VULNERABILITY OF SOCIAL INSTITUTIONS

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BETTER POLICIES FOR BETTER LIVES

Introduction and outline

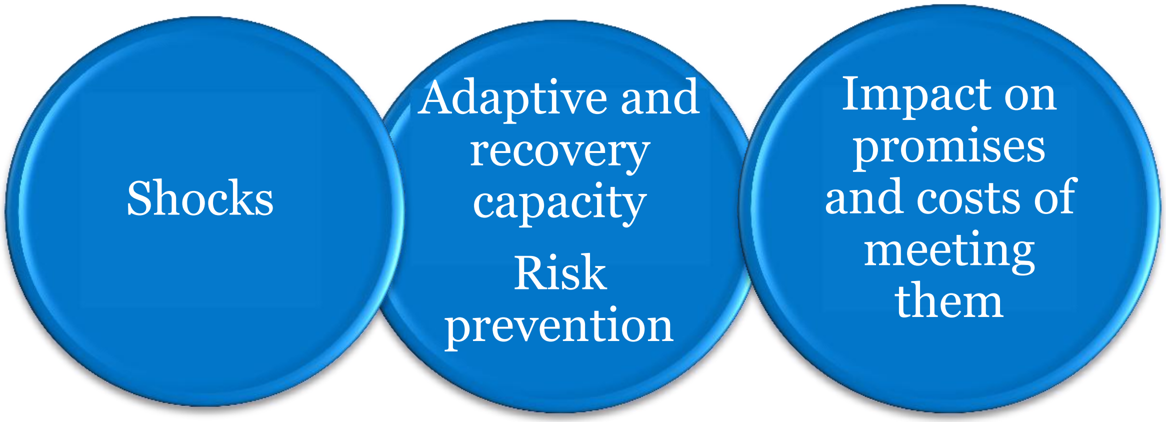
- Social institutions and the crisis
- Institutional design influences their vulnerabilities – country specificities
- The scope of the analysis: pension, health care and unemployment insurance (UI)
- Balance between sustainability and adequacy

Outline

- Framework
- Trend and long run changes:
  - Ageing
  - Productivity
- Macroeconomic shocks
- Policy recommendations

The framework

- Shocks – Sustainability – Reforms - Adequacy

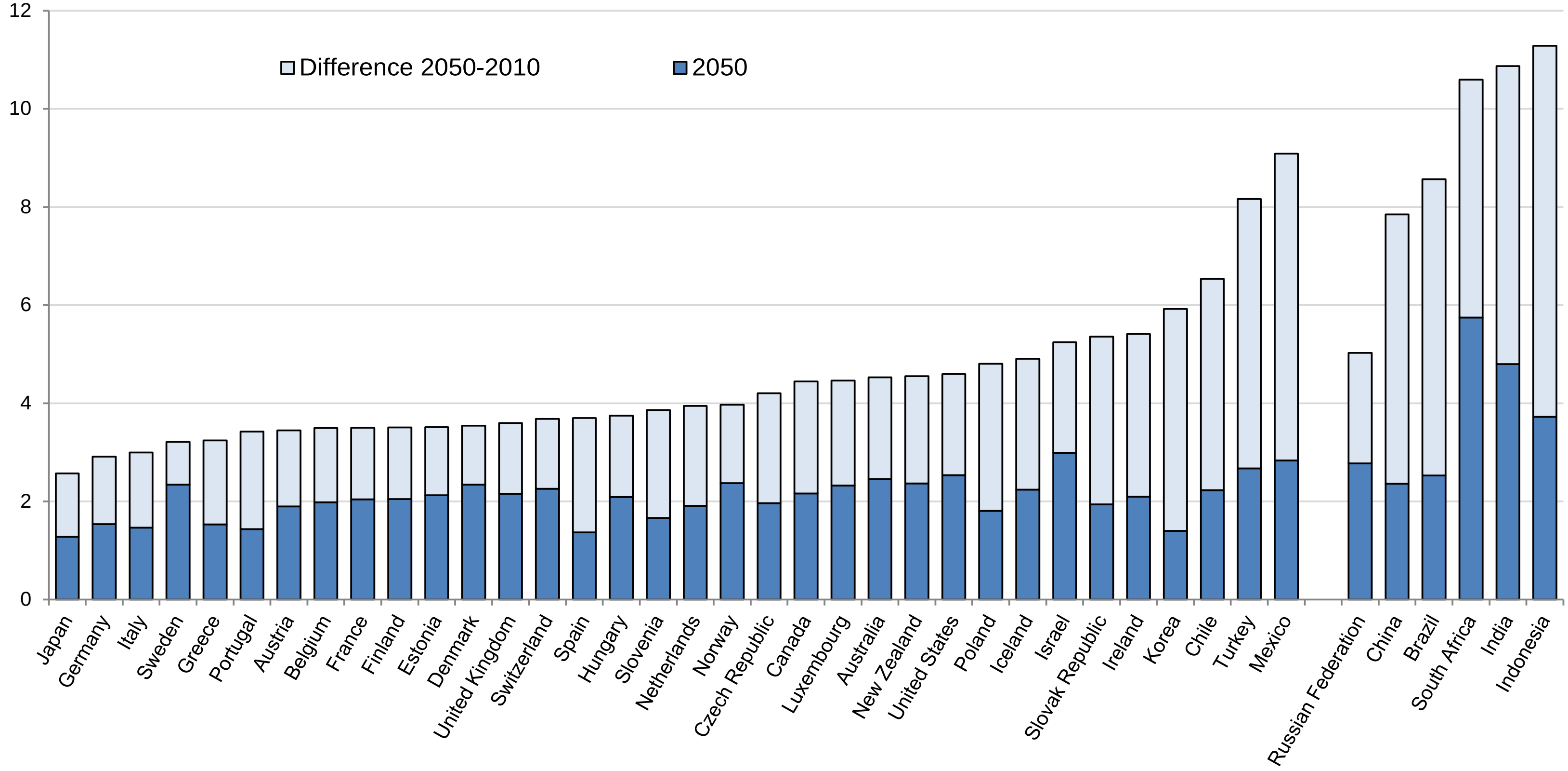


- What are the critical drivers of vulnerabilities and the sensitivity to risks?
- How do the different shocks affect the sustainability of social institutions?
- Institutional capacity to cope with shocks and risks
- Adequacy and impact of reforms

Long-term risks and trends and their effects on social institutions

- Ageing

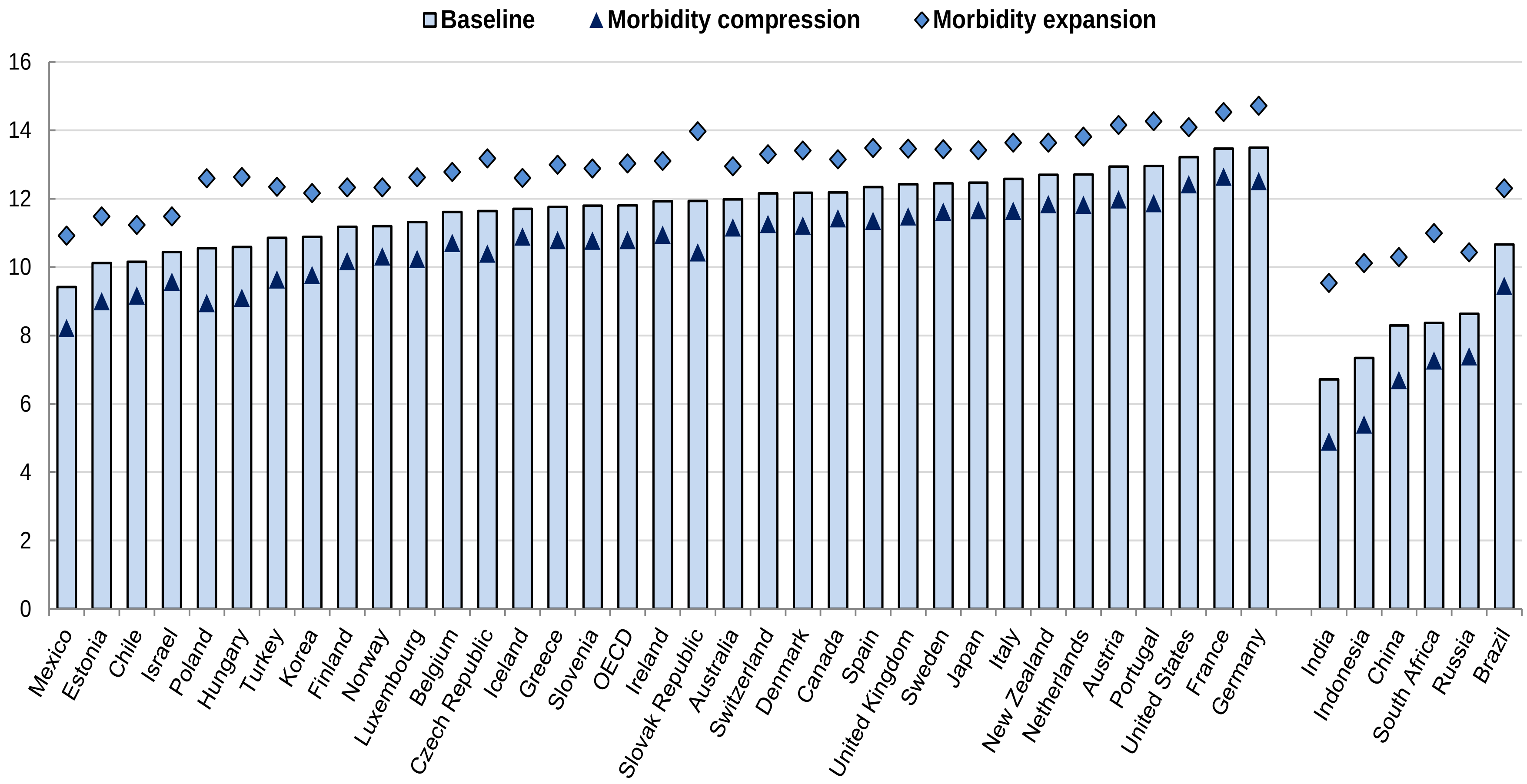
Figure 1: OECD old-age support ratio will decrease from 4.2 currently to 2.1 in 2050



