It’s time to Rethink Retirement

- Pension reforms have begun to change income mix of private households
- Lifetime benefits were cut in 16 OECD countries on average by 22% for men and 25% for women
- New Allianz report reveals: rise of elderly in workforce - more 60 to 64 year olds are employed than ten years ago – biggest increase in Germany and the Netherlands

After a decade of pension reforms in Western Europe and the establishment of new systems in Eastern Europe and Asia, the structure of a retirement income for individuals has begun to change. The recently published Allianz survey, “Allianz Demographic Pulse” reveals, that the second and third pillars, income from financial assets and employment – as well as the rise of the elderly in the workforce – are gaining importance. Nevertheless, currently it is not clear whether the complementary incomes are strong enough to compensate for decreasing levels in the first pillars in absolute terms. “For future retirees to achieve retirement income levels comparable of those of today’s retirees, they will have to change their working and savings behavior. The individual must take more responsibility to arrive at an adequate retirement income and Rethink Retirement”, says Jay Ralph, Chairman of Allianz Asset Management and a member of the Board of Management of Allianz SE.

Participation rate of people aged 60 – 64 years has risen

The financial crisis put the changing structures of pension provisioning systems to the test and the reform path is still feeling the pressure of the debt crisis, high volatility of markets and low interest rates. The challenges that this environment poses for funded pillars are considerable. In other words, it is not only the increase in retirement ages that has had an influence on the number of people staying longer in the workforce; so have the setback of pension assets and the need to save longer for retirement. Whether in Europe, Asia or the United States, the participation rate of people aged 60 – 64 years has risen over the last ten years. In Europe, the biggest increase can be observed in Germany and in the Netherlands, where participation rates more than doubled.
Furthermore, the economic downturn reduced individual retirement assets substantially. Western countries began introducing pension reforms at the turn of the century. These measures led to a decrease in the replacement rates of the first pillar: Calculations show for example, that lifetime benefits in the 16 OECD countries that introduced the most wide-ranging reforms were cut on average by 22 percent for men and 25 percent for women. Further effects of the changes in the pension landscapes are the establishing of a new incentive structure promoting an accumulation of assets in the second pillar. Modern pension systems of the future will consist of different strong pillars - no longer only the social security pension, but rather a mix of occupational and private pension savings determine the retirement income of the future.

A new retirement reality
After more than a decade of reforms, nearly all countries show an impact on the structure of retirement income, particularly those with major early reforms. The portion of income coming from the first pillar has decreased nearly in all countries examined in the new Allianz Demographic Pulse survey. In Sweden, Germany or France, for example, lower levels from social security were compensated by a larger share of investment income and individual plans, as newly introduced plans from the last decade have not yet reached the payout phase. Thus, the question arises of whether retirement income will be adequate. As the EU commission points out in its Adequacy Report: “There were great advances in the sustainability of public pensions, but adequacy outcomes are less impressive”.

“One of the challenges for the future is to foster labor market opportunities so that older employees can continue working. Sixty-five percent of the European workforce is interested in having the opportunity to combine a part-time job with a partial pension as an alternative to full-time employment”, says Ralph. “However, people will also have to adapt to this new...
retirement reality and save more. This could be encouraged, for example, by increasing the use of automatic payroll deductions and pension default options.

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More information under the following links on Allianz Knowledge:

http://knowledge.allianz.com/demography/retirement_pensions/?1459/pension-reforms-begin-with-babies


http://knowledge.allianz.com/demography/retirement_pensions/?1846/which-country-has-the-most-sustainable-pension-system


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