

### Key results

The retirement-income package is divided into different components using the taxonomy from the indicator of the “Architecture of national pension systems” above. This framework divides pension systems into two mandatory tiers. The first is a redistributive part, designed to ensure pensioners achieve an absolute minimum standard of living. A savings part forms the second, with the aim of achieving a target income in retirement compared with earnings when working. This indicator, showing the division of national pension systems between these tiers and between public and private provision, again demonstrates substantial differences in national policies.

To start with, it is important to note that the calculations cover full-career workers only. This is of particular importance for the first tier because all of the first-tier programmes will be much more important for people with incomplete contribution histories.

There are basic schemes in 14 OECD countries (including Korea and Mexico, where other components of the system have the same effect). The value of these benefits does not depend on individual earnings or other pension entitlements. Mandatory pensions for full-career workers in Ireland and New Zealand are entirely from basic schemes. In Japan, Korea and the United Kingdom, basic pensions contribute over 40% of the total pension promise. They are also significant in Canada, Denmark, Estonia, Israel and the Netherlands.

There are minimum pensions in ten countries. In Belgium and the United Kingdom, minimum pension credits have a similar effect: benefits for workers with low earnings are calculated as if the worker had earned at a higher level. These credits form a very large part of overall benefits in Greece and the United Kingdom.

All OECD countries have a safety-net for low-income pensioners. But in most of them, full-career workers, even those with low earnings, will not be eligible. There are seven exceptions. Australia is most striking because the whole of its first-tier provision is means-tested and this scheme makes up almost 39% of the total pension package. In Canada, Chile and Denmark, they also play a very important role by providing between 17% and 20% of the pension promise, respectively.

The balance between first- and second-tier schemes in the retirement-income package is shown in the upper figure. The second tier accounts for 76% or more in half of OECD countries. In some – Austria, Italy, Poland, Spain and Turkey – this reflects high target replacement rates in the second tier. In others, such as

Switzerland and the United States, the benefit formula of the public scheme is progressive: redistribution done by the first tier in other countries is carried out by second-tier plans. In the United Kingdom, most of the earnings-related plan goes into benefits from minimum credits.

### Second-tier schemes

The second tier of mandatory benefits is divided in the table between public and private providers and between defined-contribution (DC) and defined-benefit (DB) or earnings-related provision. There are public, earnings-related schemes in 25 OECD countries. They provide more than 90% of all benefits for full-career workers in twelve countries: Austria, Belgium, Finland, France, Germany, Hungary, Italy, Portugal, Slovenia, Spain, Turkey and the United States.

In 13 OECD countries, private pensions are mandatory or quasi-mandatory. They are DB in Iceland, the Netherlands and Switzerland, but DC in most cases. In four countries – Australia, Denmark, Israel, and the Netherlands – private pensions account for about 50-60% of the total, mandatory pension package. They are significantly more important in Chile, Iceland and Mexico. The balance between public and private provision of mandatory benefits is shown in the bottom figure. However, it is important to bear in mind that voluntary private pensions (not shown) are significant sources of income in many countries, such as Canada, Ireland, the United Kingdom and the United States.

### Definition and measurement

The structure of the pension package is illustrated using the indicator of weighted average pension wealth presented above, divided into different components. The weights derive from earnings-distribution data.

#### 4.24. Structure of the retirement-income package


Percentage contribution of mandatory components of the pension system to weighted average pension wealth