Source: OECD (2013), Pensions at a Glance 2013

Ageing and health care systems

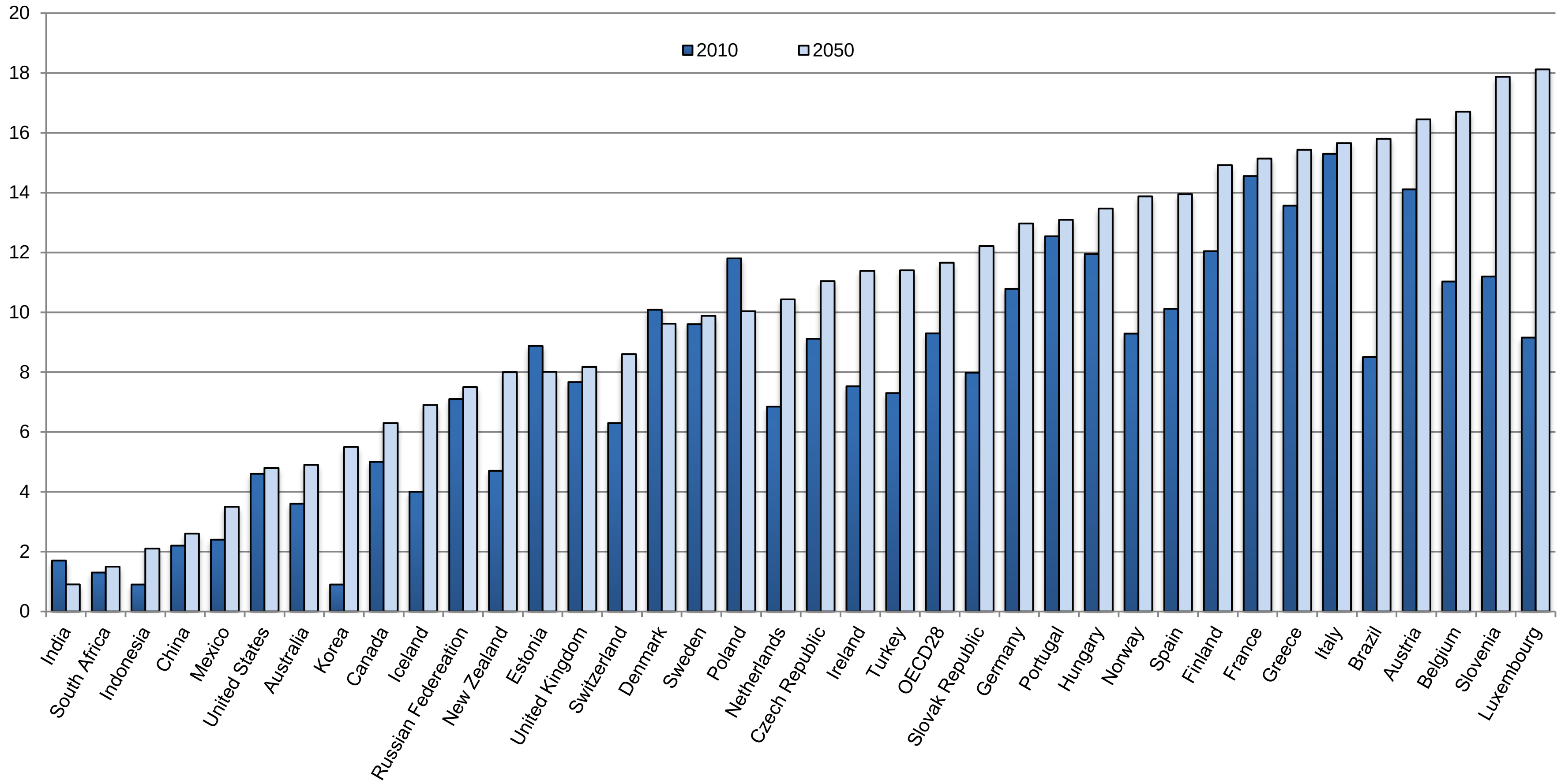
Figure 2: Health status in old age affects public health care spending



Source: OECD calculations and de la Maisonneuve and Oliveira Martins (2013).

Ageing and pension systems

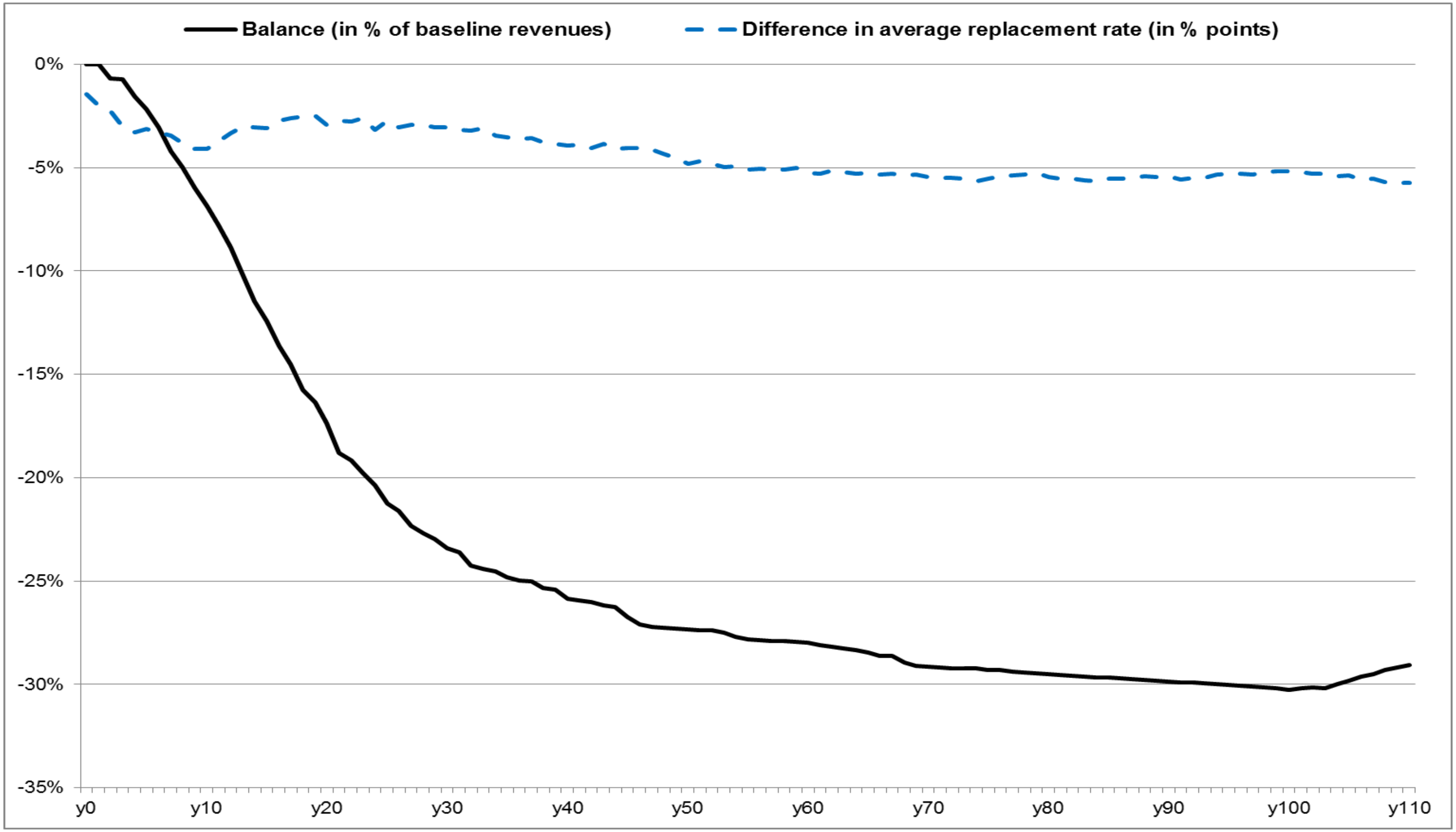
Figure 3: Public pension expenditure projections



Source: OECD (2013), *Pensions at a Glance 2013*

The impact of a longevity shock on a PAYG defined benefit scheme

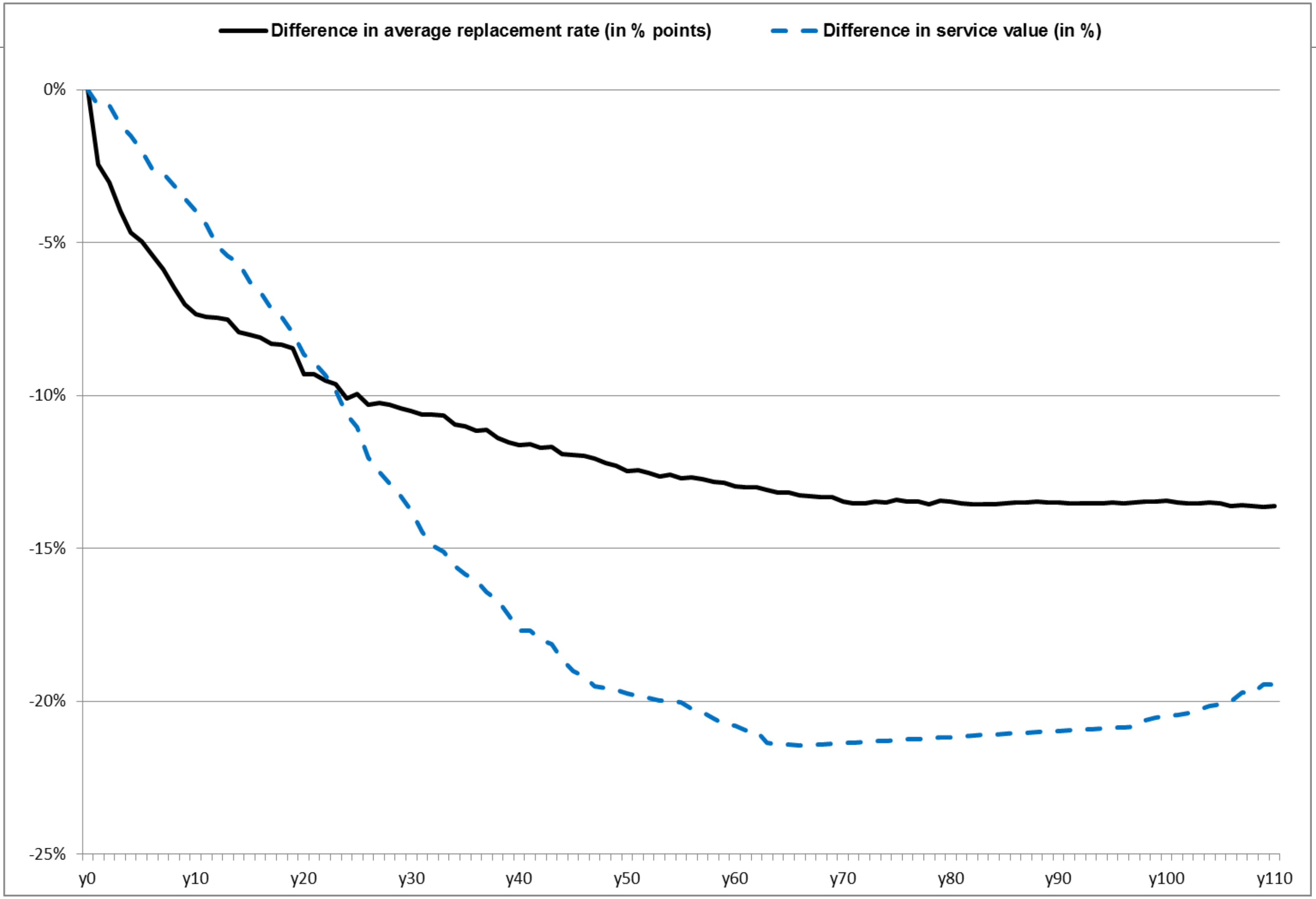
Figure 4: Simulation of the impact of a longevity shock on DB scheme



