Key results

The analysis above has concentrated on showing full-career replacement rates where there has been no period of absence from the labour market. This future gross replacement rate shows the level of pension benefits in retirement from mandatory pension schemes relative to earnings when working. However, many individuals will have interrupted careers because of having children and this indicator shows how this will affect future pension entitlements. Women with average earnings and taking five years out of the labour market to care for two children will have a pension equal to 95% of that for a full-career female worker on average across the 38 OECD countries. Spain offers benefits 5% higher than for the full-career worker, whilst in Australia and Iceland the future benefit is less than 87% of the full-career worker's. For low earners, the impact of such breaks on future pensions is more limited in most countries.

All OECD countries, with the exception of the United States offers credit for periods of maternity, but the analysis presented here covers the period beyond maternity leave, looking specifically at childcare periods. Most OECD countries aim to protect periods of absence from the labour market to care for children. Whilst fathers are becoming increasingly able to access periods of credit the mother is still the primary recipient in many countries and so this analysis has been computed for females only.

Credits for childcare typically cover career breaks until children reach a certain age. They are generally less generous for longer breaks and for older children. Many OECD countries credit time spent caring for very young children (usually up to three or four years old) as insured periods and consider it as paid employment. However, once children are aged six years or older any credit given for this extended period is usually only to determine eligibility for early retirement and the minimum pension. Some countries (the Czech Republic, Greece, Hungary and Luxembourg) factor childcare into assessments of eligibility, but disregard them when computing the earnings base.

The gross pension entitlements of mothers who take time out of employment is illustrated in Figure 5.1 and Figure 5.2 at different earnings levels for breaks from work of five and ten years, respectively. In Spain the benefits are higher with a five-year career break for childcare as a 5% bonus is paid for having two children and would be as high as 15% for four or more children. In the Czech Republic, Ireland, New Zealand and the United States, pensions are not affected by breaks irrespective of earnings. In Ireland the reason is that career breaks to care for children under 12 are considered insured periods up to a maximum of 20 years. Those breaks are therefore excluded from the averaging periods used to compute pension entitlements. In New Zealand, the public pension is simply residence-based, so any period spent out of the labour market does not change the benefits.

In Germany having a child gives one parent a credit of one pension point annually for three years, thereby making it equivalent for pension purposes to earning the average wage throughout the credit period, resulting in a much higher benefit entitlement for low earners. Similarly in Estonia credits are given based on the nationwide average income again resulting in higher benefits for low earners.

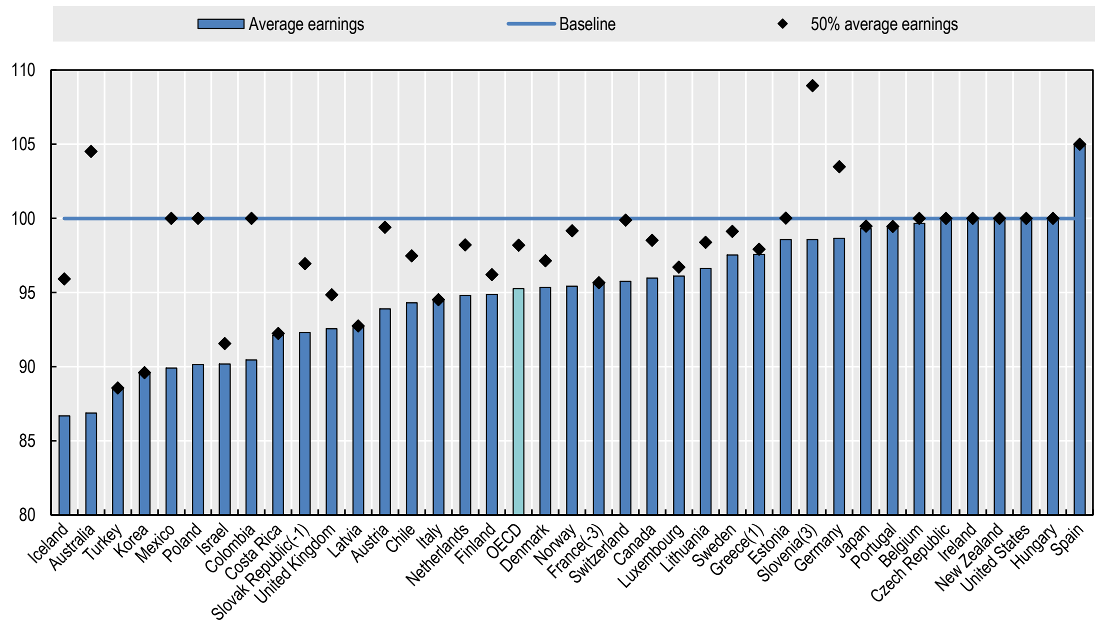
On average, a five-year break lowers future benefit entitlements at the average wage by 5%, which increases to 11% for a ten-year break. The average impact is more limited for low earners at 2% for five-year break and 6% for a ten-year break.