	First tier			Second tier				Total	First tier			Second tier				Total
	Targeted	Basic	Minimum	Public ER	Public DC	Private DB	Private DC		Targeted	Basic	Minimum	Public ER	Public DC	Private DB	Private DC	
<b>OECD members</b>																
Australia	38.8						61.2	100.0								
Austria				100.0				100.0								
Belgium			2.1 <sup>1</sup>	97.9				100.0								
Canada	17.8	31.7		50.5				100.0								
Chile	17.0						83.0	100.0								
Czech Republic		18.2		81.8				100.0								
Denmark	19.8	25.4					54.8 <sup>2</sup>	100.0								
Estonia		29.4		28.2			42.4	100.0								
Finland			0.5	99.5				100.0								
France				100.0 <sup>3</sup>				100.0								
Germany				100.0				100.0								
Greece <sup>4</sup>			45.0	55.0				100.0								
Hungary				100.0				100.0								
Iceland	2.9	11.9					85.2	100.0								
Ireland		100.0						100.0								
Israel		34.0					66.0	100.0								
Italy				100.0				100.0								
Japan		42.7		57.3				100.0								
Korea		54.1 <sup>5</sup>		45.9				100.0								
Luxembourg		20.2 <sup>6</sup>	1.9	77.9				100.0								
Mexico		11.9 <sup>7</sup>	15.6				72.5	100.0								
Netherlands		36.7					63.3	100.0								
								100.0								
<b>OECD member (cont.)</b>																
New Zealand		100.0						100.0								
Norway								0.7			88.1			11.2	100.0	
Poland											51.1			48.9	100.0	
Portugal											97.2				100.0	
Slovak Republic											57.8			42.2	100.0	
Slovenia		6.3									93.7				100.0	
Spain											100.0				100.0	
Sweden											52.5			44.4 <sup>8</sup>	100.0	
Switzerland											65.4		34.6		100.0	
Turkey											98.9				100.0	
United Kingdom	0.1	51.0	36.4 <sup>9</sup>								12.5				100.0	
United States											100.0				100.0	
<b>Other major economies</b>																
Argentina											30.4			69.6	100.0	
Brazil											100.0				100.0	
China											53.2			46.8	100.0	
India											29.8	70.2			100.0	
Indonesia												100.0			100.0	
Russian Federation											22.8			28.1	100.0	
Saudi Arabia											100.0				100.0	
South Africa											100.0				100.0	

DB = Defined benefit; DC = Defined contribution; ER = Earnings-related.

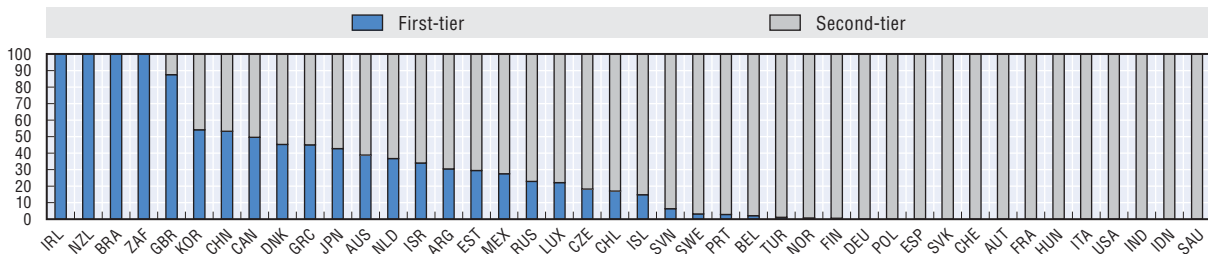
- Belgium: includes both minimum pension and minimum credits.
- Denmark: private DC plans include both quasi-mandatory occupational (49.1%) and the special pension (5.7%).
- France: public pensions include both the state scheme (80.4%) and the complementary, occupational scheme (19.6%).
- Greece: public pension is made up of the main (45.0%) and the supplementary components (55.0%).
- Korea: basic component represents the part of the public pension based on average rather than individual earnings.
- Luxembourg: basic pension also includes the end-of-the-year allowance.
- Mexico: basic component calculated from the flat-rate government contribution to DC accounts of 5% the real minimum wage from 1997.
- Sweden: private DC includes both DC schemes (12.1% and 32.3%).
- United Kingdom: minimum pension relates to minimum credits in public, earnings-related scheme.

Source: OECD pension models.


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#### 4.25. Balance between first-tier, redistributive programmes and mandatory, second-tier, income-replacement schemes

Percentage of weighted average pension wealth

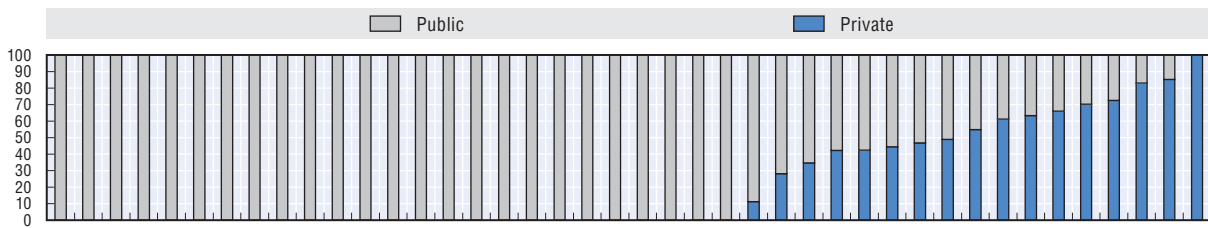


Source: OECD pension models.


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#### 4.26. Balance between public and private provision of mandatory pensions

Percentage of weighted average pension wealth



Source: OECD pension models.

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