Source: OECD simulations

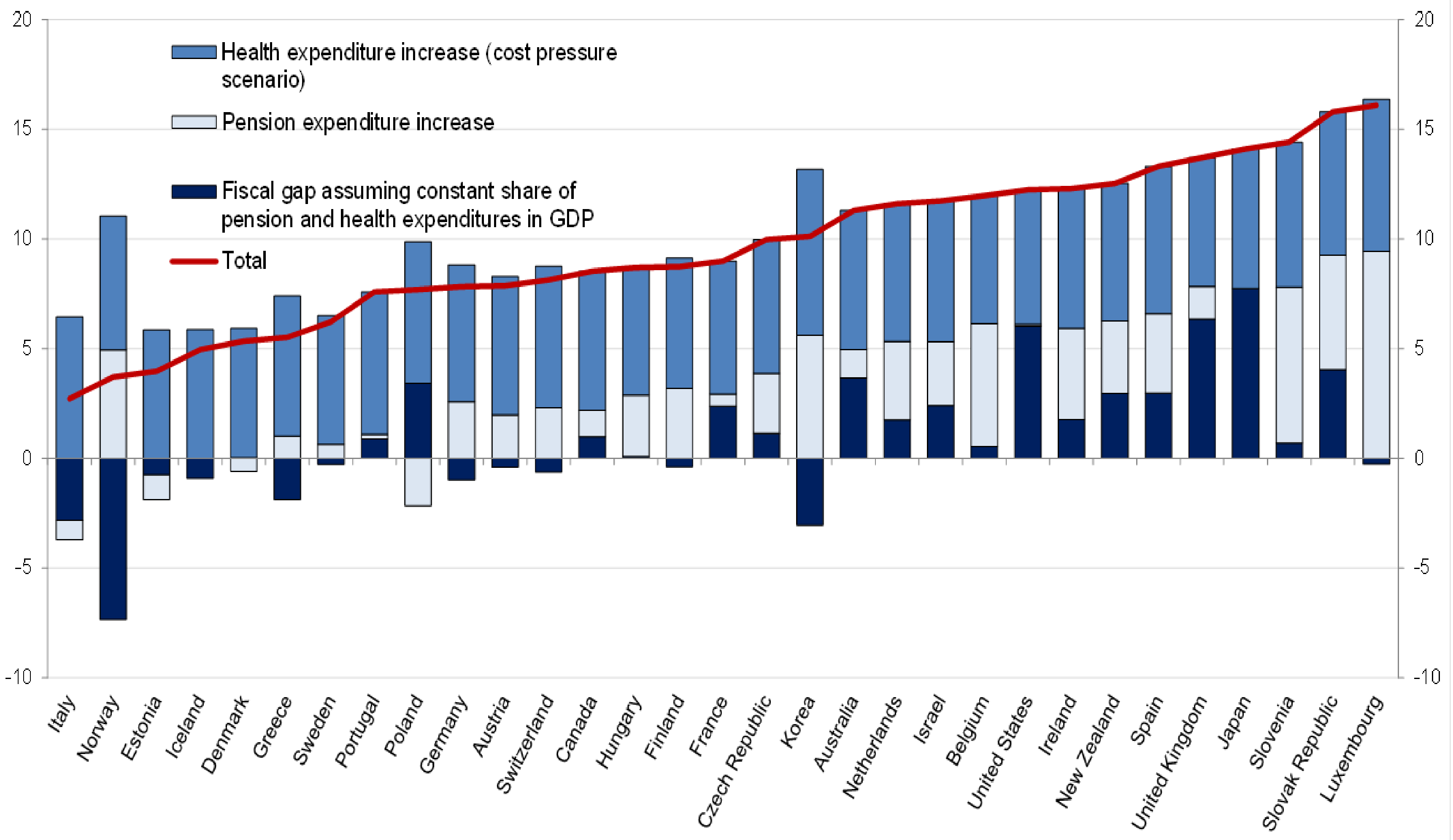
Figure 5. The impact of the longevity shock on a DC scheme

Difference with respect to the baseline scenario



Ageing, social spending and fiscal consolidation

Figure 6: The impact of future health and pension spending on consolidation needs

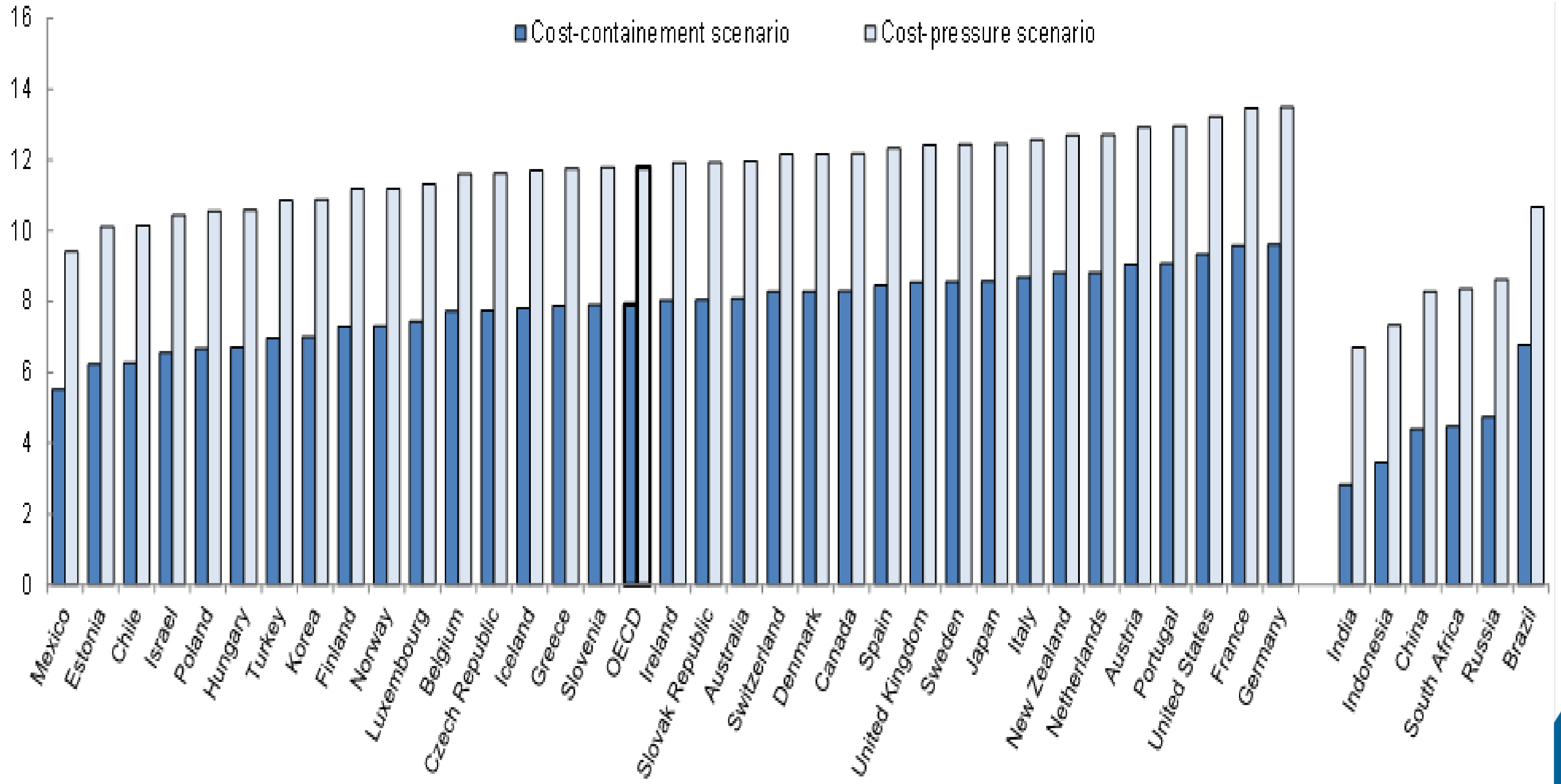


Source: Cournède, B. et al. (2013), Pensions at a Glance 2013 and de la Maisonneuve and Oliveira-Martins (2013).

