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Pensions at a Glance
Public Policies across OECD Countries

Introduction

The country studies follow a standard schema. First, there is a detailed description of the rules and parameters of the pension schemes:*

- Qualifying conditions: pension eligibility (or "retirement") age and years of contributions required to receive a pension.
- Benefit calculation: the rules for each schemes making up the pension system, such as earnings-related schemes, mandatory private plans and resource-tested schemes.
- Treatment of pensioners under the personal income tax and social security contributions, including any reliefs for pension income.
- Economic variables: the earnings of the average production worker in local currency and, using the market and the purchasing-power-parity exchange rates shown, converted into US dollars.

Values of the parameters of pension, tax and social security contribution systems are given in national currencies and as a proportion of average earnings. (Note that these are the earnings of the average production worker as set out in the OECD, 2003, *Taxing Wages* report. The values used are shown in Section 4 of Chapter 3.) Parameter values in national currencies are generally rounded to the nearest currency unit.

A summary results table gives relative pension values, replacement rates and pension wealth at different individual levels of earnings. These are given in both gross and net terms (the latter taking account of taxes and contributions paid when working and when drawing the pension). Summary charts show the breakdown of the gross relative pension value into the different components of the pension scheme (the first row of the charts). As far as possible, the same, consistent terminology is used to describe these schemes. (This was set out in Chapter 1 on pension-system typology.) The particular national scheme that is described can be found in the text of the country study. Some standard abbreviations are used in the legends of the charts:

- SA: social assistance.
- Targeted: separate resource-tested schemes for older people.
- Minimum: a minimum pension within an earnings related scheme.
- Basic: a pension based only on number of years of coverage or residency.
- Earnings-related: all public earnings-related programmes, including notional accounts and points schemes as well as traditional defined-benefit plans.

* Note that the modeling relates to single, full-career workers drawing the pension from the normal eligibility age. Systems can: *i)* have complex rules for periods out of the labour market (caring for children or in unemployment, for example); *ii)* treat married couples as a single unit; *iii)* adjust benefits for early and late retirement. Since these rules do not affect the modelling under the current assumptions, they are described only briefly.

- DC: defined-contribution, mandatory private plans.
- Occupational: mandatory pensions, which can be provided by employers, industry-wide schemes (Netherlands), profession-based schemes (Sweden) or publicly (Finland, France).

There are some programmes in certain countries that are difficult to classify, including the new savings credit in the United Kingdom, the government's flat-rate contribution to DC plans in Mexico, the end-of-year scheme in Luxembourg and the ATP scheme in Denmark. These are explained in the relevant country studies.

The second row of country charts shows the effect of personal income taxes and social security contributions on relative pension values and replacement rates, giving the gross and net values.

The charts use a standard scale to ease comparisons between countries: the scale for replacement rates runs to 125% while that for relative pension values runs to 2.5 times average earnings. In some cases, pension benefits exceed these maxima and so the measure has been capped at these levels.

The final row of country charts shows, for reference, the taxes and contributions paid by pensioners and workers. This illustrates the source of any concessions to older people in these systems since the values are shown for workers and pensioners *with the same income*. The effect of taxes and contributions on net replacement rates is more complex than illustrated here. Since replacement rates are usually less than 100%, the normal progressivity of the tax system means that people tend to pay fewer taxes when retired regardless of any concessions.

The final row also shows the sources of the net replacement rate. In addition to the components of the pension system shown in the first two charts, this includes the effect of taxes and contributions. This is computed using the results of the tax models on the amount of taxes paid on earnings of a particular level and the amount of taxes due on the pension entitlement calculated for someone earning at that level.

Finally, after the country studies is a short summary of the issues in modelling voluntary occupational pensions. This is followed by brief country-specific studies of Canada, Denmark, the United Kingdom and the United States.

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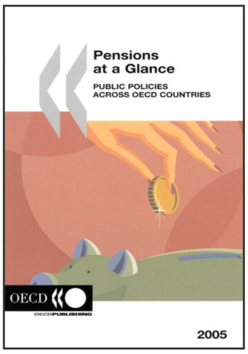

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