue offering them, and those who do not yet offer schemes should be encouraged to do so.

Occupational pension and private pension coverage is at its highest in countries where labour market conditions facilitate quasi-mandatory schemes based on collective agreements. It is important to continue with these effective systems and develop their use if possible. But in many countries such policy instruments are not possible. Compulsion and soft-compulsion measures are effective tools in such cases. The experience of the UK with the newly introduced NEST pensions may prove helpful to other countries. Tax policies are crucial for all private pensions and they need to be analysed and developed further.

Different institutions and organisations such as the OECD, the World Bank and the European Commission can act as facilitators to share best practices as to how best to increase pension coverage. Occupational or workplace pensions are the key element for good private pension coverage, as their coverage can be much better than individual pensions, and if they are well run they can offer superior benefits because of cost effectiveness and economies of scale. Different countries have used different practices or combinations of them to increase the coverage of occupational pensions: compulsion, auto-enrolment, tax facilitation, collective bargaining, incentives for employers, etc. It is crucial that best practices and basic guidelines be developed that can enable countries to learn from the different experiences.

Occupational pension schemes are often mostly provided on a voluntary or semi-voluntary basis, as in the case of collective agreements. If prudential and other requirements for occupational pensions become too burdensome, then this type of private pension provisions may be discouraged and the coverage rate of pensions could fall.

Much can be done to increase the coverage of occupational pension schemes. Unfortunately, there have been significant changes in occupational pension policies in recent years in some countries, notably in the Central and Eastern European Countries (CEEC region). In those Member States mandatory funded pension pillars were established prior to EU enlargement, and they took the inspiration for their pension reforms from the World Bank model. There have been and continue to be worrying developments in some of those countries: the nationalisation of Hungarian occupational pension funds and the envisaged partial nationalisation of the Polish pension scheme do not support the aim of increasing private pension provision. The EU pension policy from the Lisbon strategy up to the White Paper on Pensions has for more than a decade recognised the importance of funded occupational pensions in providing adequate, sustainable pensions. Because of short-term fiscal objectives and the current economic environment, among other reasons, some countries are jeopardising existing multi-pillar pension systems in order to improve public finances. While problems with public finances and the need to administer pension systems efficiently must be acknowledged, citizens will lose trust in occupational pension schemes if money is taken out of their pension funds.

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