Productivity developments and social institutions

Health spending, price and technology developments

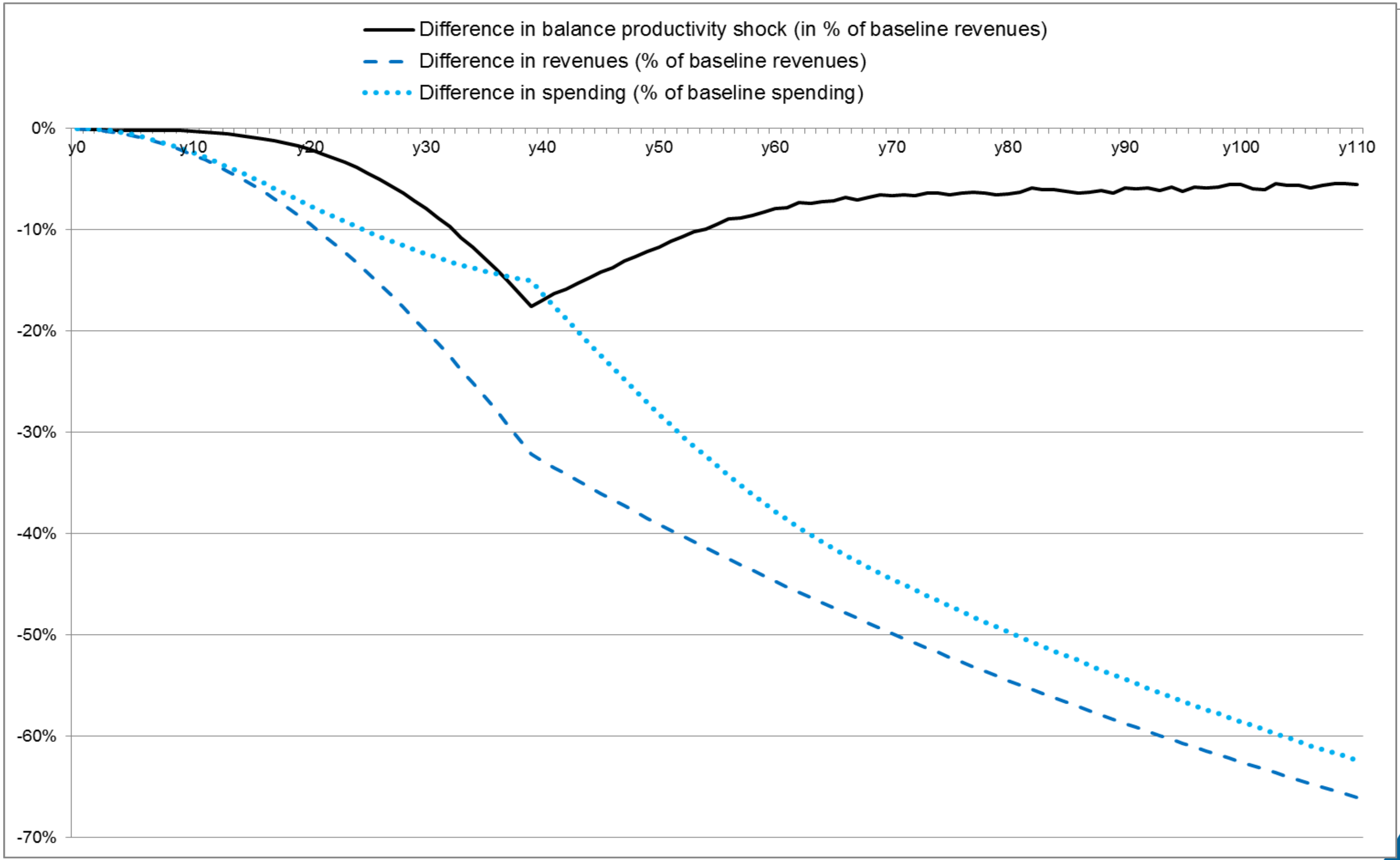
Figure 7: Price and technological developments affect the public health spending-to-GDP ratio



Source: de la Maisonneuve and Oliveira Martins (2013).

Productivity changes and pension schemes

Figure 8: The effect of a productivity growth slowdown on a DB scheme



Source: OECD simulations

Figure 9. The effect of the productivity shock on a point DC scheme (Difference with respect to the baseline scenario)

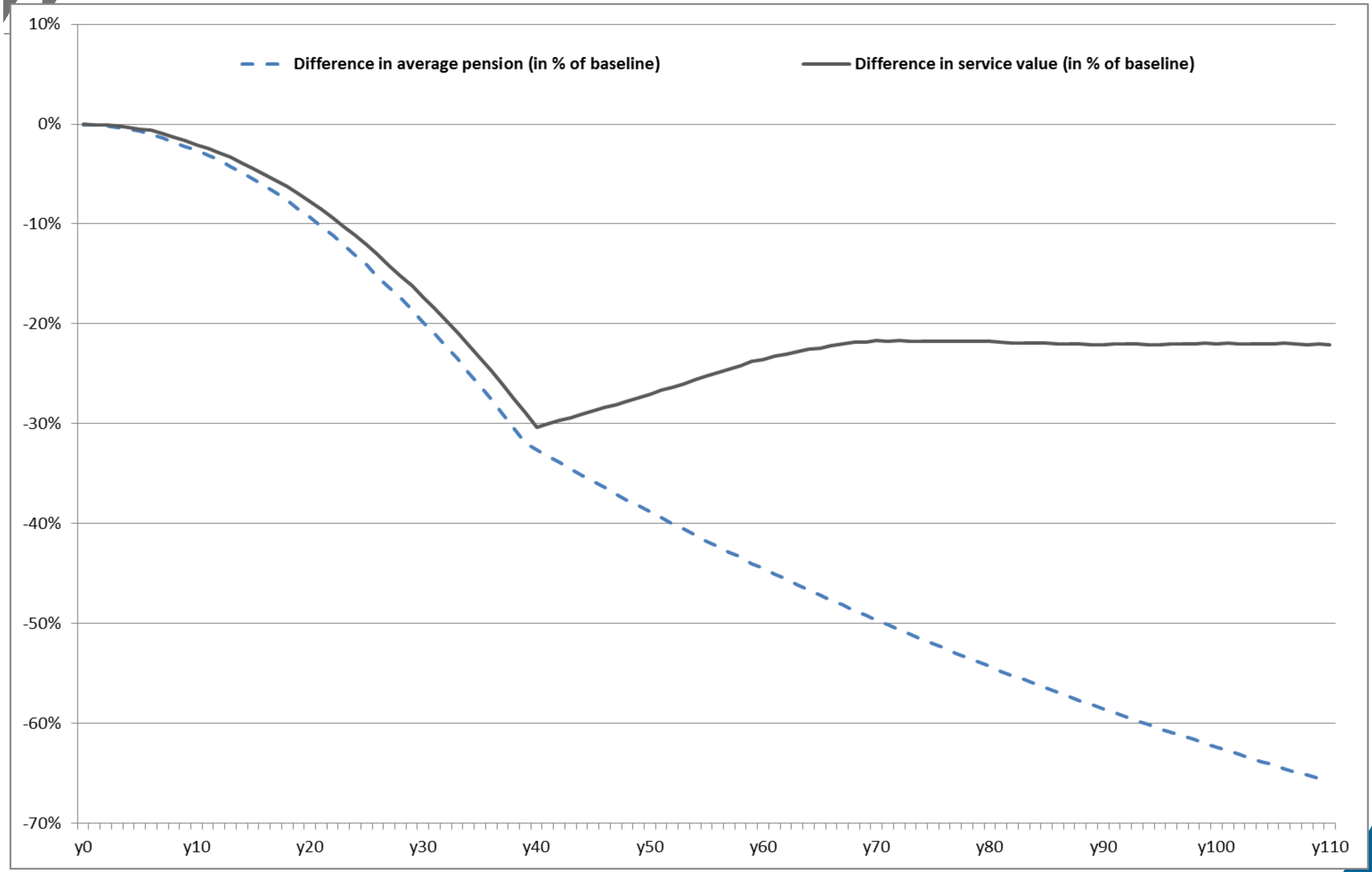
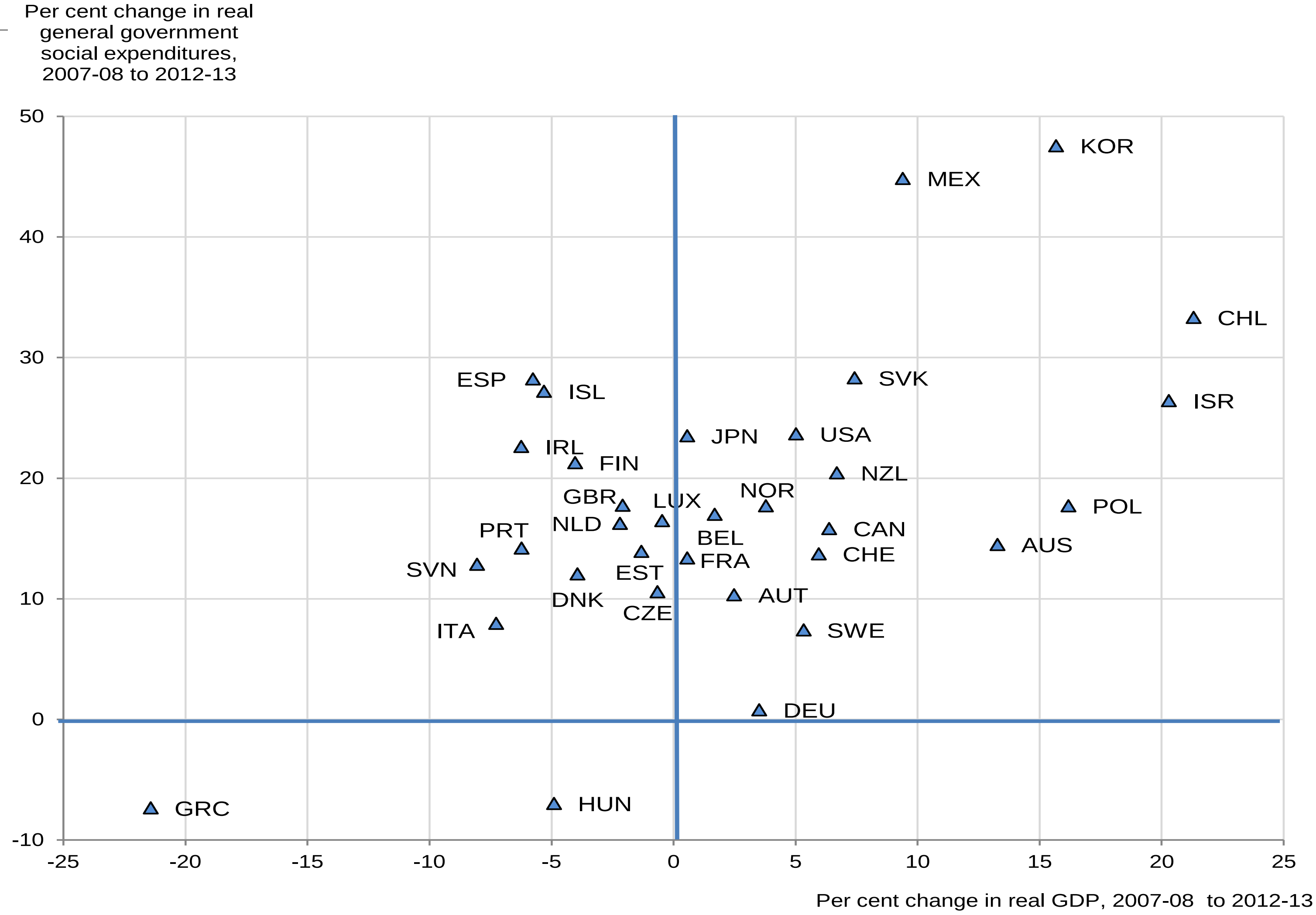
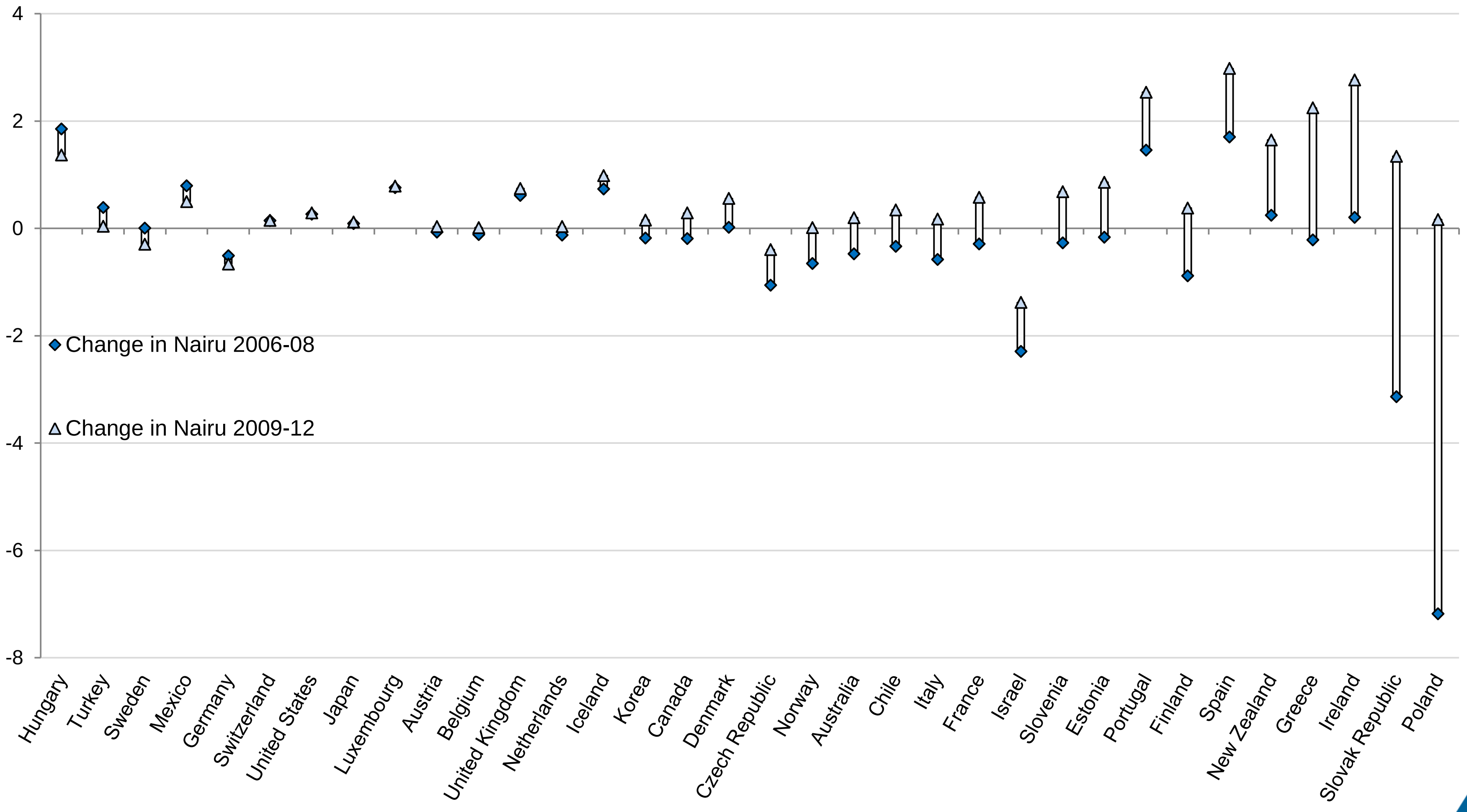


