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Post-pandemic pensions

Policymakers must support and promote retirement saving, despite current, short-term financial pressures

The global pension gap is immense and it is growing, as birth rates fall and life expectancy increases. Pre-pandemic research from the World Economic Forum suggests that in just 30 years' time the gap between retirement savings and the income actually needed could be as much as $400 trn (see figure opposite). Indeed, a recent survey of over 10 000 people in 10 European countries by Insurance Europe found that a staggering 43% were not saving for their retirement (see figure below).

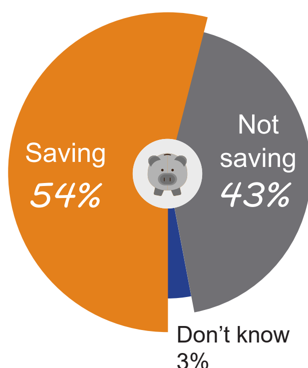
Pension adequacy was therefore high on political agendas before the economic and social fall-out from COVID-19. Effective, affordable and sustainable pension systems are a cornerstone of successful modern societies and economies, and multi-pillar systems are widely seen as the most effective way to ensure the sustainability and adequacy of retirement provision. Insurers are a key part of such systems, as they are major providers of a wide variety of occupational and personal pensions.

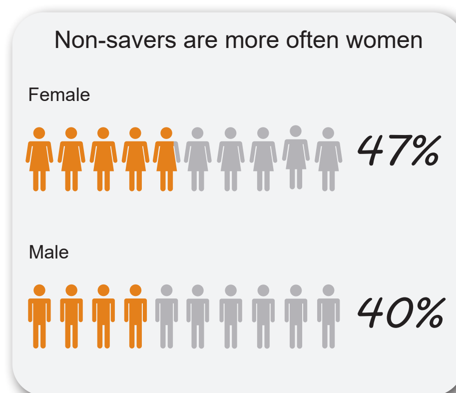
Crisis challenges

Today, with both public finances and many individuals' personal finances under such immense strain due to the effects of the pandemic, the pension issue is even more acute. Not only are there questions around the ability and willingness of employers and workers to continue contributing to their pension pots, but there is also a risk that people withdraw money from their retirement savings to offset reductions in wages or cover periods of unemployment.

Both actions can have a significant negative impact on future retirement income. According to the OECD, freezing pension contributions for one year, without any later top-up, is likely to reduce the final value of a pension pot by between 2% and 3%. And the OECD estimates that withdrawal of 10% of savings during the accumulation phase of a pension plan can lead to a reduction of the final capital of between 2% and 9%.