In Greece and Slovenia for both five- and ten-year breaks and in France, Hungary, Luxembourg and Portugal for the ten-year break, workers have to retire later to be entitled to a pension without penalty due the rules governing required contribution periods. In Slovenia, for example, a worker who enters paid employment at 22 but takes ten years out of work will have contributed for less than 40 years at age 62, and will therefore have to work until 65 to be able to retire without penalty. Conversely in France for the five-year break and in the Slovak Republic for both five- and ten-year breaks it is possible to retire earlier due to childcare, by one year in the Slovak Republic in both cases and by three years in France for a five-year career break.

Definition and measurement

The OECD baseline full-career simulation model assumes labour market entry at the age of 22. For the childcare career case, women are assumed to embark on their careers as full-time employees at 22, and to stop working during a break of up to ten years from age 30 to care for their two children born when the mother was aged 30 and 32; they are then assumed to resume full-time work until normal retirement age, which may increase because of the career break. Any increase in retirement age is shown in brackets after the country name on the charts, with the corresponding benefits for the full career worker indexed until this age. The simulations are based on parameters and rules set out in the online "Country Profiles" available at *http://oe.cd/pag*.

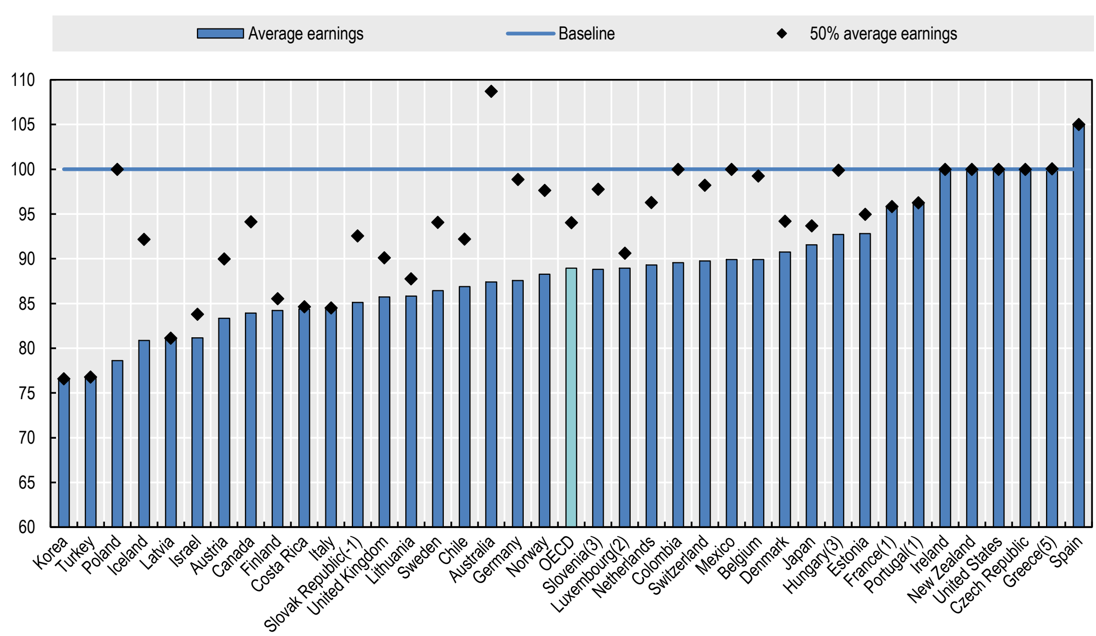
Figure 5.1. **Gross pension entitlements of low and average earners with a five-year childcare break versus worker with an uninterrupted career**



Note: Figure in brackets refers to increase/decrease in retirement age. Individuals enter the labour market at age 22 in 2020. Two children are born in 2028 and 2030 with the career break starting in 2028. Low earners in Colombia, New Zealand, the Slovak Republic and Slovenia are at 66%, 60%, 53% and 55% of average earnings, respectively, to account for the minimum wage level.
Source: OECD pension models.

StatLink https://stat.link/fw3hrg

Figure 5.2. **Gross pension entitlements of low and average earners with a ten-year childcare break versus worker with an uninterrupted career**



Note: Figure in brackets refers to increase/decrease in retirement age. Individuals enter the labour market at age 22 in 2020. Two children are born in 2028 and 2030 with the career break starting in 2028. Low earners in Colombia, New Zealand, the Slovak Republic and Slovenia are at 66%, 60%, 53% and 55% of average earnings, respectively, to account for the minimum wage level.
Source: OECD pension models.

StatLink https://stat.link/rcfhp2

From:

Pensions at a Glance 2021

OECD and G20 Indicators

Access the complete publication at:

https://doi.org/10.1787/ca401ebd-en

Please cite this chapter as:

OECD (2021), “Impact of childcare breaks on pension entitlements”, in *Pensions at a Glance 2021: OECD and G20 Indicators*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/1d812c69-en

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