Figure 10: Social spending during the crisis



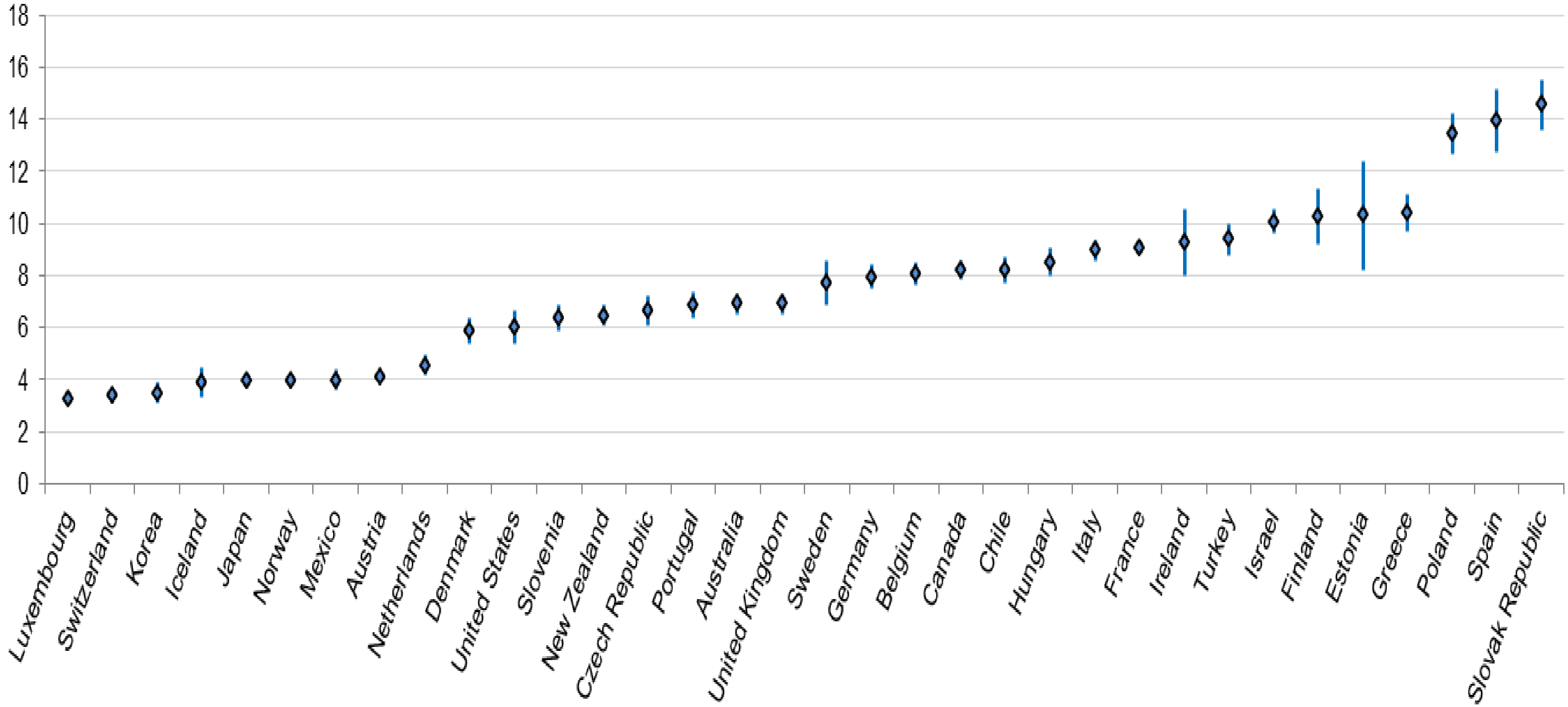
Macroeconomic shocks and unemployment insurance

Figure 11: Evolution of the NAIRU during the crisis



Source: EO93 database, OECD Social Expenditure database, OECD calculations.

Figure 12: Unemployment rate and volatility



Source: EO93 database, OECD Social Expenditure database, OECD calculations.

Figure 13: Unemployment insurance spending elasticity to unemployment

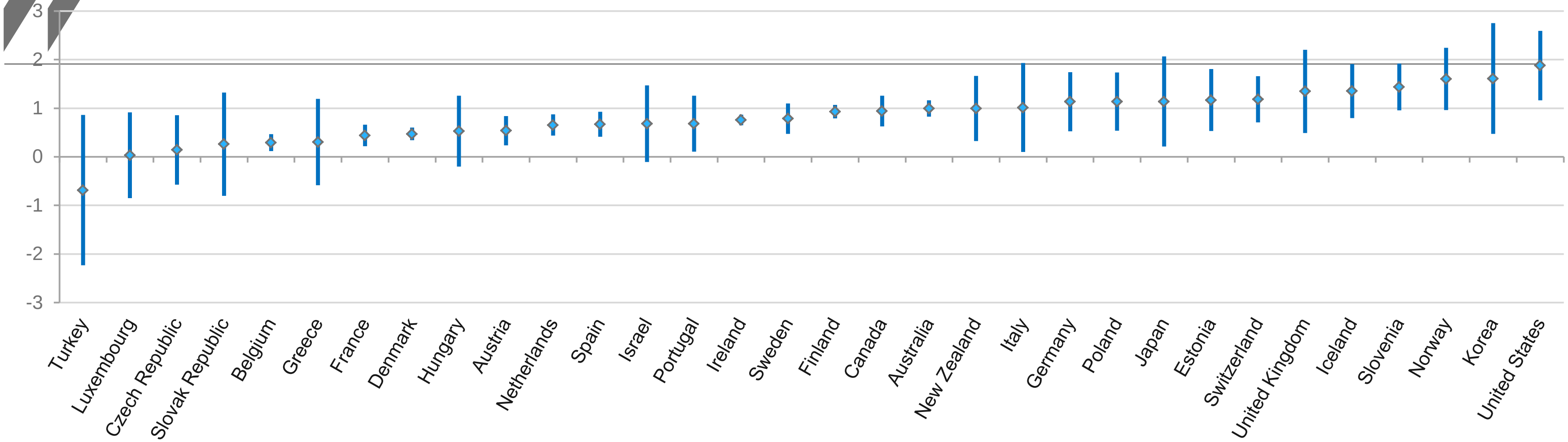
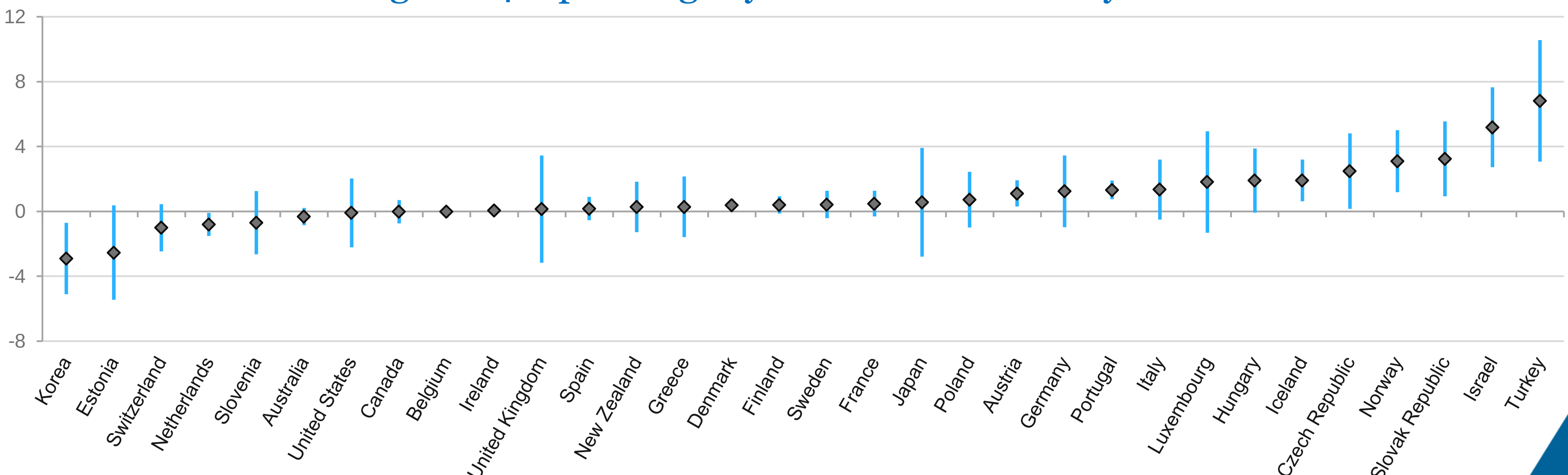


