

# Civil service pension schemes

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## Options for reform



World Bank  
Core Course on Pensions  
Washington, DC, March, 2014

# Agenda



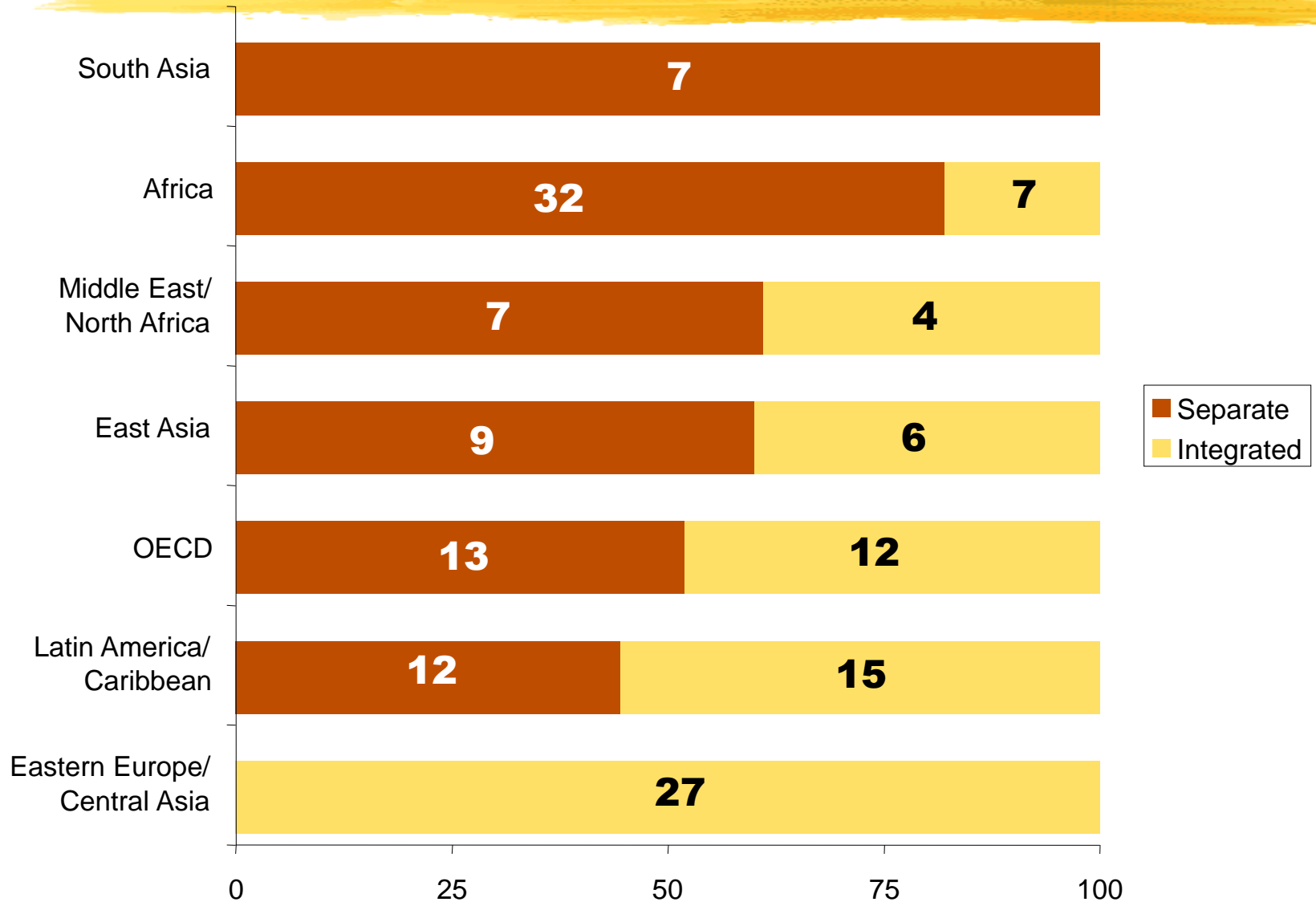
- Institutional arrangements for public-sector workers' pensions
- Demographic pressures
- Fiscal pressures
- Flexibility and portability of civil-service pensions

# Origins



- Civil-service pension schemes usually set up before national programmes
  - independence of civil servants
  - make working for the public sector attractive
  - shift the cost of remunerating civil servants into the future
- Separate schemes then often persisted after national schemes established: 'dualism'

# Institutional arrangements around the world



# Institutional arrangements

Fully integrated

Institutionally separate with similar benefits

Fully integrated with top-up arrangements

Partially integrated with top-up scheme

Entirely separate institutions and benefits

 Chile  
 Czech Republic  
 Estonia  
 Hungary  
 Mexico  
 Poland  
 Slovak Republic

 Denmark  
 Finland  
 Iceland  
 Israel  
 Netherlands

 Australia  
 Canada  
 Ireland  
 Italy  
 Japan  
 New Zealand  
 Norway  
 Slovenia  
 Spain  
 Sweden  
 Switzerland  
 United States

 United Kingdom  
 Austria  
 Belgium  
 France  
 Germany  
 Greece  
 Korea  
 Luxembourg  
 Portugal  
 Turkey