Almost half of EU citizens are not saving for retirement



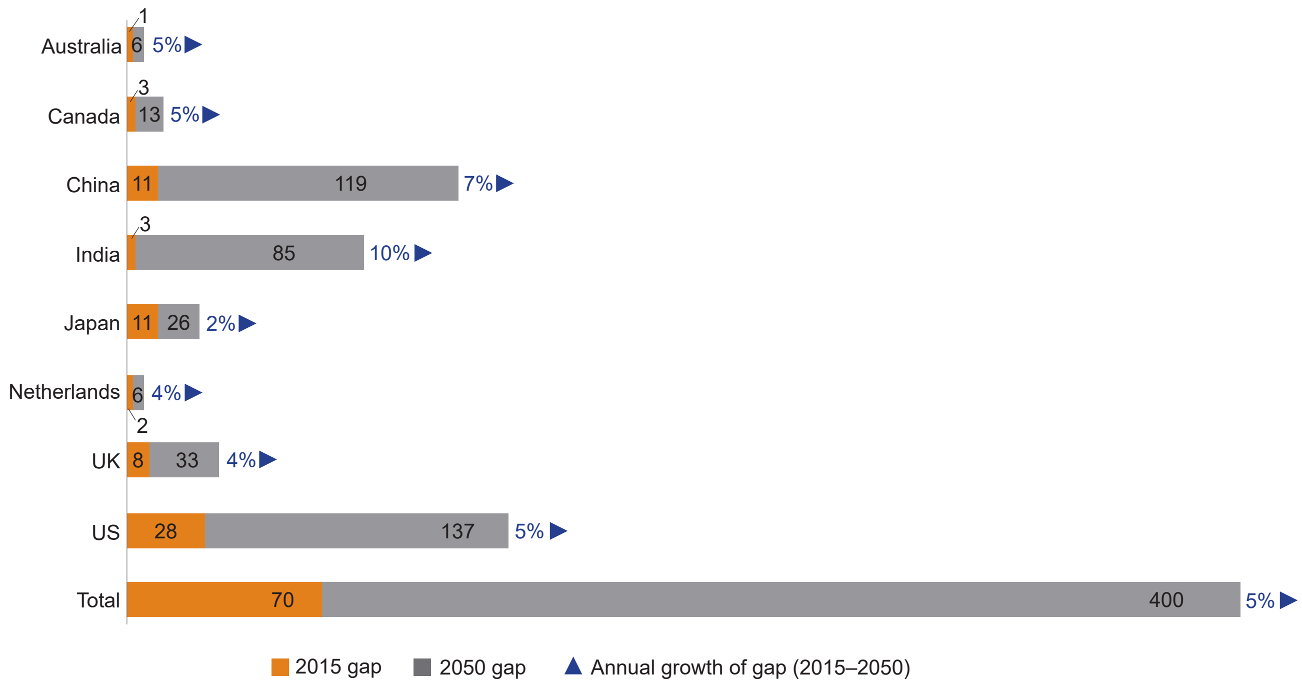


Source: Insurance Europe Pension Survey, Insurance Europe, August 2019 (link)

Long term before short term

It is thus more important than ever that governments strengthen their messages on and incentivise long-term saving for retirement and that they refrain from any short-term measures that would have a detrimental impact on the future adequacy of retirement savings.

GFIA welcomed the introduction in various countries of policies to ensure that furloughed workers will not have gaps in their occupational pension contributions. It was also pleased



Mercer analysis
Source: White Paper, "We'll Live To 100 — How Can We Afford It?", World Economic Forum, 2017

to note the policy responses of some governments, which limited short-term investment losses, secured the solvency of pension plan providers and addressed operational disruptions.

GFIA likewise welcomed the policy recommendations made by the OECD in June 2020 on subsidies for pension contributions and limiting early redemptions, as these serve to protect retirement savings. In particular, these recommendations strike the right balance between the need to provide short-term relief to citizens during a time of severe crisis and the importance of maintaining retirement investment plans for the long term.

However, there is concern that certain governments may decide to reform the nature of private pension schemes, for instance by returning to pay-as-you-go systems. GFIA warns against such changes, which would not be feasible or demographically sustainable in most economies and would be to the long-term detriment of savers.

Worryingly, multiple markets have taken or are actively considering steps to offset pandemic-related fiscal pressures that in turn threaten the viability of funded pension systems. The International Monetary Fund, World Bank and regional development banks all have policies and resources that support funded pension systems, and COVID-19 should not be a justification for violating those policies to the detriment of financial stability and economic recovery.

Save enough, well and wisely

GFIA strongly believes that, even in the current environment, there should be renewed efforts by all parties to increase private savings, by raising awareness of the need to save early and enough for retirement. The challenges presented by ageing societies must remain a priority of the upcoming Italian G20 presidency, which should build on the work of the Japanese G20 presidency and recognise the benefits for the long-term of pre-funded retirement savings and initiate efforts to preserve the stability of existing systems.

To ensure the adequacy of future retirement provision, GFIA stresses that regulatory interventions that aim to protect retirement savers should be balanced and proportionate, provide stability and allow the flexibility for pension providers to innovate.

GFIA believes that it is more vital than ever that pension saving schemes remain efficient and sustainable. With their expertise in investment management, pension administration and customer service, insurers can help support economic recovery and tackle the pension challenges, and GFIA will continue its efforts to ensure that people have an adequate income when they retire.