Figure 14: Spending asymmetries over the cycle

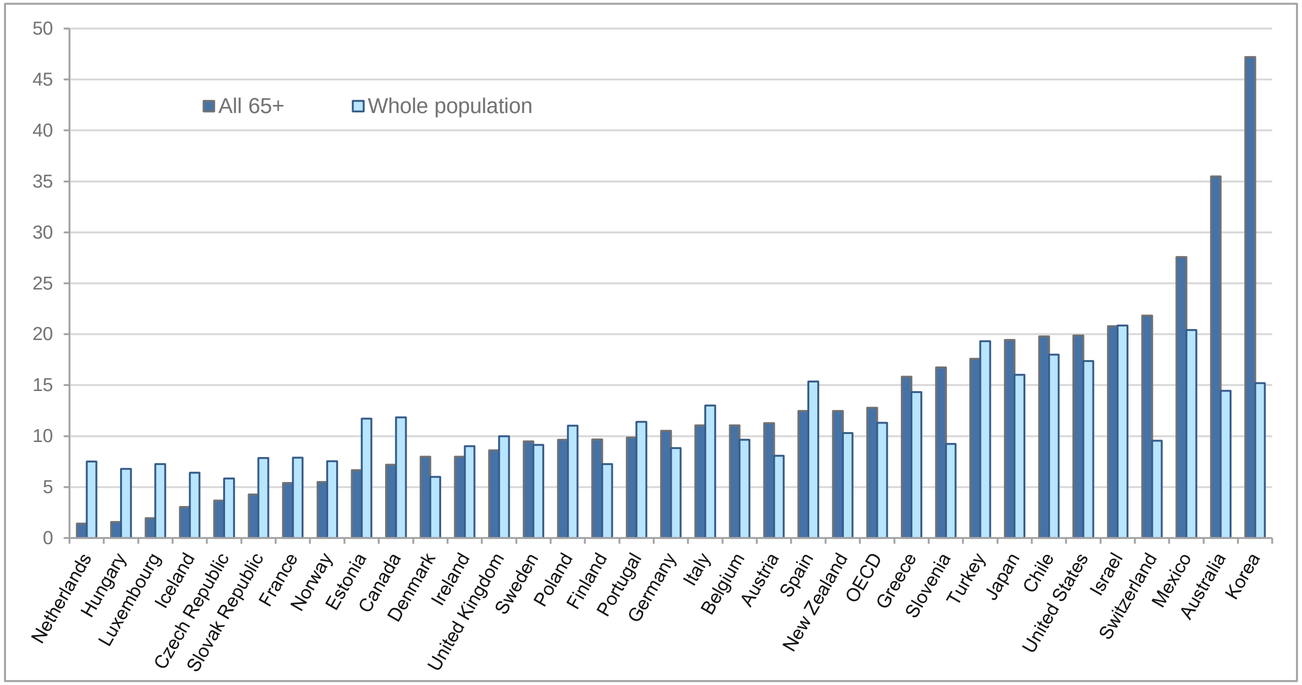


Source: EO93 database, OECD Social Expenditure database, OECD calculations.

Overcoming vulnerabilities of pension systems

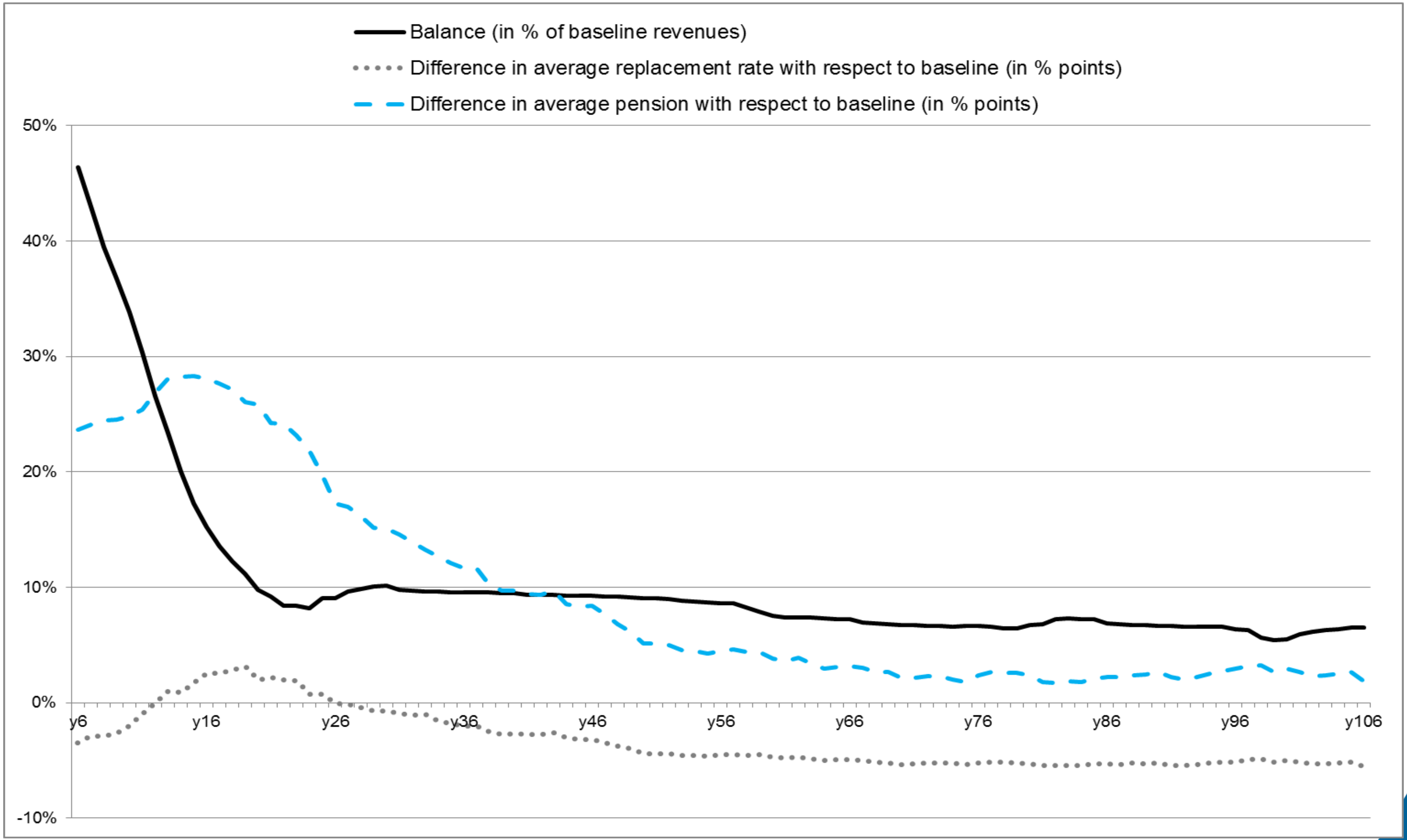
- Pension schemes, ageing and risks (interest rate, asset price and longevity).
- Pension reform levers : retirement age, contribution rate and pension rate.
- Adjusting key parameters automatically to life expectancy.
- Widening the coverage of voluntary private pensions as a complement to public pensions.