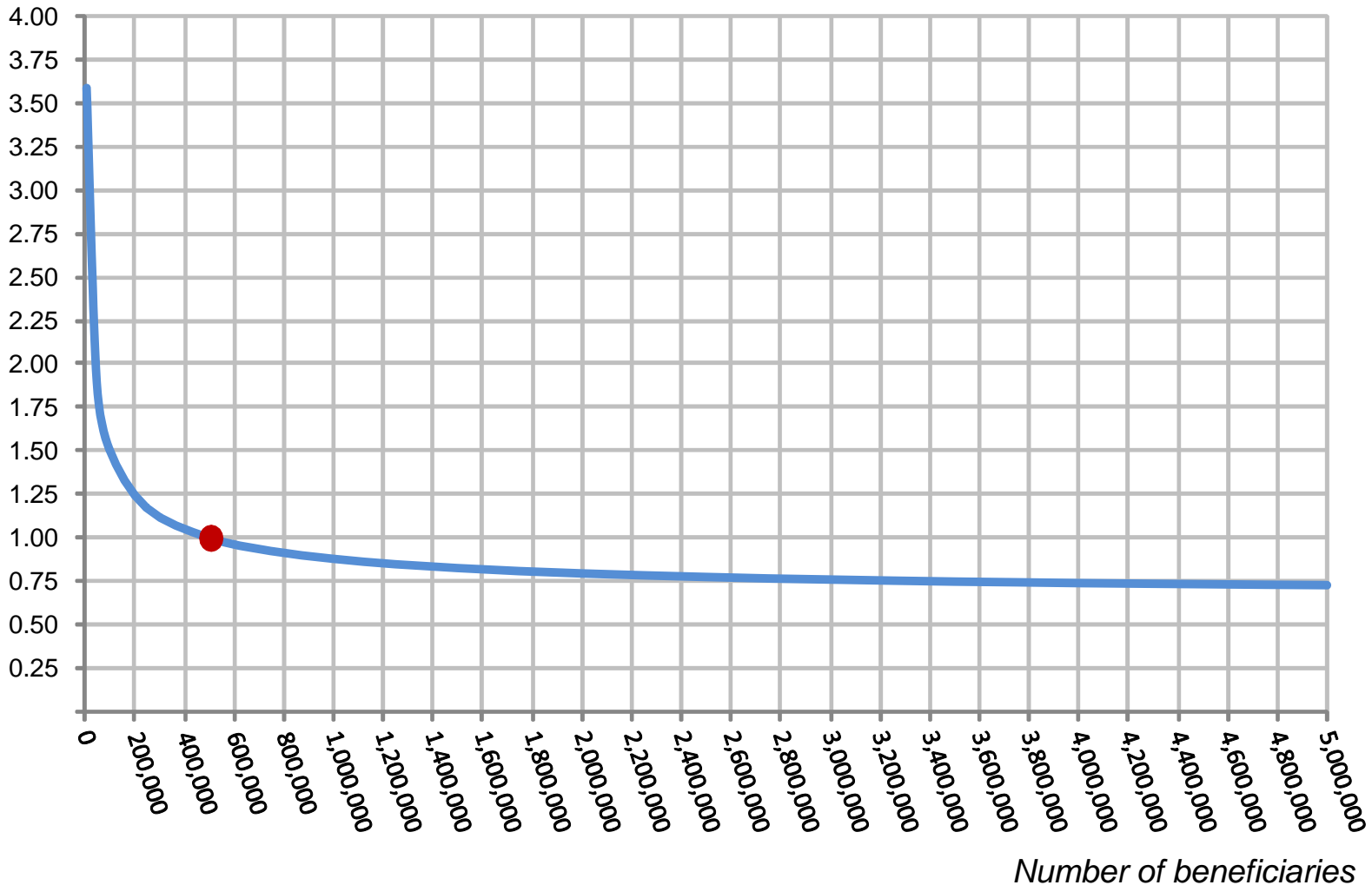
# Dualism



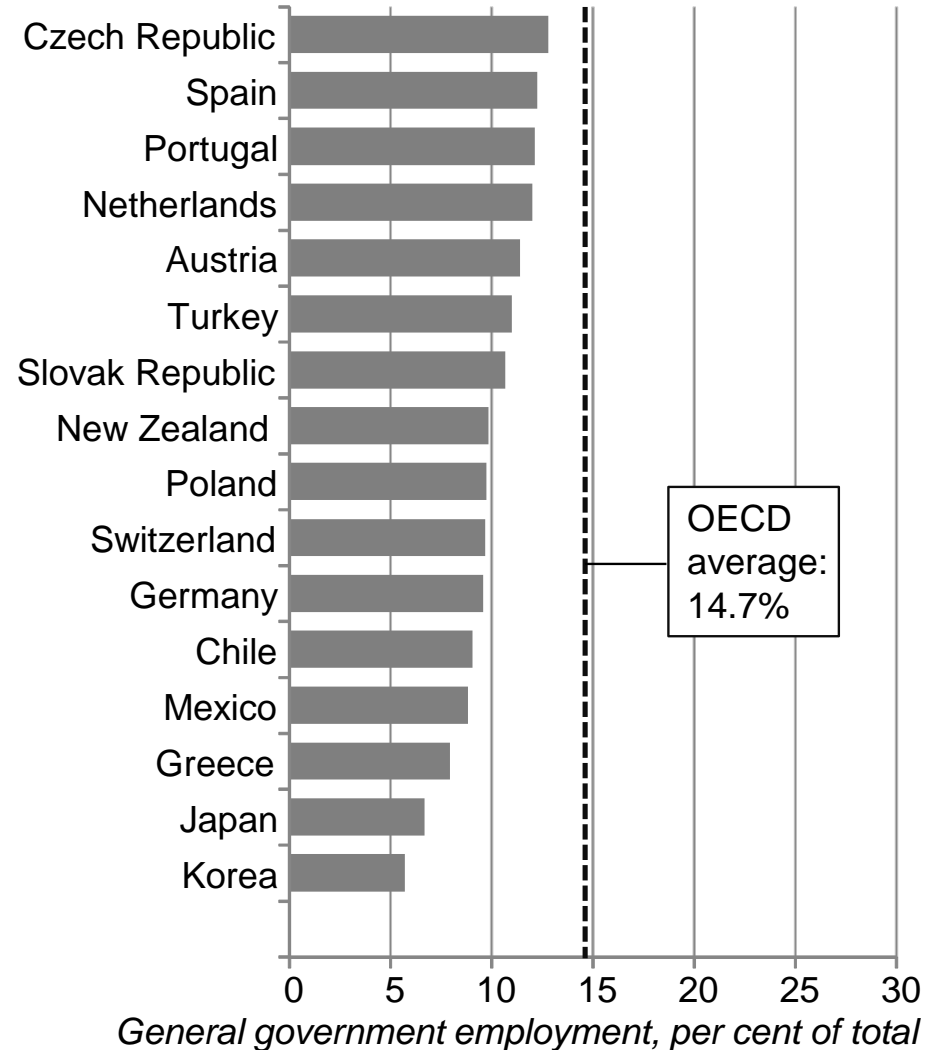
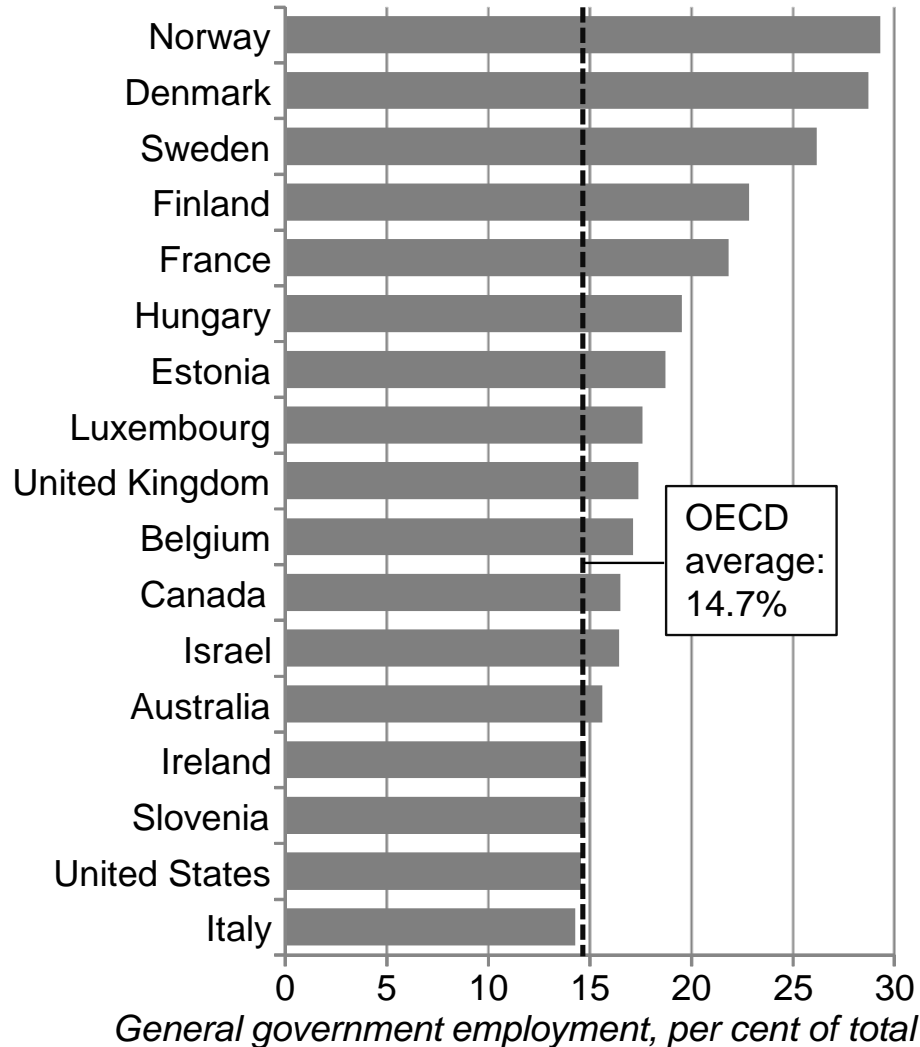
- Arguments against
  - Integration gives civil servants direct, personal interest in the plan being well managed
  - Economies of scale
  - Mobility and portability
  - Equity
  - Transparency
- Long-term goal should therefore probably be integration of civil-service and national pension plans

