

United States

The majority of occupational pension schemes in the United States are final-salary defined-benefit schemes. These cover 56% of occupational pension members, with 23% in flat-rate defined-benefit plans (which pay a fixed amount for each month of coverage), 11% in average-salary schemes and 6% in defined-contribution plans.

The definition of “final salary” varies, but the most common formula is the best consecutive five years’ earnings, accounting for 65% of members.

Accrual structures are complex, with only 37% in schemes having a single accrual rate, the most common being between 1.25 and 1.75%. In 41% of schemes, the accrual rate varies with the level of earnings and in another 8%, with the number of years of service.

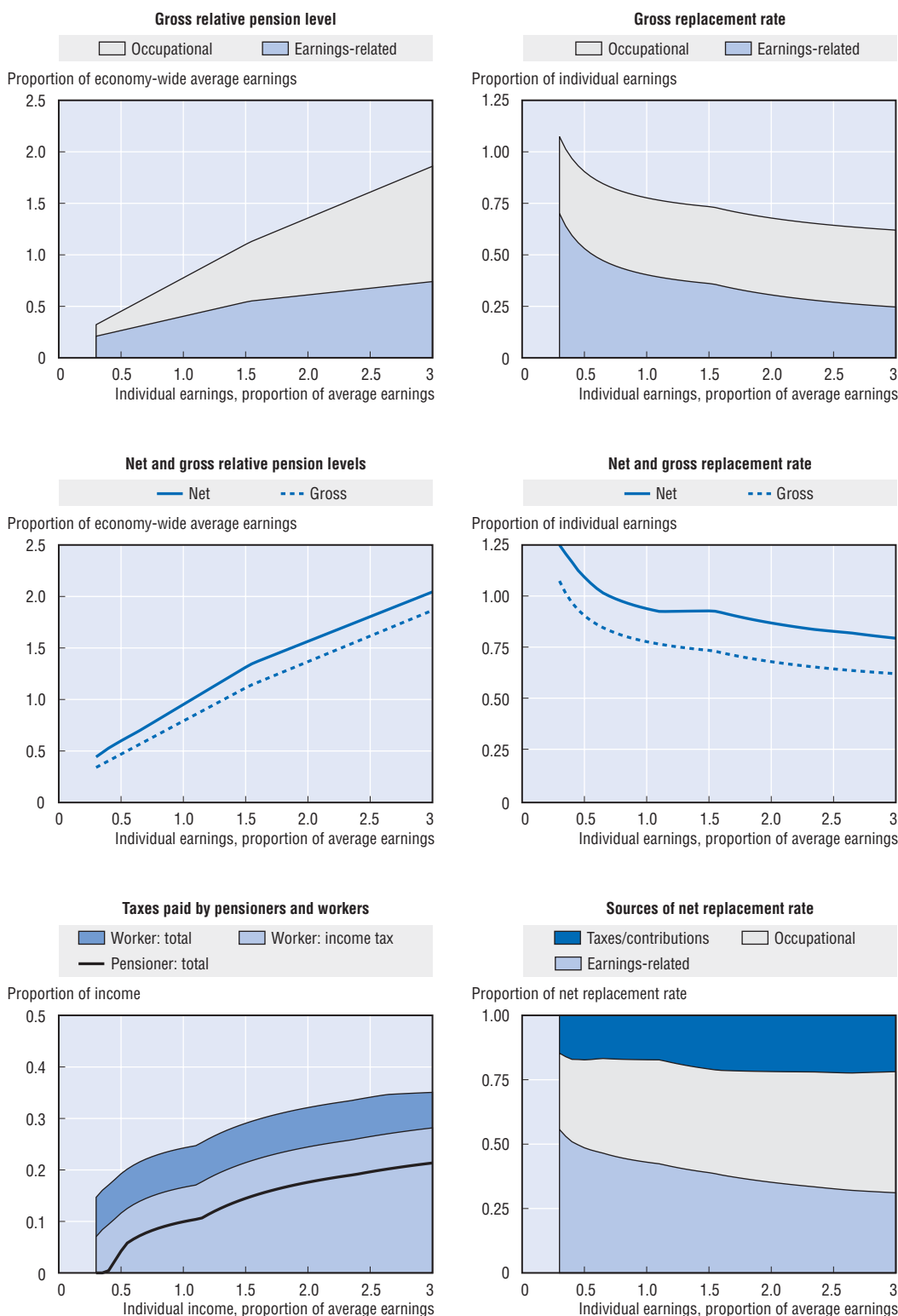
Around half of plans are integrated with social security, usually by using an “excess formula” that applies a lower accrual rate to earnings covered by social security.

The most common normal pension age is 65, although a number of plans only allow retirement once a minimum service level has been achieved.

Following a series of regulatory changes, nearly a third of schemes now have no minimum age or service requirement for eligibility to join the plan. Another third have a minimum service requirement of one year or less and a final third have a minimum entry age of 21 and a one-year’s-service requirement. Schemes are voluntary, but participation rates are high, averaging nearly 80% of full-time employees. Vesting is now most commonly achieved with five year’s membership: these schemes account for 85% of members.

Post-retirement indexation of benefits is rare: just 3% of members are promised automatic cost-of-living increases and only 4% of schemes have granted discretionary increases in the last five years. Fewer than one in four schemes allow any of the pension to be taken as a lump sum.

Pension modelling results with voluntary schemes: United States



Source: OECD, based on information provided by the countries.

Pension modelling results: United States, with voluntary occupational plans

Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	2.5
Gross pension level <i>(% of average earnings)</i>	43.4	59.7	75.9	105.8	130.9	156.0
Net pension level <i>(% of average net earnings)</i>	56.3	73.7	91.9	125.4	151.0	175.2
Gross replacement rate <i>(% of individual earnings)</i>	86.9	79.6	75.9	70.5	65.5	62.4
Net replacement rate <i>(% of individual net earnings)</i>	105.7	96.1	91.9	89.3	84.2	80.6
Gross pension wealth <i>(multiple of average earnings)</i>	5.7	7.7	9.8	13.5	16.6	19.7
	6.6	8.9	11.3	15.6	19.1	22.6
Net pension wealth <i>(multiple of average net earnings)</i>	7.4	9.5	11.9	16.0	19.1	22.1
	8.5	11.0	13.7	18.5	22.1	25.4

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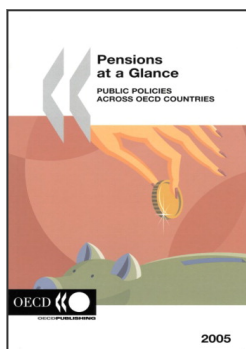
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