Key results

Retirement-income regimes are diverse and often involve a number of different programmes. The taxonomy of pensions used here consists of two mandatory "tiers"; the first generates retirement income independent of past earnings level with the second covering earnings-related components. Voluntary provision, be it personal or employer-provided, makes up a third tier.

Figure 3.1 is based on the role of each part of the system. The first tier comprises programmes offering the first layer of social protection in old age, and for which past earnings are irrelevant in the calculation of retirement income. Such schemes often target some absolute, minimum standard of living in retirement. Mandatory earnings-related components (second-tier) contribute to smoothing consumption, and therefore standards of living, between working life and retirement. *Pensions at a Glance* focuses mainly on these mandatory components, although information is also provided on some widespread voluntary, private schemes (third tier).

Table 3.1 shows the architecture of pension systems in OECD countries based on the rules that determine eligibility and benefit level while categorising mandatory earnings-related pensions as public or private in accordance with national accounts. Panel A describes the latest legislation applying to future retirees while Panel B shows where those rules have changed compared to current retirees.

Basic pensions can take two different forms: a residence-based benefit or a benefit that is only available to those who contributed during their career. The level of the benefit may vary with the number of residence or contribution years but is independent of the earnings level during the career. Eight OECD countries have a residence-based basic pension for future retirees while Norway and Sweden are replacing theirs with targeted schemes that involve a means test. Nine OECD countries feature a contribution-based basic pension.

Eligibility for ***targeted*** plans requires meeting some residence criteria. In these plans, the value of the benefit depends on income from other sources and possibly also assets. Hence, poorer pensioners receive higher benefits than better-off retirees. All countries have general safety nets of this type but only those countries are marked in which full-career workers with very low earnings (30% of average) would be entitled. This holds for eight OECD countries, both currently and in the future.

Minimum pensions can refer to either the minimum of a specific contributory scheme, or to all schemes combined and are currently found in 16 OECD countries, with Chile and Italy phasing this scheme out. In most countries, the value of entitlements only takes account of pensions rather than testing for other income. Minimum pensions either define a minimum for total lifetime entitlements, which may increase in level once the length of the contribution period exceeds certain thresholds, or they are based on minimum pension credits that calculate year-by-year entitlements of low earners based on a higher earnings level.

Only Ireland and New Zealand in the OECD do not have mandatory second-tier pensions. In the other countries, there are four kinds of scheme.

For future retirees public pay-as-you-go schemes will follow a general ***defined benefit*** (DB) format in 20 OECD countries, with pension's dependent on the number of years of contributions, accrual rates and individual pensionable earnings. In another eight countries, DB schemes apply to current retirees but they have been closed to new workers (Table 3.1 Panel B). Private occupational DB schemes are mandatory or quasi-mandatory in two OECD countries (the Netherlands and Switzerland).

There are ***points*** schemes in five OECD countries: French occupational plans managed by social partners under pubic supervision and the Estonian, German, Lithuanian and the Slovak public schemes. Workers earn pension points based on their earnings. At retirement, the sum of pension points is multiplied by a pension-point value to convert them into a regular pension payment.

There are ***notional defined contribution*** (NDC) schemes at the core of the pension system in five OECD countries (Italy, Latvia, Norway, Poland and Sweden). In addition, the smaller supplementary component of the pension system in Greece is also NDC. These are pay-as-you-go public schemes with individual accounts that apply a notional rate of return to contributions made, mimicking Funded defined contribution (FDC) plans. The accounts are "notional" in that the balances exist only on the books of the managing institution. At retirement, the accumulated notional capital is converted into a monthly pension using a formula based on life expectancy.

Funded defined contribution (FDC) plans are compulsory for future retirees in 12 OECD countries. In these schemes, contributions flow into an individual account. The accumulation of contributions and investment returns is usually converted into a monthly pension at retirement. In Denmark and Sweden, there are quasi-mandatory, occupational FDC schemes in addition to smaller compulsory public plans.