# Economies of scale

*Relative cost per beneficiary*



# Demographic pressures: size of general government





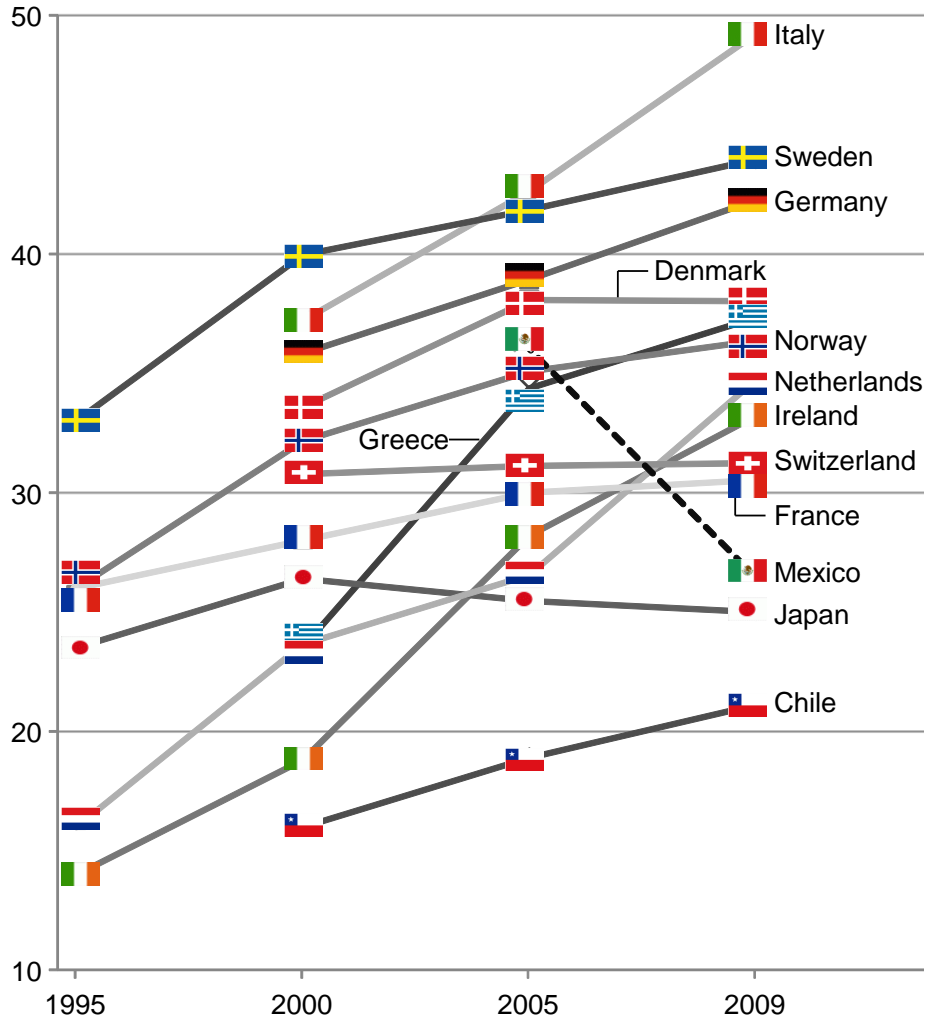
# Central-government employment

per cent of total population

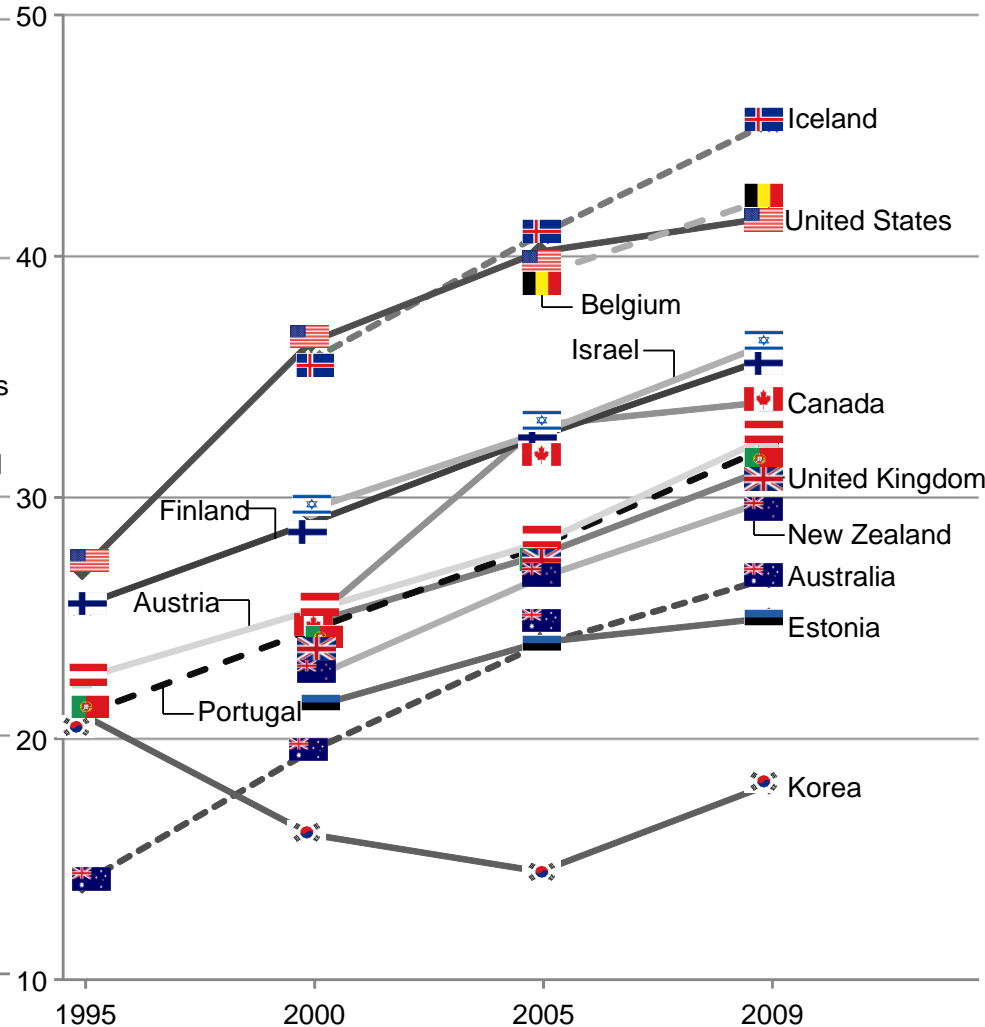
	early 1980s	early 1990s
Africa	1.8	1.1
Asia	2.6	1.1
Latin America	2.4	1.5
All developing countries	2.2	1.2
OECD	2.9	1.9

