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CL _ E _ A _ R. CLosing the gEnder pension gAp by increasing women's awaREness

Policy Brief

Pension information and its effects on individuals' economic outcomes

The role of pension information on individuals' economic outcomes

- In times of pension reforms, pension information assumes a crucial role in order to make sound retirement decisions. The pension wealth accumulation depends in fact on different factors including the ability of using information sagely.
- Generally, countries with high replacement rates (approximately 70%) did not perform high investments in pension communication compared to countries with low replacement rates (around 50% or lower).
- Research has found that many people lack fundamental economic concepts and fail to plan for retirement even when they are close to it. This result has important consequences since being able to develop retirement plans is crucial for retirement security and can explain why some people arrive close to retirement with very little wealth.
- Existing analysis indicates that pension information has a positive impact on workers' knowledge about their benefits and their self-declared retirement planning, however whether workers actually change their retirement behavior after receiving pension information is more controversial.
- The shift to defined contribution pension plans that link the benefit to the contributions paid is altering the incentives to work longer, since postponing retirement leads to higher pension levels. However only correctly informed workers are responsive to the incentives to work longer.
- Research has also studied the effect of pension information on savings trajectories, concluding that information letters and other educational interventions such as seminars are found to increase both enrollment in retirement plans and contributions.

Overview of pension communication strategies in Europe

Austria

The pension system is based on the 80/45/65 rule: an 80% gross replacement rate for people with 45 years of social security contributions and retire at an age of 65 years old. In 2013, there has been a pension information campaign in which the Pension Insurance Agency provided insured individuals born between

1958 and 1990 with information about the future pension.

Italy

The pension system is structured as a compulsory statutory pension system integrated by voluntary private and fully funded pension plans at individual and collective levels. The Italian Social Security

Institute INPS annually informs the workers of the evolution of their pension; starting from 2016, through the INPS website, private sector employees and the self-employed can control various information such as the day of retirement, the predicted replacement rate, etc. and they can also simulate different scenarios dependent on different career patterns.

Sweden

After the change from Defined Benefit to Defined Contribution pension system in 1999, the government introduced the Orange Envelope with the aim of improving information on pension contribution. The envelope, which is sent annually, included an account statement, a fund report for the funded part and a prevision for the future pension.

The Netherlands

The pension system can be categorized in three levels: the first one is a state income independent of the past of the individual; the second one is a mandatory fully funded occupational pension plan; eventually, the third one is composed of individual voluntary pension saving. In 2007, a law on pension communication

establishes that the pension industry had to provide a yearly Uniform Pension Overview (UPO); in addition to that, pension funds were obliged to send the UPO to the participants. Moreover, the pension industry was required to build up an online pension register in which people have complete information on first and second pillar pension rights. In 2015, a new Act on Pension Communication passed aiming at let plan members know the expected amount and the relative risks of the pension plan.

The United Kingdom

The pension system can be categorized in three levels: the basic state retirement pension, the State Second Pension (S2P), and the Pensions Credit. No specific legislation on state pension is provided except for the supplementary pensions whose information are supplied by the Pension Schemes Act 1993. Forecasts of the state pension age and the amount of basic state pension are available online through the government website; in addition to that, free advices are offered through the webpage of state Pension Institutions and the Financial Conduct Authority.

Policy Implications

Our analysis shows that it is important that Governments take into account the role of pension information on various individuals' economic outcome when designing public policies, as more transparent information about retirement systems can have important effects on various behaviors.

It is clear that, after having designed an appropriate policy, it becomes fundamental to build an adequate channel of information so to ensure that individuals correctly understand it.

This is particularly important when considering women and in order tackle the gender pension gap and to reduce gender inequality.

As the gender pension gap in a defined contribution pension system is the consequence of the structural disadvantages women face in the labour market, policy makers, should therefore pose more attention in improving female knowledge on the long-lasting effects of their work and saving decisions.

Further reading

“Literature review on the effects of pension information on individuals' economic outcomes”, by Stefania Basiglio and Noemi Oggero, CLEAR Working Paper, September 2019.

<http://www.pariopportunita.gov.it/materiale/cl-e-a-r-closing-the-gender-pension-gap-by-increasing-womens-awareness/>