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Group of Thirty Report Urges Early Action by Countries to Fix Looming Pensions Crisis

LONDON—November 14, 2019: The Group of Thirty (G30) has today published the report of its Working Group on Pension Funds, *Fixing the Pensions Crisis: Ensuring Lifetime Financial Security*. The report highlights the challenges of a fundamentally changed environment: a combination of rising life expectancy and decreasing birth rates in recent decades, slower economic growth, and much diminished expected returns on pension fund investments. It identifies a brewing crisis in pensions across a range of countries, with projected resources falling far short of promised retirement benefits. The report also presents the policy choices that have to be addressed so that people can be assured of adequate lifetime financial security - such that they can meet essential living expenses and maintain the standards of living they expect in their retirement years.

The G30 report estimates the gap between expected lifetime financial security benefits and what existing systems can likely provide to be $15.8 trillion by the year 2050 for the 21 countries analyzed (comprising 90 percent and 60 percent of world GDP and population respectively). This lifetime financial security gap would in fact be even larger if less optimistic assumptions for economic growth, wages, and rates of return on pension investments are made.

The G30 report highlights the basic problem: people cannot save the same amounts during their working years as they do currently, retire at the same age, and still receive the same retirement payouts as today, unless they or future generations pay additional taxes. Countries must hence employ some combination of the following policies to address the gap in a fair and sustainable manner:

1) Increase the retirement age and strengthen employer responsibility for employing older workers and enhancing their productivity;

2.) Increase private savings and/or taxation to support public pensions; and

3.) Recalibrate income replacement rates in retirement, while protecting replacement rates for the poor.

"Countries across the globe face a mounting challenge: how to offer adequate financial security for retirees, today and sustainably into the future. If public policies and individual behaviors do not change, many countries' pension systems will face a severe crisis, threatening either unaffordable public expenditure pressures or inadequate incomes for retirees," said Chair of the G30 Working Group on Pension Funds **Lord Adair Turner**, Senior Fellow at the Institute for New Economic Thinking and former Chairman of the UK's Financial Services Authority. "Workers and retirees are living longer today. We need to make crucial adjustments to ensure lifetime financial security for retirees, both now and in the future." He continued: "At the minimum, we recommend countries gradually raise retirement ages in line with the proportional principle, in order to keep stable the proportions of adult life spent in work and in retirement."

The report emphasizes that reforms to minimize investment management costs must be a priority; otherwise these will reduce returns to pension savers and leave them poorer in retirement. It also encourages policymakers to consider structural changes to pension systems, to better balance the distribution of risks between individuals and scheme sponsors. Such changes include:

- Allowing the pensionable age in traditional 'pay-as-you-go' or Defined Benefit (DB) systems to rise automatically with increases in life expectancy, to enhance sustainability across generations;
- Developing hybrid Defined Contribution schemes that reduce the investment risks faced by individuals and hence provide more assurance of adequate retirement income; and
- Complementing Defined Contribution schemes with adequate public safety nets to ensure that no one falls into poverty because they are unable to save.

The report also urges politicians and policymakers to design mechanisms that can better inform public debate about the trade-offs and choices that have to be made, better communicate the costs of inaction, and build consensus around workable combinations of policy solutions.

"Kicking the can down the road will only make the problems larger and impose an inequitable burden on the next generation," said **G30 Chairman Tharman Shanmugaratnam**, Senior Minister and Coordinating Minister for Social Policies in Singapore. He continued: "Longer working careers are unavoidable, and they must be productive years. But changes to pension schemes are needed too. The shift from 'pay-as-you-go' or defined benefit schemes to defined contribution has improved financial sustainability, but also shifted risk and responsibility from employers and governments to individuals. It has left individuals worse off in many places. Reforms to defined contribution should enable individuals to benefit from collective investment management, at low cost, and not have their retirement savings hostage to market cycles as much as they are today."

"We are in a global environment of unprecedented low or negative interest rates, with long-term implications on retirement investment funds," said G30 Working Group on Pension Funds Steering Committee Member **Gerd Häusler**, Member of the Supervisory Board of Munich Reinsurance and former Financial Counselor and Director of the International Monetary Fund. He continued: "Against this backdrop and the already high tax rates and soaring real estate prices in a number of European countries we all are faced with quite unpleasant realities. Any combination of measures will have to be tilted towards raising the retirement age, however gradually but consistently. Leaders of all countries, supported by experts, must explain this difficult message to voters over and over again: The need for gradual changes to our pensions systems in order to ensure future retirees are provided for at an adequate level, without overburdening our children and grandchildren. As a first measure, my own country included, we must stop going in the wrong direction for whatever justification. All must give some ground, including the older generations, in order to ensure the sustainability of the pensions systems as a whole."

Lord Turner, Senior Minister Tharman, and Mr. Häusler led the Steering Committee of the G30 Working Group on Pension Funds, supported by six working group members. The research process was supported by Project Director Colin Brereton, Adviser Miles Kennedy, and PwC.

The Group of Thirty is an independent global body comprised of senior representatives of the public and private sectors and academia. The Group aims to deepen understanding of international economic and financial issues, to explore the international repercussions of decisions taken in the public and private sectors, and to examine the choices available to market practitioners and to policymakers. The Group is led by Jacob A. Frenkel, Chairman of the Board of Trustees, and Tharman Shanmugaratnam, Chairman of the Group.

G30 Media Briefing: The G30 will convene a live webcast press conference with **Adair Turner** and **Gerd Häusler** on November 14, 2019, at 1:00pm GMT (2:00pm CET, 8:00am EST, 9:00pm SGT). After delivering opening remarks on specific topics addressed in the G30 *Fixing the Pensions Crisis: Ensuring Lifetime Financial Security* report, Lord Turner and Mr. Häusler will answer questions.

A recording of this briefing can be found at:
https://event.on24.com/wcc/r/1832487/1C6DF7377477EAE2AEB3CFA40C36CDDF.

A copy of the report can be found on the G30 website: www.group30.org.

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