# Ageing central-government workforce

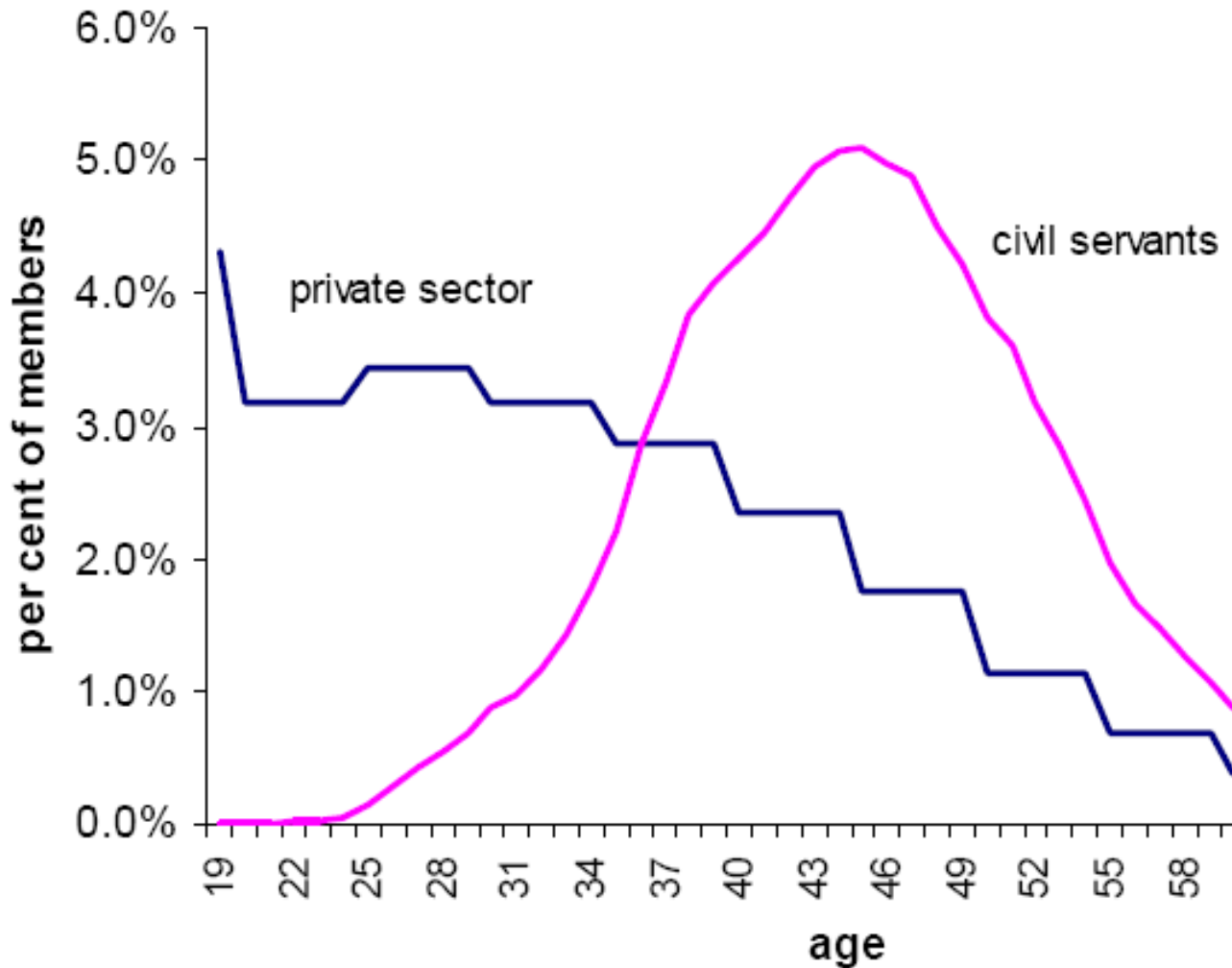
Percentage aged 50 and over



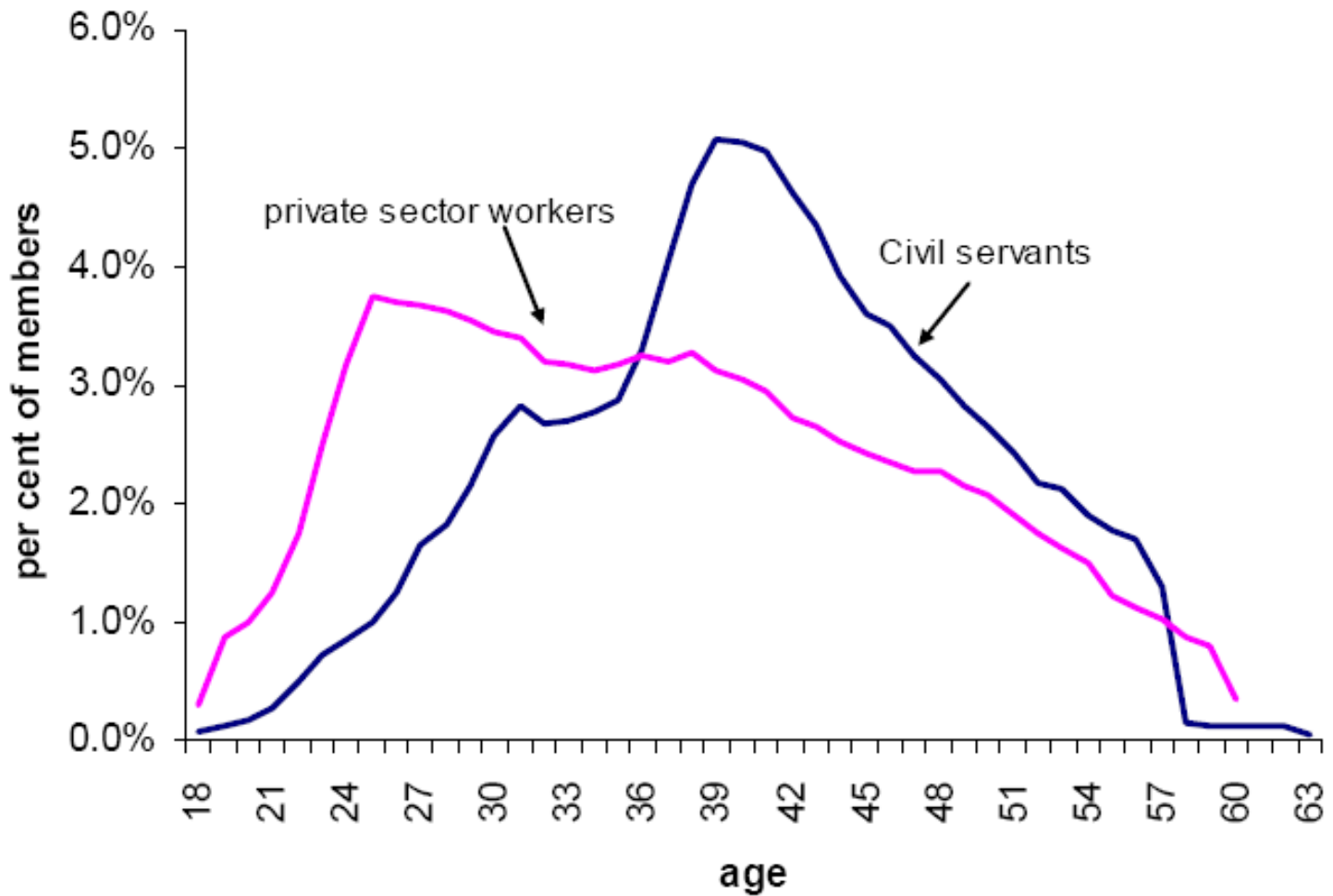
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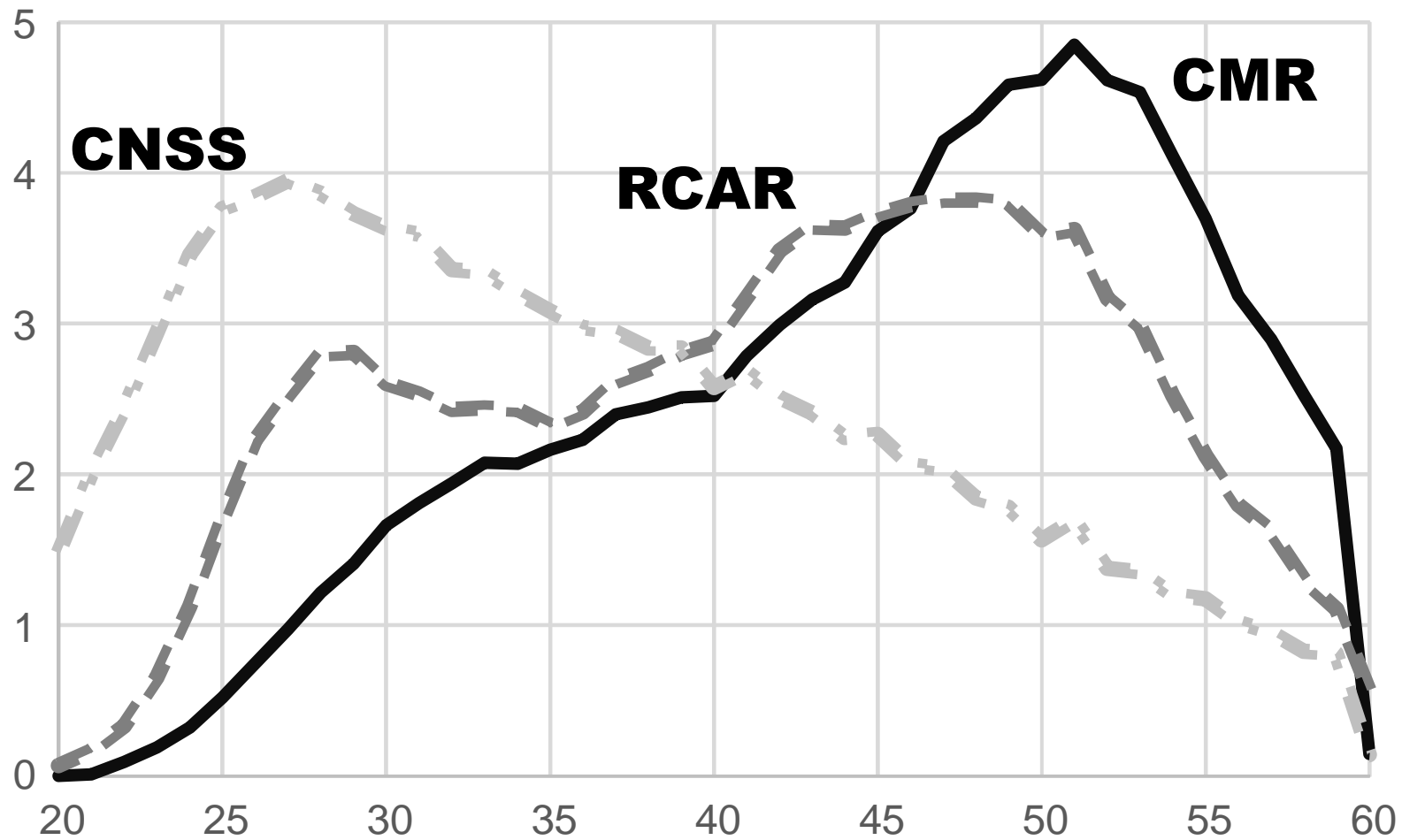
# Example: Brazil



