

Political resistance to pension reforms overestimated - DPER

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It is now recognised that the predicted political resistance of the 'grey vote' to reforms of public pension systems prevalent before the 1990s is overrated, according to a paper from the Department of Public Expenditure and Reform (DPER).

The paper - 'Challenges and Strategies for Reforming Publicly Funded Pensions Systems', by Stephen Owens and Joseph Killilea of the Department's Pay and Pensions Division - points out that an EU study in 2000 estimated that if average pension benefits remain unchanged, average pension contributions from employees would need to increase to 26% of gross earnings by 2050.

Such a contribution was considered unsustainable and the issue of intergenerational fairness also emerged as a political consideration.

Many governments were also reluctant to introduce substantial reforms of the pension system due to the belief that the emerging 'grey vote' would veto such reforms out of self-interest.

However, the paper goes on to say that a number of studies have shown that this is no longer the case. It instances that in Germany, Sweden, Finland and Belgium, the Governments of the day introduced substantial pension reform and were subsequently re-elected.

OBSTACLES

However, the paper says while pension reforms have now proven to be politically feasible in many countries, there are still obstacles to such reforms.

These include legislative constraints, including constitutional protection of property rights (pensions in payment are considered a property right) and employment law.

The paper notes, for example, that the Public Service Pension reduction relied on the existence of a financial crisis, as well as the measures being proportionate and consistent with other measures imposed. "If these conditions did not exist the PSPR would not have withstood the legal challenges it faced", says the paper.

However, the paper instanced situations in the UK where major age-based pension reforms were overturned by the courts, as there was insufficient evidence to demonstrate a justifiable social or political aim when implementing this age-based discrimination.

A lack of understanding of pension systems is another constraint to major reforms. The report notes that this is down to an individual's general tendency to overvalue the short term relative to the long term, or what it called 'myopic preferences'.

A lack of consensus on preferred pensions reforms can also be a barrier. According to surveys in Germany and Italy, younger people tended to favour cutting pension benefits rather than increasing contributions, while older people favoured the opposite.

Countries which have large pension debts are also likely to meet more resistance to reform. The paper says that where this is the case, public servants are likely to be employed in such reforms.

The paper quotes a study which says that "the public servants involved are also likely to resist changes to pension policy that diminish their role, budget or perceived status".

The paper also identified other obstacles to major reform of public pensions, as countries with large non-pension related public debts and the institutional analysis and development framework within such reforms will be proposed.

STRATEGIES

The paper suggests (though it stresses that these are not recommendations) a number of possible strategies to overcome these obstacles to pensions reform.

These include a phased implementation of reform. One example given was for reforms to be implemented in the future e.g. 10 years, which would give people time to adjust their behaviour and so lessen resistance.

Another was to include actuarial features as automatic adjustments, which the public are more likely to accept. "This view is based on the premise that the public will be less resistant to "actuarial rules" compared to similar changes that are viewed as "policy decisions", says the paper.

This "automatic adjustment" approach would effectively remove the political and institutional process from enacting future pension reforms deemed actuarially necessary to safeguard the pension system's sustainability", it says.

Another way to avoid resistance, according to the paper, is to provide people with options. These could include allowing members to choose between higher contributions for the same benefit or the same contributions for a lower benefit.

Also, people could be given the option to retire at current retirement age, with reduced benefits, or work longer for the same benefits.

The paper also says a broad political consensus for pensions reforms can diminish the cost for each political party involved.

The DPER paper also suggests including some offsetting incentives, along with reforms such as tax incentives for private pension savings.

Somewhat cynically, the paper also notes a strategy suggested by Kohli and Arza in 2011, of 'obfuscate and divide', which is to construct the reforms in such a way that it is difficult for citizens to understand how it will impact them.

Quoting the 2011 study, the paper says "if the comparable outcomes are not clear then there is likely to be less resistance".