World Bank Calls for Pension Overhaul, With Less Emphasis on Public Programs

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WASHINGTON – The World Bank called for reform of retirement pension programs world-wide, urging more emphasis on private savings and less on public pension systems amid a burgeoning elderly population.

In a new report titled "Averting the Old Age Crisis," World Bank researchers said that shaky retirement pension programs are putting the financial security of the elderly at risk and hurting economic growth in many nations.

"These problems concern not only the old, but their children and grandchildren, who must shoulder . . . the heavy burden of providing for the aged," World Bank chief economist Michael Bruno said. "Unfortunately, most formal old-age security systems do little to lighten this burden."

Researchers said the study was prompted by alarming increases in the elderly population. In 1990, half a billion people, or about 9% of the world's population, were over 60 years old. But by 2030, that number will triple to 1.4 billion, or 16% of the projected population.

Fewer Benefits for the Rich

The report recommends that nations with government-run pension programs reduce payroll taxes and retirement benefits to the rich and middle class. Those groups should save for their own retirement by investing in privately managed funds that are regulated by the government. Public pension systems should provide minimum income for the old, particularly those who would otherwise be poor.

In areas such as Africa and parts of Asia, where security for the old is provided mainly by family members, "urbanization, mobility, wars and famine" have exacerbated the financial problems of the elderly, leaving some people already without security, the report said.

Governments in those regions "must act quickly to meet the double challenge of rapidly aging populations and social changes that threaten to erode the extended family," said Estelle James, the report's research leader.

Problems for OECD Members

But countries that belong to the Organization for Economic Cooperation and Development, which includes the U.S. and most industrialized nations, also will be hit by the old-age boom. The report warns of growing intergenerational conflict because of programs that require current workers to pay for retirees' benefits. "Such social security arrangements may, in addition, have discouraged work, saving and productive capital formation – thus contributing to economic stagnation," it says.

The report suggests "raising the retirement age, eliminating rewards for early retirement and penalties for late retirement, downsizing benefit levels . . . and making benefit structure flatter" as the first steps to reform. It proposes shifting contributions to private-sector savings, saying this is necessary, especially in developing nations, if countries want to remain competitive in global markets.

"This plan is quite radical for some Western European countries, like France, that are highly dependent on public systems," said Gary Burtless, senior fellow of economics at the Brookings Institution. "But in a country like the U.S., it is not as radical because the system is mixed between public and private."