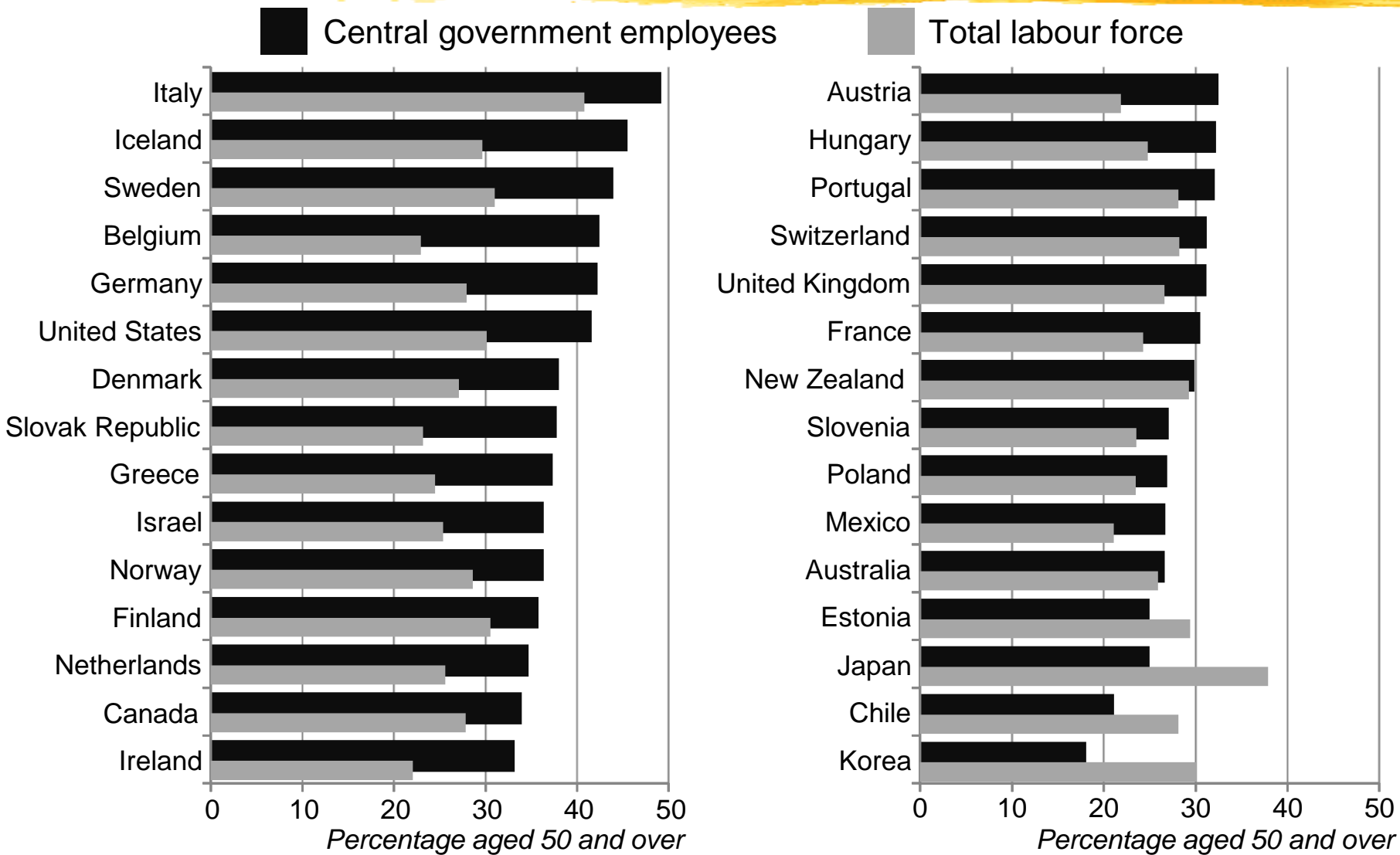
# Example: Egypt



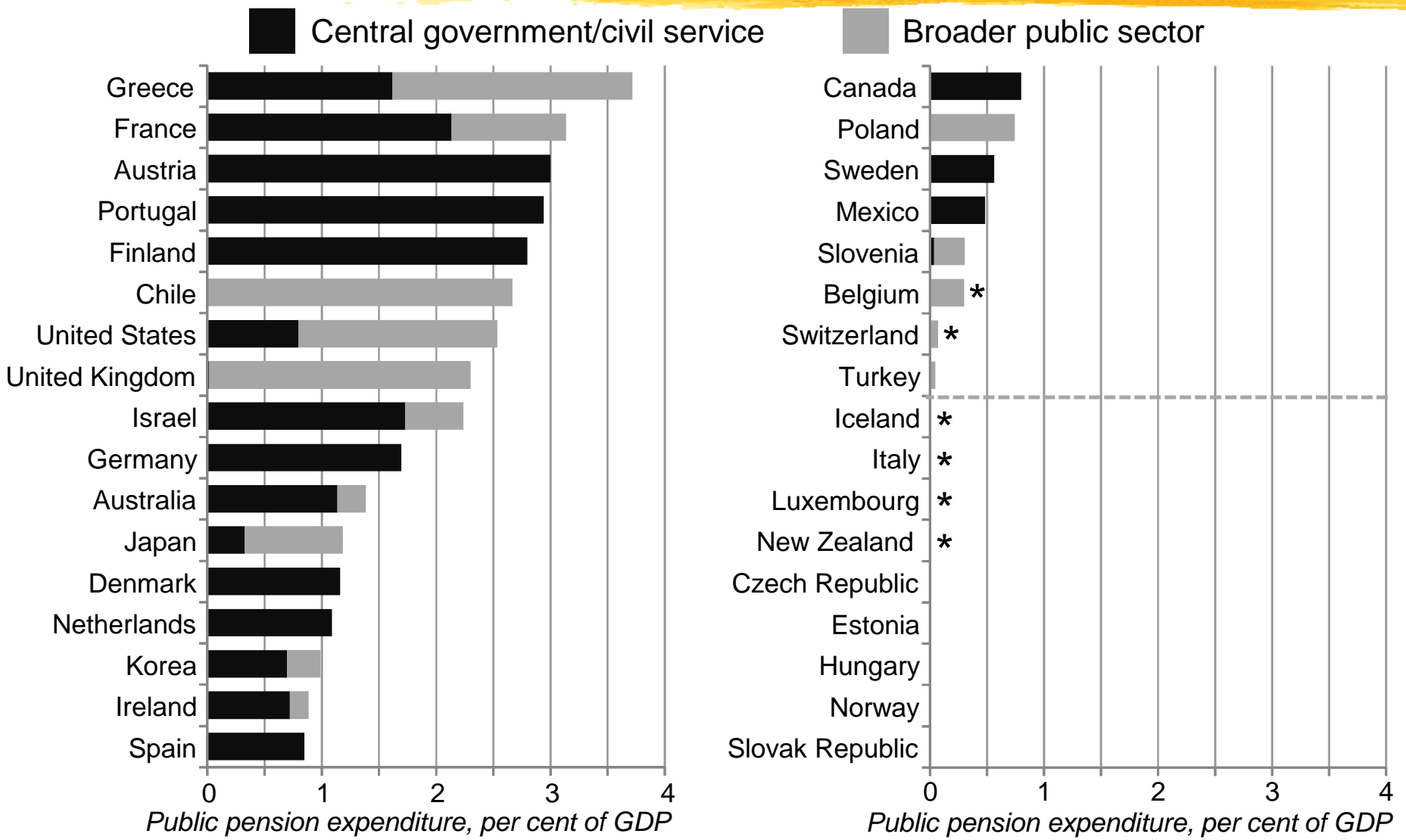
# Example: Morocco



# Labour-force demographics: central government vs population



# Fiscal pressures: pension spending



# Reform options 1



- 'Parametric' reforms to defined benefit plans
  - reduce replacement rate
  - index pensions in payment to prices rather than civil-service earnings
  - introduce/increase member contributions
  - raise pensionable age
  - extend averaging periods for 'final' salary
- 'Systemic' reforms
  - introduce new system for new civil servants with some element of pre-funding of obligations
- Any reform must take account of all aspects of civil-service terms and conditions



# Reform options 2



## □ Increasing pension age:

- Civil service schemes are 'closed' systems
- so increasing retirement age has different effects than it does in national schemes: labour supply effect in national schemes
- Increase in retirement age cuts duration of benefit payments, but
- without downward adjustment of accrual rates to compensate, benefit values increase
- people might retire on higher pay if earnings continue to grow with age
- affects both pay and pension bills

