STRUCTURE OF PRIVATE PENSION SYSTEMS

Key results

The pension landscape includes various types of plan worldwide. Occupational and personal plans coexist in most OECD countries. In 2016, the size of occupational plans in terms of assets varied greatly across countries. In most cases, pension funds would administer these plans although there are some notable exceptions (e.g. Denmark, France). Personal plans and occupational defined contribution plans are gaining importance at the expense of occupational defined benefit plans.

The pension landscape includes various types of plan worldwide. For example, pension plans may be accessed through employment or by individuals directly without any involvement of their employers. When plans are accessed through employment and were established by employers or social partners on behalf of their employees, these plans are considered as occupational. The OECD taxonomy classifies plans as personal when access to these plans does not have to be linked to an employment relationship and these plans are established directly by a pension fund or a financial institution acting as pension provider without any intervention of employers.

Occupational and personal plans coexist in most reporting countries: 32 out of the 35 OECD countries have both occupational and personal plans. Individuals may be members of several occupational pension plans through different jobs during their career, and several personal pension plans that they have opened directly with a pension provider. The prominence of occupational plans in terms of assets varied greatly across countries in 2016.

Occupational pensions are overwhelmingly funded through pension funds in most OECD countries, the main exception being countries such as Belgium, Denmark, France, Korea, Norway and Sweden where pension insurance contracts play a large role, and Austria and Germany where book reserves – provisions on sponsoring employers' balance sheets – are one of the main types of financing vehicle for occupational pension plans. Personal pension plans are often funded through pension insurance contracts or financial products provided by banks and asset managers.

Depending on how pension benefits are calculated and who bears the risks, occupational pension plans can either be defined benefit (DB) or defined contribution (DC). In DC plans, participants bear the brunt of risk, while in traditional DB plans sponsoring employers assume all the risks. Employers in some countries have introduced hybrid and mixed DB plans, which come in different forms, but effectively involve some degree of risk sharing between employers and employees. For example, in the Netherlands, benefit levels may be conditional on the funding status of the pension provider. Cash balance plans (another type of hybrid DB plan) provide benefits based on a fixed contribution rate and a guaranteed rate of return (the guarantee is provided by the sponsoring employer, hence these plans are classified as DB). Such plans are part of the pension landscape in Belgium (where by law, employers must provide a minimum return guarantee), Japan and the United States. Mixed plans are those where the plan has two separate DB and DC components which are treated as part of the same plan. For instance, the plan may calculate benefits under a DC formula up to a certain age before retirement and apply a DB formula thereafter. There are also DC plans such as those in Denmark which offer guaranteed benefits or returns. They are classified as DC as there is no recourse to the sponsoring employer in case of underfunding.

The proportion of assets in DC plans and in personal plans is higher than in DB plans in most of the reporting countries. More than 50% of assets are held in DC plans or personal plans in 18 out of the 23 reporting OECD economies.

DC plans and personal plans are gaining prominence at the expense of DB plans even in countries with a historically high proportion of assets in DB plans such as the United States. The transition from DB plans to DC plans and personal plans is also under way in other countries. For example, in Ireland, the amount of assets in DB schemes declined from EUR 62 146 million in 2015 to EUR 61 465 million in 2016.

Definition and measurement

The term "private pensions" actually refers to private pension arrangements (funded and book reserves) and funded public arrangements (e.g. ATP in Denmark).

The OECD has established a set of guidelines for classifying private pensions (see OECD, 2005) on which this analysis is based.

Further reading

OECD (2005), *Private Pensions: OECD Classification and Glossary*, OECD, Paris, *www.oecd.org/dataoecd/0/49/38356329.pdf*.

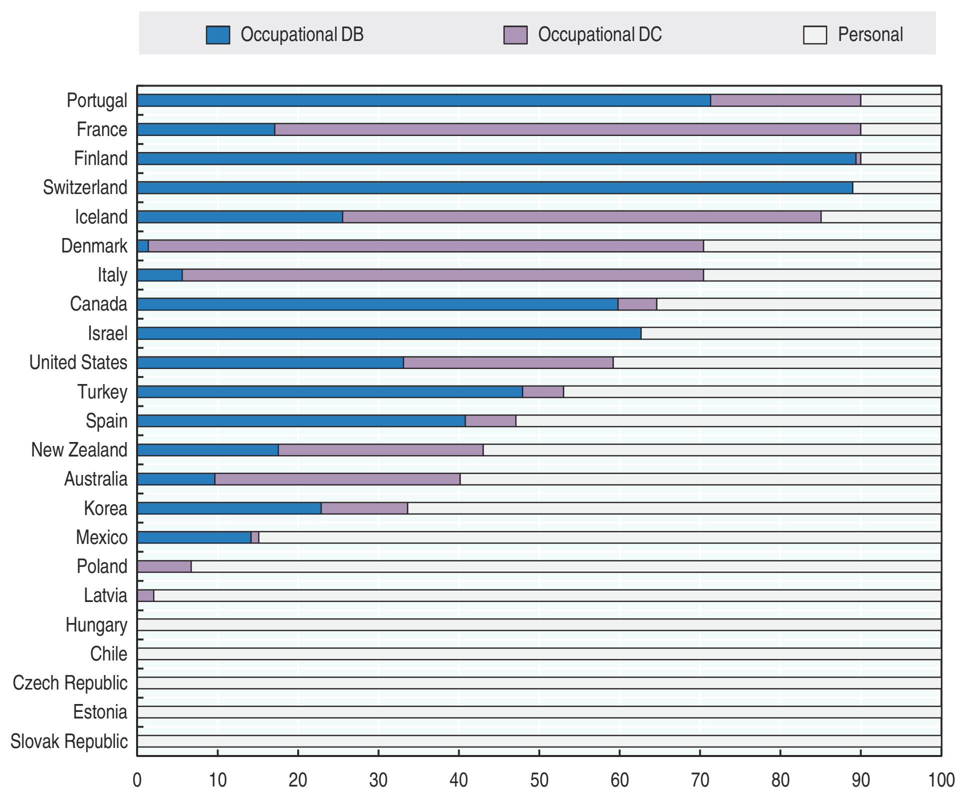
8.2. Types of pension plan available in the OECD area according to the OECD taxonomy, 2016

		Occupational plans			
		DB only	Both DB and DC	DC only	None
Personal plans	**Yes**	Finland, Germany, Israel, Switzerland	Australia, Austria, Belgium, Canada, Denmark, France, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Turkey, United Kingdom, United States	Chile, Greece, Hungary, Latvia, Poland, Slovenia	Czech Republic, Estonia, Slovak Republic
	No				

StatLink http://dx.doi.org/10.1787/888933634648

8.3. Split of pension assets by type of private pension plan in selected OECD countries, 2016

As a percentage of total investment



Source: OECD Global Pension Statistics.

StatLink http://dx.doi.org/10.1787/888933634667

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