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%.

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...
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.

![Predicted retirement savings gap ($ trn)](chart)

**Mercer analysis**
*Source: White Paper, “We’ll Live To 100 — How Can We Afford It?”, World Economic Forum, 2017*