IN BRIEF: Pension Coverage Lessons for the United States from Other Countries

Introduction

While the United States has instituted numerous pension policy innovations over the past twenty years, including notably 401(k) plans, pension coverage has remained stagnant at roughly 50 percent of workers. Frustration over the failure of pension policy to increase coverage has raised the issue of what can we learn from other countries, some of which have considerably higher pension coverage rates than the United States. To address this question, we survey countries with pension systems similar to that in the United States. We examine both the major approaches chosen and particular policy innovations.

Purpose

Few countries with well-developed pension systems use exclusively the U.S. approach to encourage pension coverage, which is voluntary with tax incentives. Among countries that use that approach, it is rare for coverage to exceed 50 percent of the private sector workforce. Higher coverage rates are achieved by systems that provide contracting out, systems that are based on widespread coverage of the workforce by labor unions, and mandatory systems. The use of widespread labor contracting is not possible in the United States because of the low percentage of jobs covered by collective bargaining.

Methodology

In this report, we examine pension policies that countries have developed to increase coverage in occupational pensions and individual accounts. We argue that the wide variety of policies can be grouped into four pathways. Those pathways are voluntary with tax incentives, contracted out, widespread labor contracts and mandatory. These pathways can be characterized as ranging from unrestrained choice, to a choice between two alternatives—a government provided pension versus a private sector provided one, to a mandatory arrangement determined by collective bargaining between employers and trade unions, to a government imposed mandate.

The *pathways* approach focuses on the incentives or degree of compulsion provided for extending pension coverage. While some countries provide no incentives for pension participation, this discussion focuses on policies that countries have enacted to encourage pension coverage. Within that frame of reference, degrees of compulsion vary from countries that provide tax incentives but no compulsion on employees, to countries that provide further incentives through contracting out from Social Security, to countries that mandate coverage, either as a legal mandate or through compulsory labor-management agreements. Within these degrees of compulsion, the report also considers the disincentives that may be aspects of government policies. In examining the degree of incentives or compulsion, we consider both the percentage of workers affected (the extensive margin) and the degree to which they are affected (the intensive margin). Degrees of compulsion can be thought of loosely as the cost of not participating in a pension, ranging on a scale from zero, where no incentives or disincentives are provided to any worker or employer for providing coverage, to 100, where coverage is effectively mandated for every worker. This formulation ignores negative values, where there are disincentives but no incentives.

Main Findings

The pathways approach to extending coverage focuses on increasing incentives or compulsion for workers to participate. It appears that that approach is unlikely to lead to important increases in coverage. An alternative approach to extending coverage focuses on expanding the groups to which policies apply. The three groups considered in this report are job changers, part-time workers, and non-workers.

Conclusions

Few countries with well-developed pension systems use exclusively the U.S. approach to encourage pension coverage, which is voluntary with tax incentives. Among countries that use that approach, it is rare for coverage to exceed 50 percent of the private sector workforce. Higher coverage rates are achieved by systems that provide contracting out, systems that are based on widespread coverage of the workforce by labor unions, and mandatory systems. The use of widespread labor contracting is not possible in the United States because of the low percentage of jobs covered by collective bargaining.

Both contracting out and mandating are technically possible approaches to extending private sector pension coverage, and both are being considered in the context of Social Security reform. Within a voluntary approach, however, the experience of other countries suggests that there are further policies that could be considered, including extending coverage to part-time workers and non-workers.

Source: Martin Rein and John Turner, "Pension Coverage Lessons for the United States from Other Countries." For a copy of the 17-page Issue Paper, write for PPI Issue Paper #2004-01, Public Policy Institute, AARP, 601 E Street, NW, Washington, DC 20049. Or see www.aarp.org/ppi.