OECD studies demand rationing of workers' old-age pensions

by Jutta Dinkermann

In most countries, pensions have the biggest share of the social entitlements budget, and are, therefore, a prime target for austerity measures. While the official word is that the economy is "still in an upswing," the public pension funds are supposed to be adapted to the economic crisis. Two reports from the Paris-based Organization for Economic Cooperation and Development (OECD) lay out plans for the "reformation" of the pensions that should sound the alarm: Those who are working today should expect not to see sufficient social security at retirement.

The reports are relevant for the present discussions on retirement pensions which are taking place in all Western industrialized nations. Both reports were published by the Paris office of the OECD last year and form the basis for various decisions taken on the government level of OECD member-nations. The first report is called "An Aging Population—The Social Implications"; the second is "The Reform of the Pensions."

Although the authors take great pains in disguising their aims and hedging around with euphemisms, they are utterly unable to hide the cruel consequences of their prescribed austerity policy.

The first report supplied the governments with the argumentation for taking deep cuts into the whole social services realm and has the intention to pave the way for radical "health reform" austerity measures.

The second report supplied the basis for the draft new pension laws. The various labor confederations do not seem to have digested all the consequences of it, otherwise they would surely be up in arms in protest.

The argument in both reports ignores the 20-year economic collapse of industrial progress, with its attendant contraction of infrastructure, and therefore, lays blame for the rising total bill for retirement benefits on the elderly. Due to medical progress, the number of senior citizens and especially of the "very old" (75 years of age or older, according to the OECD) has continuously risen. At the same time, OECD nations are experiencing a reduction in birth rates, altering both the proportion of the present population and contributions to retirement funds for the future. Because of the economic crisis, less and less money is available, both for expensive medical care, and for continued payments of pensions.

Spartan social policy

In the OECD report, senior citizens are regarded as nothing more than costly burdens. The OECD bureaucrats would never promote the idea that an old person is a treasure of human experience. Nowhere does the report speak of a nation's exigency to conduct economic policy which would be capable of filling up the national coffers to adequately cover social welfare necessities. The attitude is rather to promote the sacrifice piece by piece of those members of society least able to defend themselves, beginning first with the elderly and sick.

For this purpose, the OECD bureaucrats in Paris consciously play the elderly off against the young and healthy working population, both of whom must increasingly struggle to make ends meet. The OECD calculates that it is "three times as expensive" to support a pensioner than a young person, and that the traditional procedures will increasingly burden the working population:

"Under existing regulations, the evolution of public pension schemes is likely to put a heavy and increasing burden on the working population in coming decades. Such a financial strain may put inter-generational solidarity at risk."

Then, the authors claim that the elderly are financially better off, anyway.

"Finally, the income level of the retired population has improved significantly in many OECD countries. In many countries, this improvement has brought the disposable per capita income for retirees above the equivalent income of working families with children."

Unfortunately, their assertion that the income of the retired people has been "substantially improved," does not correspond to reality. How can the OECD put forward such assertions? The answer is simple: in order to substantiate their claim about the income and the living standard of the pensioners, they chose to only look at favorable intervals, in some cases dating back to 1959.

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Having drawn their bead on retired workers, the reports' authors then ask the question: How is the money going to be saved?

The OECD complains that the majority of its members are only willing to adapt their pension fund systems within the existing framework, instead of restructuring them totally. This problem considerably limits the number of strategies for reforms possible. To keep the pension funds in a proper balance, would therefore require governments to "change the price and quantity variables" for their citizens' retirement income and expenses.

This means:

- reduce the pensions;
- reduce the number of pension recipients;
- increase insurance premiums.

The concrete proposals are correspondingly:

1) Reductions in pension cost of living adjustments or delaying the indexing of pensions to the average national wage to subsequent years. In the short run, postponing the cost of living adjustments for pensions or decreasing the rate at which pensions are indexed to the average national wage may save some money; in the long run, however, the costs will increase nevertheless. The OECD, therefore, throws its particular favor behind a reduction in the pensions, which means, among other things, that the future retirees should prepare themselves for these altered and reduced income situations while they are still employed. In other words, they not only have to pay in contributions for their future existence as retired citizens, but at the same time, they must have additional savings or contract for additional insurance policies. The OECD is quite right in pointing to the increasing importance that is gained by the private provisional insurance companies under these circumstances. This is only true, as is already the case, for those who can afford these private plans.

