VULNERABILITY OF SOCIAL INSTITUTIONS

2 December 2014
Paris Seminar in Demographic Economics

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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

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

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

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

Per cent change in real
genral government
social expenditures,
2007-08 to 2012-13

Per cent change in real GDP, 2007-08 to 2012-13
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

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<thead>
<tr>
<th>Country</th>
<th>Link of pension benefit to life expectancy</th>
<th>Pension valorisation and indexation</th>
<th>Retirement age</th>
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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**

Unemployment, per cent change 2007-10

ALMP expenditure scaled by GDP per capita, per cent change 2007-10

Source: OECD Social Expenditure Database.
THANK YOU
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

2060
Average real net investment return of pension fund assets

- Dec 2010 - Dec 2011
- Dec 2011 - Dec 2012

Turkey (1)
Poland
Estonia
Portugal
Chile
Austria
Netherlands (4)
Finland
Belgium
Slovak Republic
Israel
Japan (2)
Italy
United Kingdom
Spain
Luxembourg
Slovenia
Simple average
Sweden
Hungary
Norway
Korea
Weighted average
Czech Republic
Switzerland
Germany
Mexico (1)
Canada
New Zealand (3)
Iceland
Netherlands (4)
Australia (3)
Denmark