Figure 15: Poverty among older people (2010, people older than 65 years)

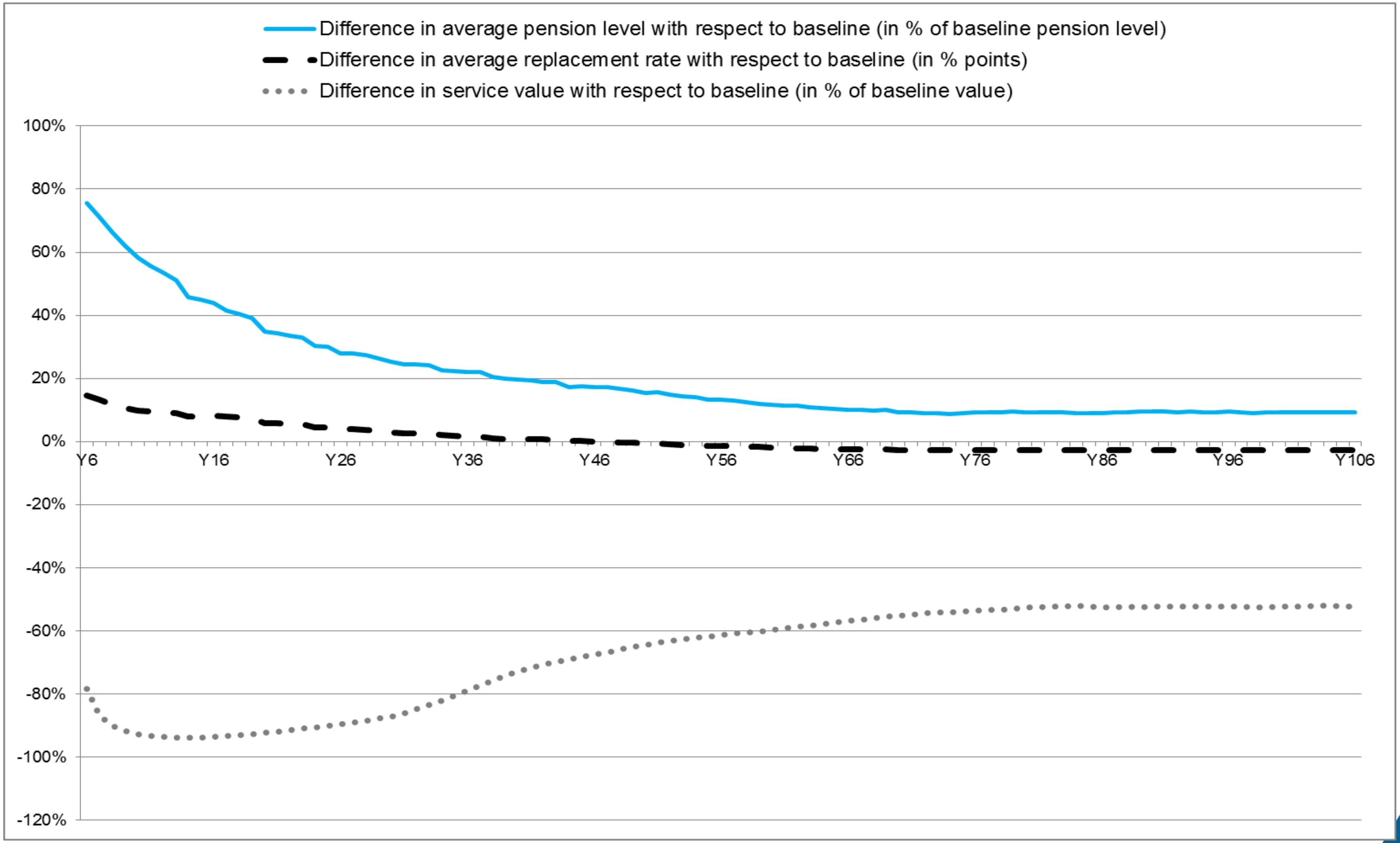


Source: OECD Income Distribution and Poverty Database.

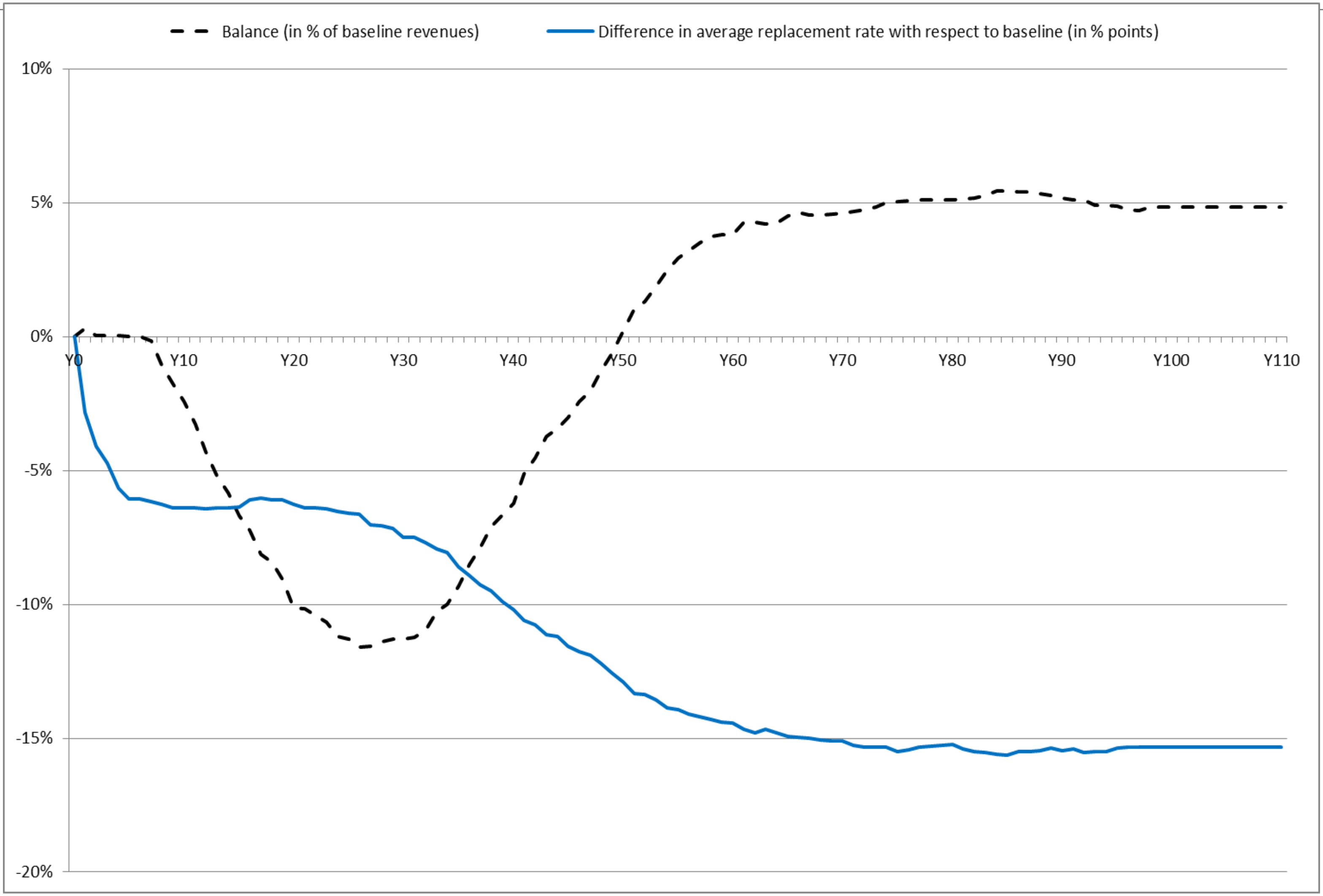
The impact of increasing the retirement age from 60 to 65 on the DB scheme



The impact of increasing the retirement age from 60 to 65 on the point scheme



The impact of an up-rating reform



The simulation results should be compared with the longevity shock scenario (Figure 10)

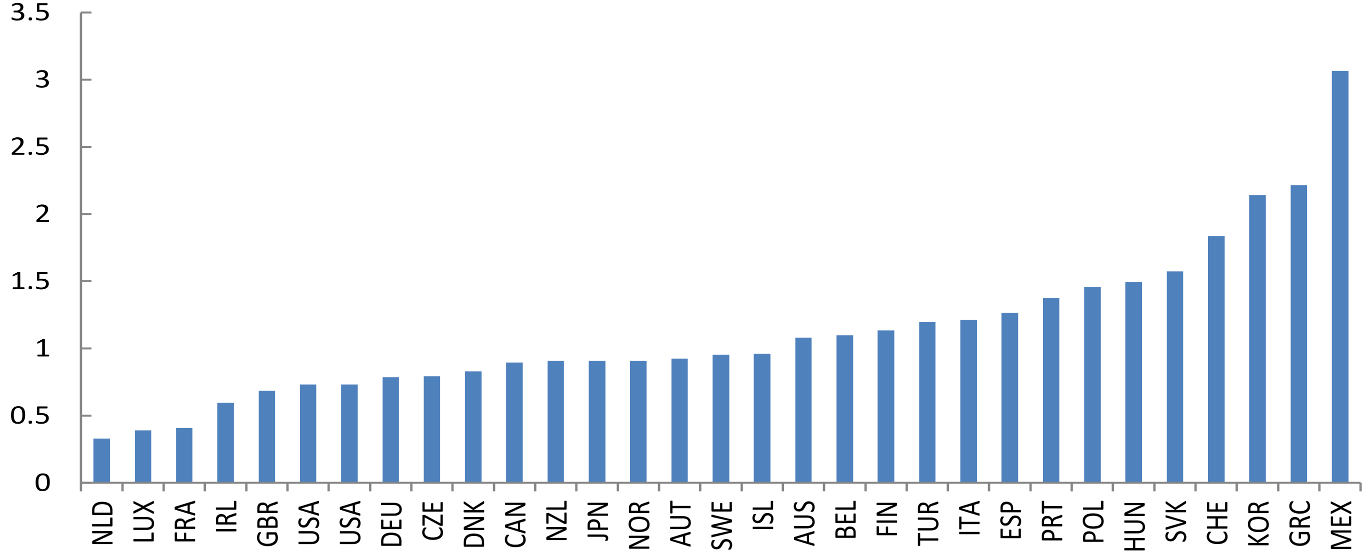
Automatic adjustment mechanisms to ensure the sustainability of pension schemes

	Link of pension benefit to life expectancy	Pension valorisation and indexation	Retirement age	Contribution rate
Australia	X			
Canada	X	X		X
Chile	X			
Czech Republic			X	
Denmark			X	
Estonia	X			
Finland	X			
France			X[1]	
Germany	X	X		X
Greece			X	
Ireland	X			
Israel	X			
Italy	X		X	
Japan	X	X		X[2]
Mexico	X			
Netherlands			X[3]	
Norway	X			
Poland	X			
Portugal	X	X		
Slovak Republic	X			
Sweden	X	X		
United Kingdom	X			
United States	X			

Overcoming vulnerabilities of health care systems

- Health care spending drivers : ageing, price and technology developments.
- Policy options for reducing spending: higher cost sharing and tax incentives for private health insurance curb public spending, but worsen adequacy.
- Supply side policies: regulated competition, well-designed budgetary caps, hospital payments (diagnostic related groups and health technology assessments).
- Greater efficiency and spending savings.