The real extent of pension cuts that are to be expected can be gathered from a warning the OECD bureaucrats sent to the "political decision-makers": "It is necessary to be prudent in statements about the level of benefits, that public schemes can provide, but some minimum level should basically be guaranteed."

No choice at all

2) Raising the age of pension eligibility. This target can be achieved either by raising the minimum age for pensioners or by totally abolishing mandatory retirement at a certain age, which is aimed at encouraging the elderly to continue working, which they are otherwise prompted to do to increase their private savings in the face of budget cuts. The OECD planners put it this way: "Retirement flexibility is becoming a major social objective, which is felt to correspond better to individual preferences, changing labor market conditions and lifestyles."

The target group for this sugar-coating doesn't seem, however, willing to be deceived, and hence the authors call for pension cuts to keep senior citizens on the job: "In the first place, the mere availability of benefits at a certain stage is considered to be a primary inducement to retire. Evidence in support of the conjecture also suggests, that people are not very sensitive to changes in the level of benefits within a range of 10-15%. . . . It is argued that the most important factor is the availability of money without having to work." The OECD hence outrageously declares that the elderly are money-demanding pikers, who never contributed anything to social security funding.

Given the "impudence" of these retired workers, the OECD only sees one solution: Because of higher life expectancies, the retirement age should be raised to 69 or 70 years, and increased such that by the year 2025, it reaches 75. While under such circumstances no one would be forced to work that long, clearly anyone who takes "early retirement" would face substantial financial losses. In the face of such a perspective, most people would have no other choice, but to give in and to continue working.

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3) Increasing individual contributions to the pension plan. Here, the OECD becomes very explicit: "Given present benefit structure, or even with currently enacted or planned reforms, revenues and contribution rates will have to rise over the next decades in all OECD countries."

In this framework, further proposals for austerity measures are discussed:

A. The change of the generation contract. This means that the pension will be indexed to the net income of the working population, so that the pension fund faces the "same risks" as the wages. Each devolution in the economy or increase in unemployment will have a corresponding reduction in pensions. The rationale is that the working population should not bear the risk alone, but so also should the recipients of pensions.

B. The average life income, not the latest monthly wage, should become the basis for calculating an individual's pension. This further reduces pensions, because, in general, the average life income is lower than the latest monthly wage.

C. Increasing the minimum number of years payments must be made, before a worker is eligible to receive a pension. In many OECD countries this time is about 15 years. In Norway, it is presently 3 years, and in Japan 25 years.

D. The review of the calculation of so-called "contribution-free" time intervals and possibly their elimination. This brings especially to mind the time and cost it takes to educate children.

E. Tighter eligibility criteria to receive disability pensions, even if the "social costs should be high," and in spite of the fact that the savings to the pensions program will simply be transferred to other areas of social security. In the eyes of the disabled employee, it appears as sheer mockery when the OECD bureaucrats add, "Nevertheless, care must be taken, that these regulations do not become impossible to reverse if labor markets improve in the future." Does an individual's fitness for work depend on the status of the labor market? Does the doctor who examines a patient who has been certified disabled by his or her private physician, evaluate the patient's health by the stability of the labor markets?

F. Reduction or elimination of the surviving dependents' pensions. "The large share that survivors' pensions have in total pension expenditures in many countries, the further increase in working women, the high and still rising divorce rate, changing family structures and new lifestyles are likely to bring about a drastic revision in a number of countries."

The role of private insurance firms

Clearly, the Organization for Economic Cooperation and Development thinks its members should pull themselves out of their social obligations as nation-states and pass the pension-cutting buck to their citizens. The only people who profit in the health care system are the private insurance carriers, whose handwriting can be clearly detected in the two studies. The authors plug the insurance companies, claiming that the trend toward privatization of retirement plans "does not necessarily constitute a major change in retirement policy, since private sector provisions of varying importance already exist in all OECD countries, but it could lead to a redistribution of responsibility for old-age income."

A concrete proposal is already on the table:

"As private sector support for retirement newcomers is likely to increase in importance throughout the OECD area, fully indexed lower public support with partially indexed higher private support could constitute an optimal risk distribution of the retirement portfolio."

Again, the OECD does not bother to mention those who cannot afford such private insurance, and who therefore will have to live on reduced pensions and possibly work much longer.

The OECD emphasizes in its conclusion that the reform can only be carried through if it is understood and accepted how the world in which the previous social security program was created has changed.

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