## □ Increasing contributions:

- employer contributions are just re-labelling, unlike national systems
- employee contributions may have an effect on wages or productivity

# Flexibility and portability



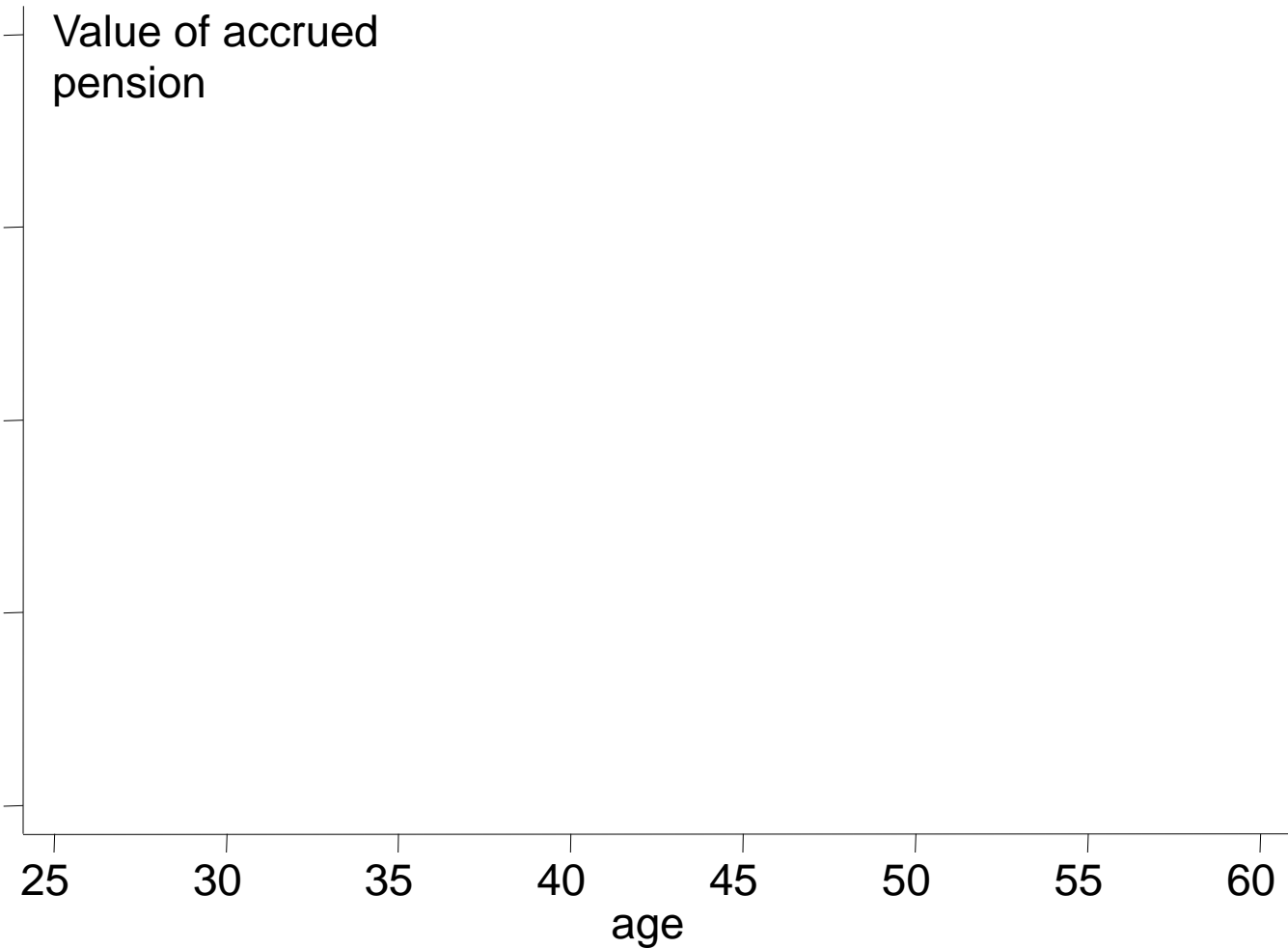
- Civil service schemes are inflexible: ill designed to deal with people without full careers
- But flexible schemes are increasingly important
  - 'revolving doors': cross-fertilisation between public and private sectors
  - transfer of employees due to privatisation or contracting out

# Penalties to moving jobs



- Vesting periods: when individual qualifies for a pension
  - <1 year in Finland, Netherlands, Sweden, Switzerland, UK
  - 5 years in Belgium, Germany, Ireland, Italy
  - 15yrs in Austria, France, Spain, Mauritius, Senegal
  - people can leave with nothing
- Treatment of 'early leavers': what happens to the benefit between leaving the job and claiming the pension?
  - full transferability (Finland, Netherlands, Sweden)  
moves to occupational plan with same benefits in private sector
  - full preservation (France)  
accrued rights uprated in line with civil-service earnings
- In other countries, a pension cost to moving jobs