Figure 16: Degree of cost sharing

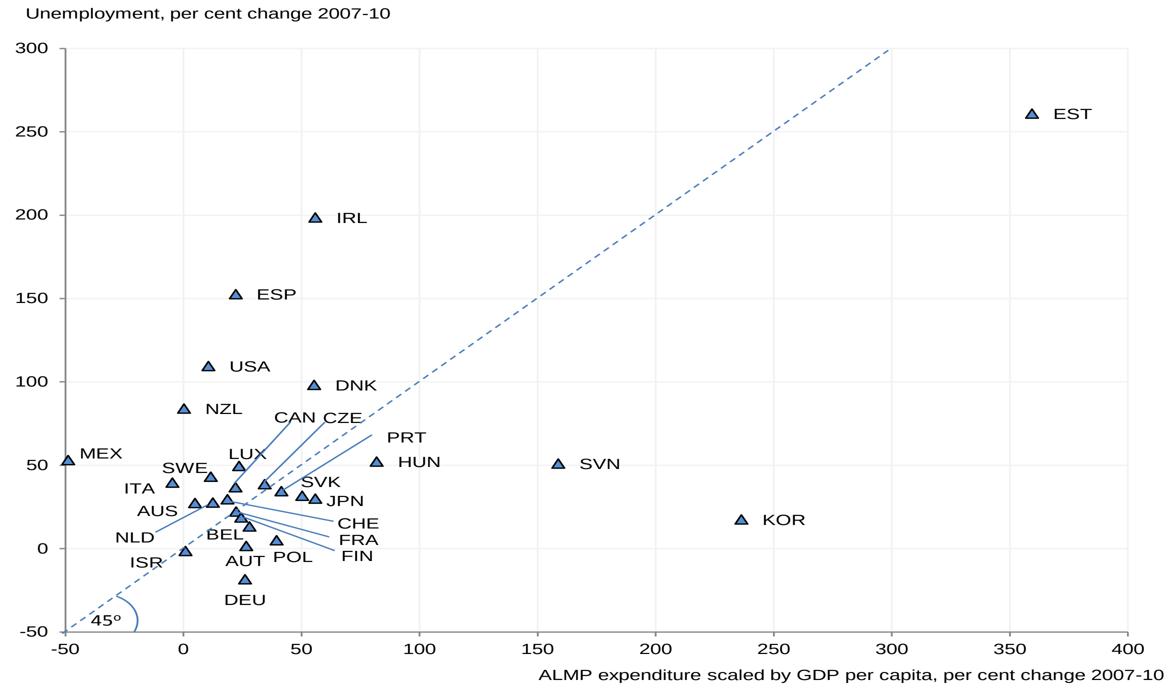


Source: OECD Survey on Health System Characteristics 2008-09.

Overcoming vulnerabilities of unemployment insurance (UI)

- Generous benefits can lead to large spending spikes.
- Unemployment insurance adequacy in crisis times.
- Effective activation policies can increase UI efficiency.
- Contingency plans to adjust policies during crises should be in place.

Figure 17: The responsiveness of active labour market policies to unemployment



Source: OECD Social Expenditure Database.

THANK YOU

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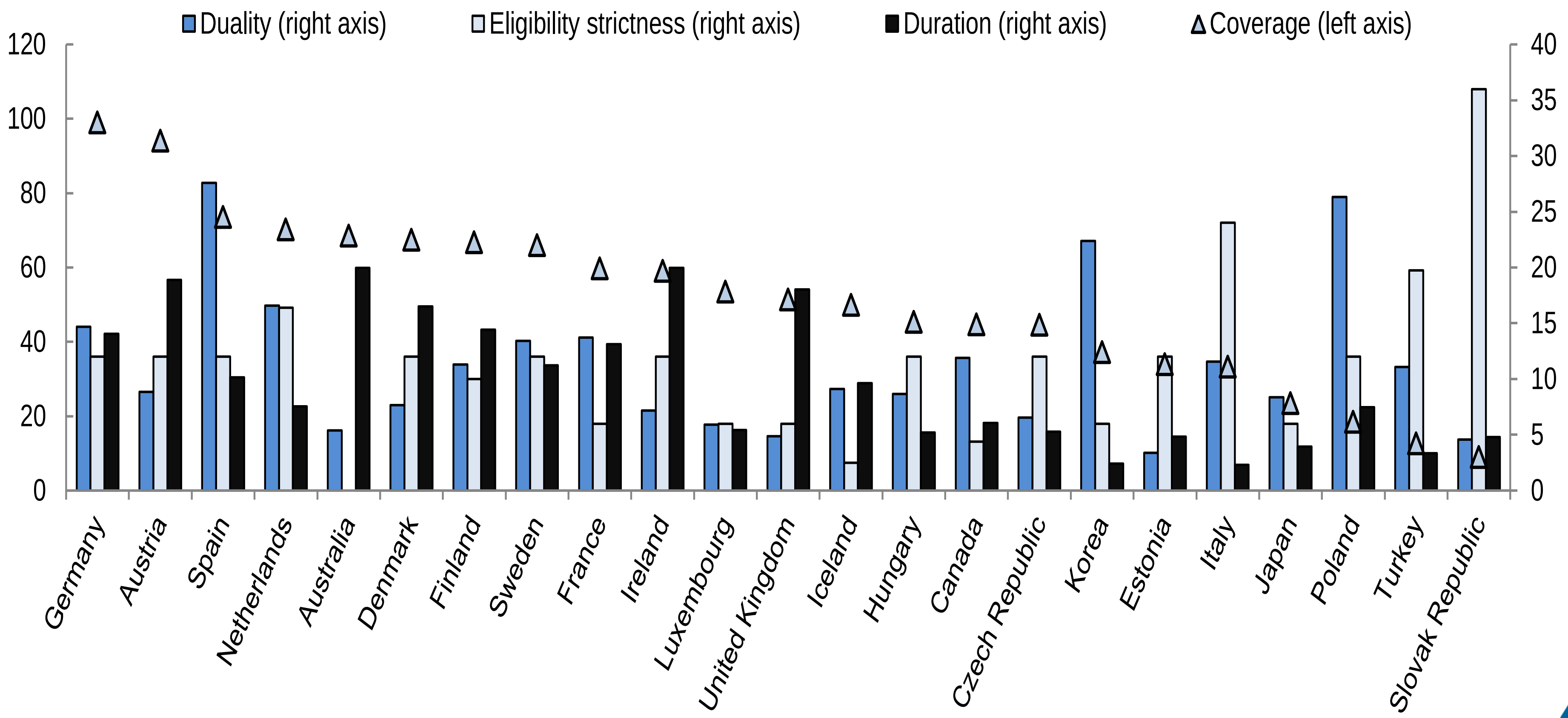
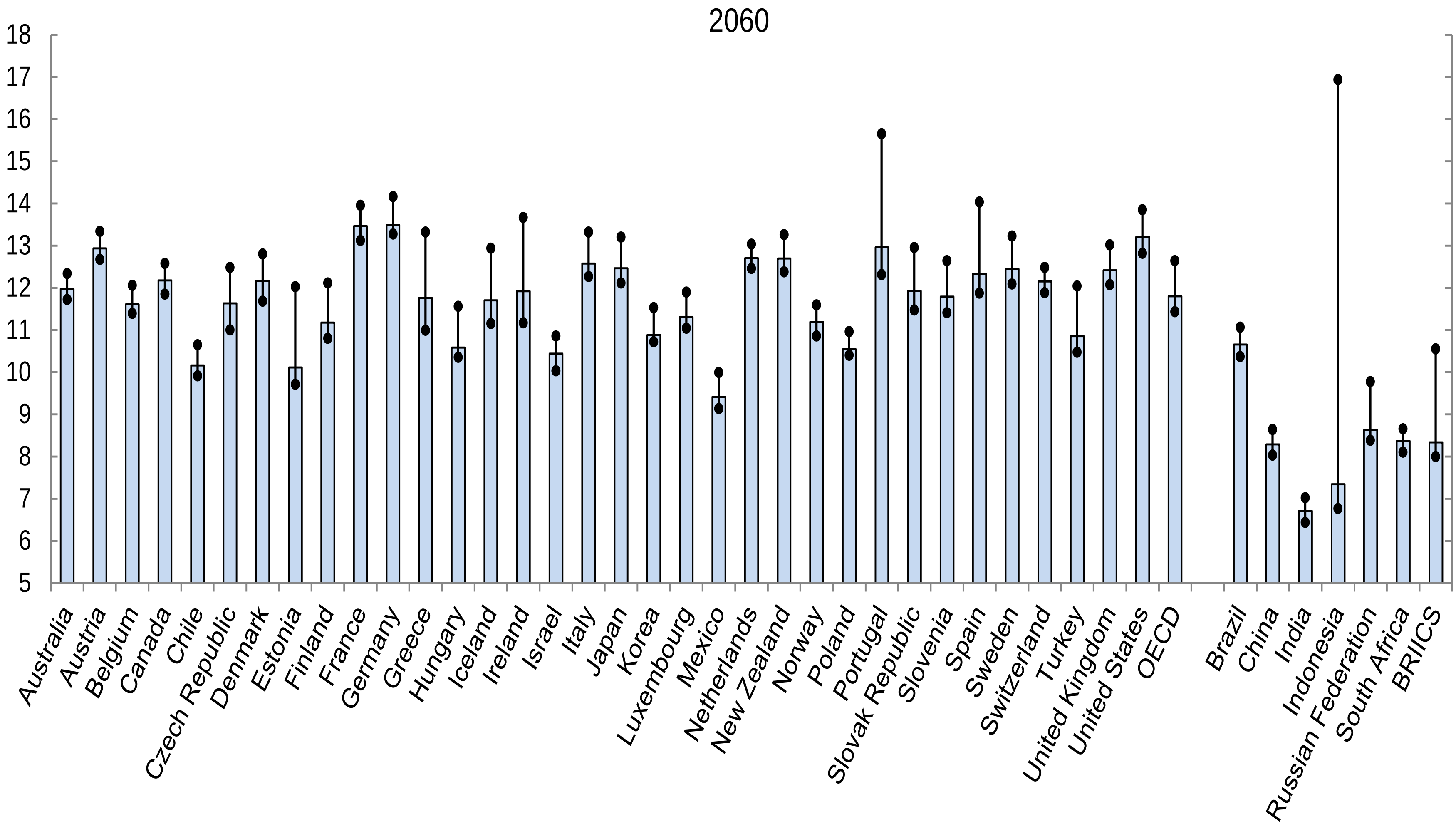
ADDITIONAL MATERIALS

The patterns of the coverage of unemployed by unemployment insurance



The vulnerability of public health spending to GDP shocks is modest in most countries

Health care spending as % of GDP



Average real net investment return of pension fund assets