

Pension designs for encouraging delayed retirement.

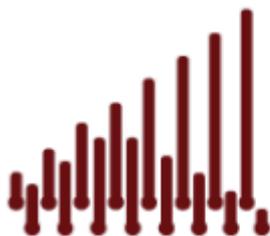
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Extending working life by reinventing retirement

- Need to improve dependency ratios is obvious
- But we often forget that ‘retirement’ is (largely) a phenomenon of the late industrial age
- Even currently, there are big differences between
 - Labour force participation at older ages (employed or self-employed)
 - Benefit receipt (disability or retirement)
 - Self-reported retirement status
- Sensible approach might be to make a gradual move out of the workforce the norm, hence *reinventing* retirement
- Retirement systems traditionally evaluated on the basis of adequacy, affordability, sustainability, robustness
- I think it important to add **flexibility**
 - Two senses: life-cycle & systemic

Policy levers to increase life-cycle flexibility

- Stylised fact one: incentives matter
 - Taxation (& benefit means-testing) – implicit tax rate on further work
 - Public benefits (disability & ‘early’, ‘normal’ and ‘late’ retirement)
 - Decumulation benefits from employers & private schemes, incl annuities, drawdowns, health insurance
 - Interaction between different benefits & taxes & means testing is often highly complex, differs across the population
- Stylised fact two: social norms matter
 - ‘Normal’/’State’ retirement age as an anchor for individual expectations
 - Prevalence & acceptability of part-time work (The Netherlands)
 - Improving the Integration of older workers in the labour force
- Stylised fact three: institutions matter
 - Benefit design (DB vs NDC vs DC)
 - Legal & institutional barriers to partial retirement in many countries

South African policy response

- Harmonised & simplified tax treatment of contributions and benefits to retirement funds
- Removed some barriers to partial retirement
 - Annuitisation requirements should allow partial annuitisation (but still complex)
 - Requirement to commence drawdown on reaching retirement age removed
- However
 - Employer can still force you to retire
 - Workers can't yet contribute to & receive benefits from the same fund
 - Insurers can't legally sell deferred annuities
 - Retirees can't easily partially annuitise
- Imposing a requirement for all DC retirement funds to have a default annuity strategy
 - Four permitted components; customised defaults possible given heterogeneity
 - Take advantage of bulk pricing, oversight of fund trustees, controlling conflicts, reducing complexity where possible