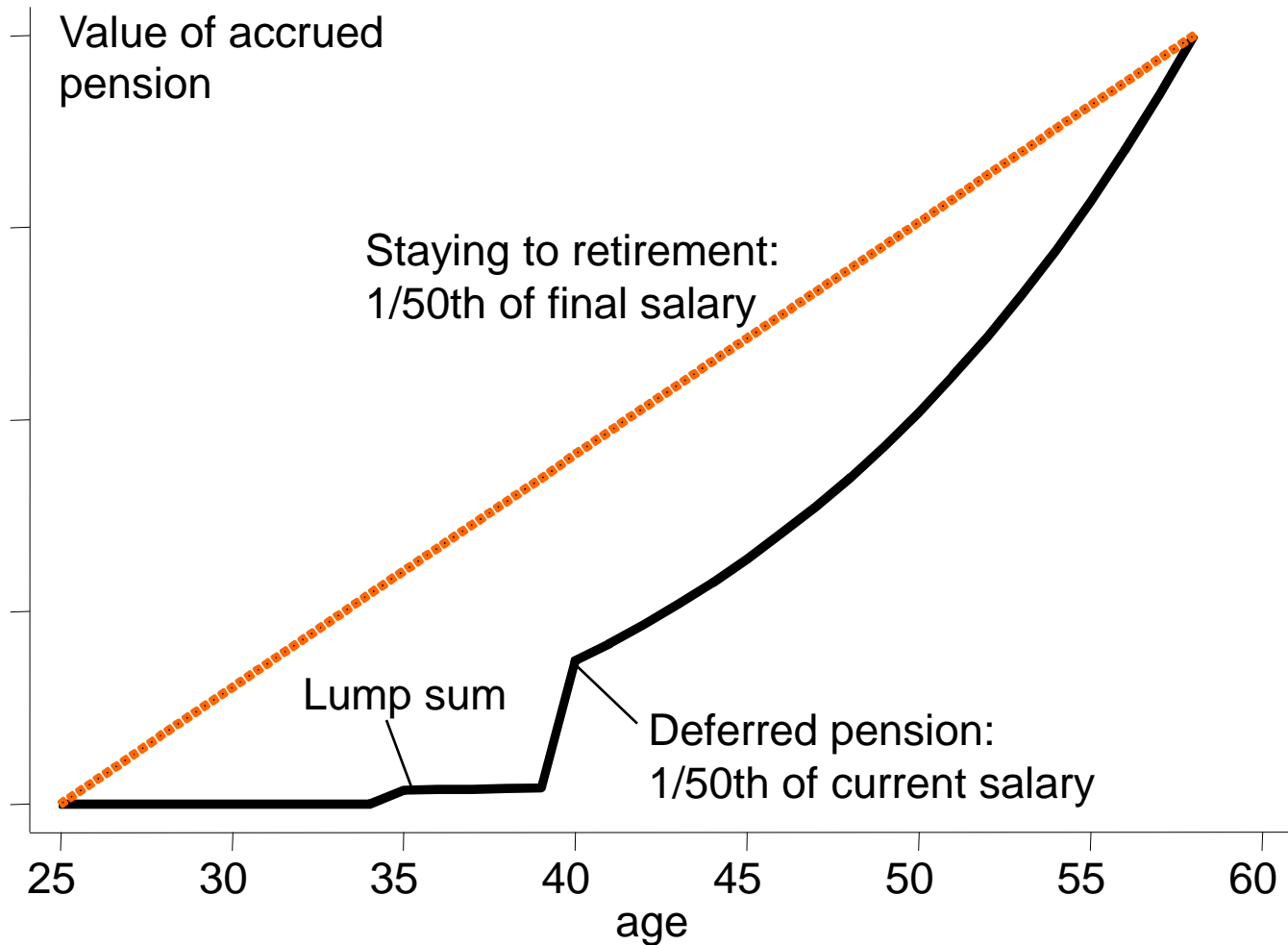
# Example: Mauritius



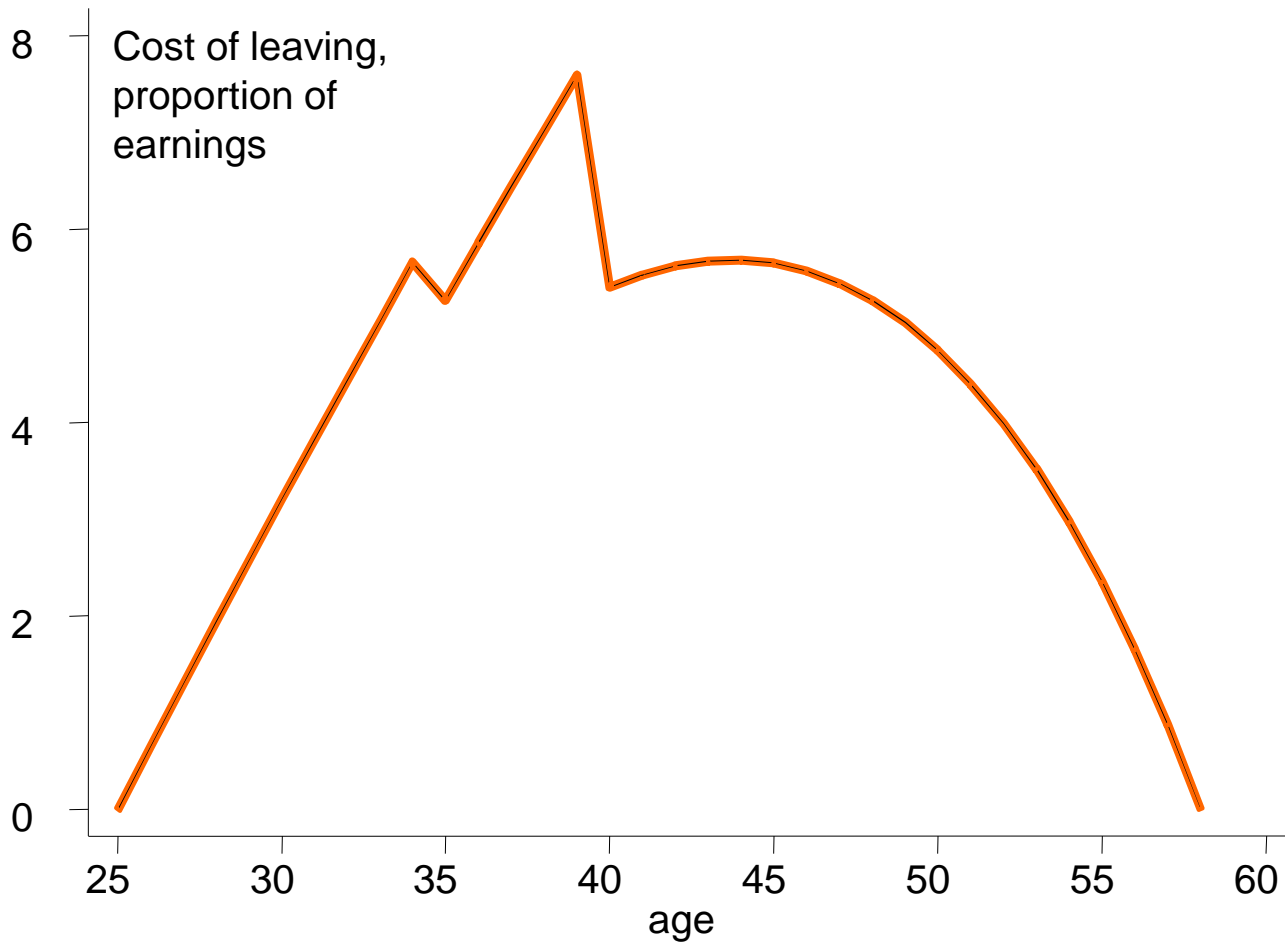
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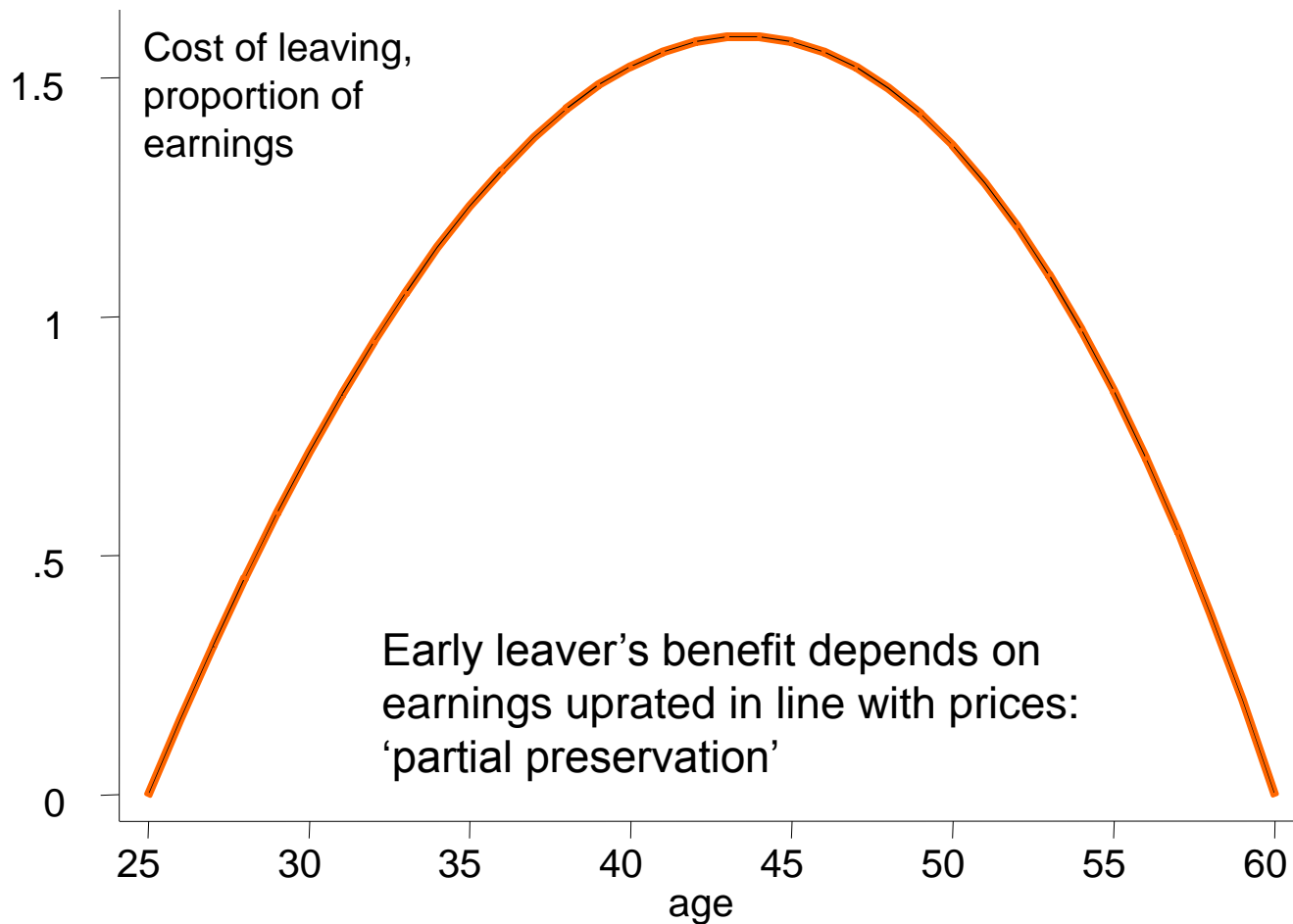
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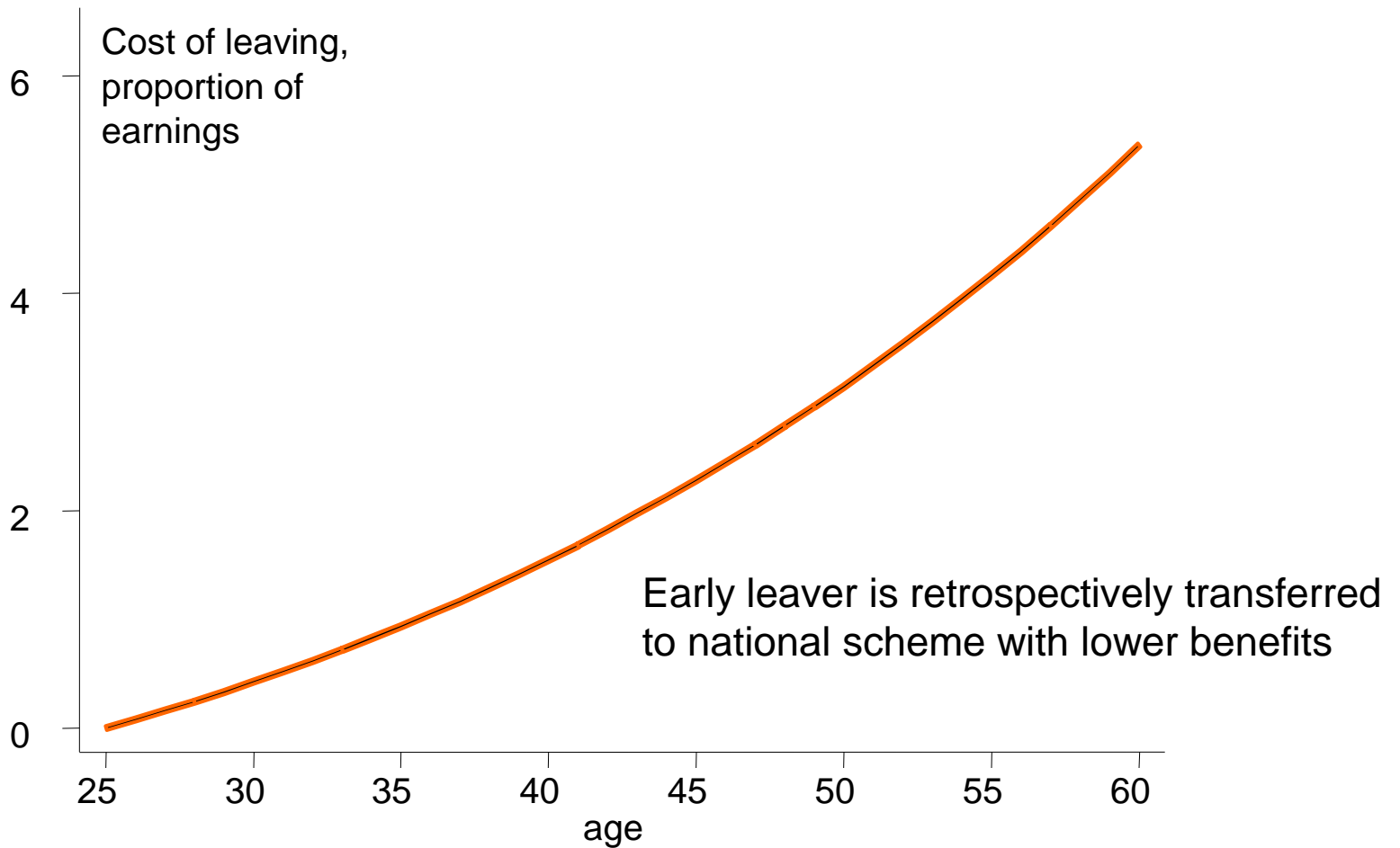


# Example: UK





# Germany



# Reforms to improve portability



- Shorten vesting periods
- Preserve pension rights of early leavers
- Extend averaging period for 'final salary'
  - career average uprating eliminates the mobility problem
  - also deals with problems of incentives for abuse
  - but requires improvements in record-keeping
- Introduce a defined contribution scheme
  - fully portable
  - examples include Australia, UK, US

# Conclusions



- Reform of civil-service pension schemes is important in low- and middle-income countries
  - often, larger expenditure than national schemes
  - crowds out important social programmes
- Many options to put civil-service pension schemes on a sustainable footing
- Structural issues as important as fiscal ones
  - single national scheme would be more administratively efficient, equitable and increase labour-market flexibility
  - equity and efficiency also improved by longer averaging periods for earnings, shorter vesting periods, preservation for early leavers, DC option