Figure 3.1. **Taxonomy: Different types of retirement-income provision**

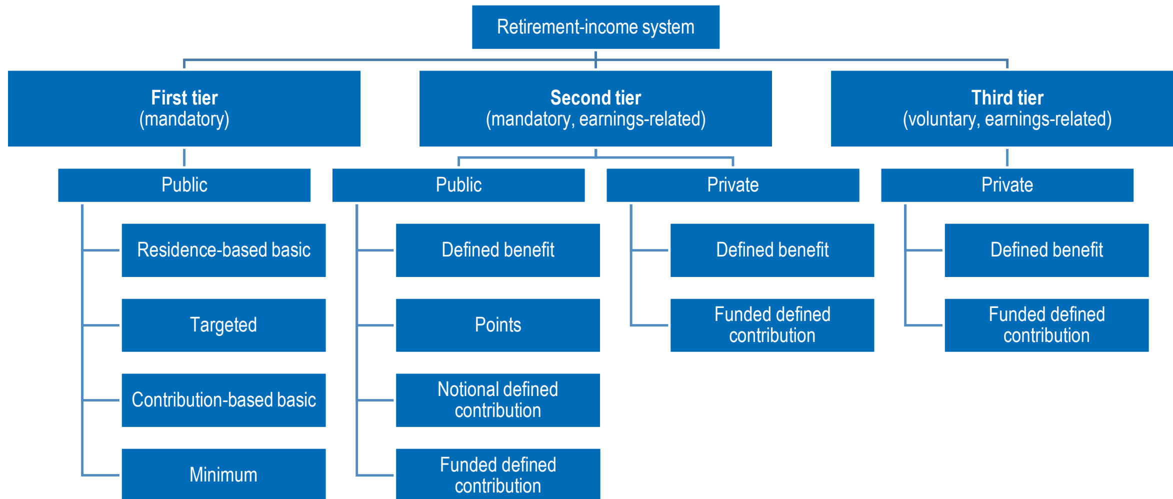

Table 3.1. **Structure of retirement-income provision through mandatory schemes**

	First tier				Second tier			First tier				Second tier	
	Residence-based		Contribution-based					Residence-based		Contribution-based			
	Basic	Targeted	Basic	Minimum	Public	Private		Basic	Targeted	Basic	Minimum	Public	Private
Panel A. Latest legislation (applying to future retirees entering the labour market in 2018 at age 22)													
Australia		✔				FDC	Mexico	✔			✔		FDC
Austria				✔	DB		Netherlands	✔					DB [q]
Belgium				✔	DB		New Zealand	✔					
Canada	✔	✔			DB		Norway		✔			NDC	FDC
Chile		✔				FDC	Poland				✔	NDC	
Colombia				✔	DB	FDC	Portugal				✔	DB	
Costa Rica					DB	FDC	Slovak Republic				✔	Points	
Czech Republic			✔	✔	DB		Slovenia				✔	DB	
Denmark	✔	✔			FDC	FDC [q]	Spain				✔	DB	
Estonia			✔		Points		Sweden		✔			NDC + FDC	FDC [q]
Finland		✔			DB		Switzerland				✔	DB	DB
France				✔	DB + Points		Turkey				✔	DB	
Germany					Points		United Kingdom			✔			FDC [q]
Greece	✔				DB + NDC		United States					DB	
Hungary				✔	DB								
Iceland	✔	✔				FDC [q]							
Ireland			✔				Argentina			✔	✔	DB	
Israel	✔		✔			FDC	Brazil				✔	DB	
Italy					NDC		China				✔	NDC + FDC	
Japan			✔		DB		India				✔	DB + FDC	
Korea			✔		DB		Indonesia				✔	DB + FDC	
Latvia				✔	NDC + FDC		Russian Federation			✔		Points	FDC
Lithuania			✔		Points		Saudi Arabia				✔	DB	
Luxembourg			✔	✔	DB		South Africa		✔				
Panel B. Current legislation where different from Panel A (applying to new retirees in 2020)*													
Chile		✔		✔	DB	FDC	Mexico				✔	DB	
Estonia			✔		DB/Points	FDC	Norway	✔	✔			DB	FDC
Italy				✔	DB + NDC		Poland				✔	DB/NDC	
Latvia				✔	DB/NDC + FDC		United Kingdom			✔		DB	

Note: *Information for non-OECD countries unavailable. A tick for the column "Targeted" is only shown if a full-career worker at 30% of the average wage is eligible. [q] = Quasi-mandatory scheme based on collective agreements with a very high coverage rate, see Chapter 9. DB = Defined benefit, FDC = Funded defined contribution, NDC = Notional defined contribution. The contribution-based basic pension in Israel is a 2% top-up (total maximum 50%) on the residence-based basic pension for each contribution year beyond 10 years. In Switzerland, the government sets contribution rates, minimum rates of return and the annuity rate at which the accumulation is converted into a pension for mandatory occupational plans. This scheme is therefore implicitly defined benefit. In Mexico, the government pays a transfer to the individual private FDC account of a contributing employee every month. In Canada, the basic pension (OAS) is income-tested but only through the tax system ("claw back").
Source: See "Country Profiles" available at *http://oe.cd/pag*.

StatLink *https://stat.link/2xd6uo*

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