Pensions at a Glance: Public Policies across OECD Countries 2007 Edition

Summary in English

This second edition of *Pensions at a Glance* updates all the important indicators of retirement-income systems developed for the first edition. The values of all pension system parameters reflect the situation in the year 2004. The general approach adopted is a "microeconomic" one, looking at prospective individual entitlements under all 30 of OECD member countries' pension regimes.

The report starts by showing the different schemes that together make up national retirement-income provision, including a summary of the parameters and rules of pension systems. This is followed by eight main indicators of pension income that are calculated using the OECD pension models. This issue also contains two special analyses on pension reforms and private pensions, which use the OECD pension models to explore more deeply the central issues of pension policy in national debates. Finally, the report provides detailed background information on each of the 30 countries' retirement-income arrangements.

For workers at average earnings, the average for the OECD countries of the gross replacement rate, i.e. the ratio between pension benefit and pre-retirement earnings, from mandatory pensions is 58.7%. But taxes play an important role in old-age support. Pensioners often do not pay social security contributions and, as personal income taxes are progressive and pension entitlements are usually lower than earnings before retirement, they usually pay less taxes. For average earners, the net replacement rate across OECD countries is nearly 70% on average, some 11 percentage points higher than the average gross replacement rate.

For low earners, the average net replacement rate across OECD countries is 83%. But there are regional differences: the Nordic countries offer a 95% net replacement rate to workers on half average earnings while the Anglophone OECD countries pay 76% of previous net earnings.

What matters for governments, however, is not only the replacement rate but the value of the overall pension promise. This is measured by the indicator of pension wealth which takes life expectancy and the indexation of pensions in payment into account. Using this indicator, the pension promise is most expensive in Luxembourg. On average, each male pensioner will receive the equivalent of USD 920 000 and each female retiree over USD 1 million. The Netherlands and Greece rank second and third on this measure. The most modest pension systems are those of Belgium, Ireland, Japan, the United Kingdom and the United States where pension wealth is around two-thirds of the average for OECD countries. The lowest ranking is occupied by Mexico where men and women are promised a pension equivalent to USD 34 000 and 32 000, respectively.

Nearly all the 30 OECD countries have made at least some changes to their pension systems since 1990. As a result, the average pension promise in the 16 countries - whose reforms are studied in this report - was cut by 22%. For women, the reduction was 25%. Only in two of the 16 countries – Hungary and the United Kingdom – were there increased pension promises on average.

How will these changes affect different individuals? Some countries – such as France, Portugal and the United Kingdom – are moving towards greater targeting of public pensions on low earners thus bolstering the safety-net. Others – such as Poland and the Slovak Republic – have moved to tighten the link between pension entitlements and earnings, which may put low-earners at a higher risk of poverty. In Germany, Japan, Mexico, Poland and the Slovak Republic, for example, the net pension entitlement for a full-career worker with half average earnings was around 41% of average earnings before reform, slightly below the average for the OECD as a whole. The reforms will cut this to just 32.5%. In contrast, Finland, France, Hungary, Korea, New Zealand and the United Kingdom have protected low-income workers from cuts in benefit in their pension reforms.

The intense reform activity in OECD countries means that today's workers will have to do more on their own to prepare for tomorrow's retirement. In some countries, the savings effort necessary to reach the OECD average replacement rate is substantial, even if workers save throughout their entire career. If young workers miss out on the first 10 or 15 years of their career because of other demands on their budget, reaching a sufficient pension level will become even more difficult. This report illustrates how important it is that workers start saving early and contribute regularly.

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