

Key Results

The future gross replacement rate shown in Table 5.1 for the average-wage worker assumes that this worker earns the average wage all along her or his career from age 22 in 2018 (baseline case). The indicator here compares those results with an average earner that entered the labour market in 2018 at age 20, the default scenario used in previous editions of the publication. Such a variation in entry age has a small impact on replacement rates, with the average gross replacement rate decreasing from 50.4% to 49.0% when moving the entry age from 20 to 22 years due to the impact of lower entitlements in many countries.

All the analysis in previous editions of this publication have covered those entering the labour market at age 20 and then working a full career until the country-specific retirement age. For this and subsequent editions the new base case is defined with a career entry age of 22. To show the impact of this deferral of labour market entry by 2 years the gross replacement rates for average earners have also been calculated with entry at age 20 and are presented in Table 5.2. As both cases assume labour market entry in 2018, they refer to two different birth cohorts: 1998 (entry at age 20) and 1996 (at age 22).

The expansion of higher education justifies this shift in the baseline scenario. Between 2000 and 2015, the OECD-wide average share of women aged 25 to 64 with high education (levels 5-8 of the 2011 International Standard Classification for Education, ISCED) rose from 21% to 38%. Among men, the increase was from 22% to 32% (OECD, 2017). The average entry age into the labour market has increased over time and is currently above 20 in most if not all OECD countries: data from the latest EU Pension Adequacy Report (European Commission, 2018) show that entry age in the EU is on average 22.8 years and is above 20 in all EU countries (except Denmark where it equals 19.7 years). *Education at a Glance* publishes an indicator of “Expected years in education and at work between ages 15 and 29” in the module “Transition from school to work”. On average across OECD countries, people completed their education at age 22.1 in 2016, which is very close to the average of the 22 EU countries that are OECD Members (22.3).

Changing the entry age for this edition leads to a decrease in the gross replacement rate for average earners of 1.4 percentage points from 50.4% to 49.0%. However the impact varies by country because of the specific design of pension systems. Intuitively one would assume that starting the career two years later would just mean that there are two fewer years of contributions, as is the case for the 30 OECD countries that have the same retirement age for entry at age 20 and entry at age 22 for men (29 countries for women). Yet the impact of two missing years of contributions is not mechanical depending on the exact links between contributions and benefits from all

components. Among these 30 countries, the scale of the fall varies from a high of 4.6 percentage points in Turkey and 3.6 percentage points in Austria to actually increasing by 0.1 percentage point in Canada. In Canada, the full earnings-related pension is achieved after 40 years of contributions so there is no impact of the change; the basic pension is indexed to prices and as the 1996 birth cohort will retire in 2061, i.e. two years earlier than the 1998 cohort, its level relative to wages will be higher as real wages are assumed to grow by 1.25% per year.

Replacement rates in Ireland, New Zealand, Portugal, Spain and the United Kingdom are identical. The maximum replacement rate is obtained in Portugal and Spain after only 40 and 38.5 years, respectively. In Ireland, New Zealand and the United Kingdom there are only basic pensions as the mandatory component and both are indexed to earnings growth, thereby maintaining their value relative to earnings irrespective of the entry age for those with full careers.

In Belgium, France, Germany, Luxembourg and Slovenia the replacement rates are also identical for entry at age 22 and at age 20 as the retirement age for all these four countries also increases by two years given the rules to get a full pension. In both Denmark and Hungary the retirement age changes though only for women in Hungary. In Denmark the age increases by one year for the 1998 cohort (which enters at age 20) because of links to life expectancy, whilst in Hungary the retirement age decreases by two years as women can retire with a full pension after 40 years of contribution.

Further Reading

European Commission (2018), “Pension Adequacy Report 2018; Current and future income adequacy in old age in the EU”, Vol. Publications Office of the European Union, Luxembourg, <https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8084&furtherPubs=yes>.

OECD (2017), *Education at a Glance 2017: OECD Indicators*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/eag-2017-en>.

Table 5.2. Difference in gross pension replacement rates for average earners by entry age

Average earnings for men (women where different)						Difference in pension age	Difference in replacement rates				
Entry at age 22 (base case)				Entry at age 20 (old base case)							
Pension age		Replacement rate		Pension age				Replacement rate			
Australia	67	30.9	(28.1)	67	32.8	(29.8)		-1.9	(-1.7)		
Austria	65	76.5		65	80.1			-3.6			
Belgium	67	46.8		65	46.8		2.0	0.0			
Canada	65	39.0		65	38.9			0.1			
Chile	65	31.2	(28.8)	65	33.3	(30.7)		-2.1	(-1.9)		
Czech Republic	65	45.9		65	47.6			-1.7			
Denmark	74	74.4		75	77.7		-1.0	-3.3			
Estonia	71	47.1		71	49.4			-2.4			
Finland	68	56.5		68	58.8			-2.3			
France	66	60.1		64	60.1		2.0	0.0			
Germany	67	38.7		65	38.7		2.0	0.0			
Greece	62	49.9		62	53.0			-3.1			
Hungary	65	(62)	56.1	(52.2)	65	(60)	58.7	(54.8)	(2.0)	-2.6	(-2.6)
Iceland	67	66.1		67	68.8			-2.7			
Ireland	68	27.0		68	27.0			0.0			
Israel	67	(62)	50.1	(41.8)	67	(62)	52.2	(43.7)		-2.1	(-1.9)
Italy	71	79.5		71	82.7			-3.2			
Japan	65	32.0		65	33.4			-1.4			
Korea	65	37.3		65	39.3			-2.0			
Latvia	65	44.6		65	47.4			-2.8			
Lithuania	65	23.6		65	24.5			-0.9			
Luxembourg	62	78.8		60	78.8		2.0	0.0			
Mexico	65	25.7	(24.0)	65	28.2	(26.4)		-2.6	(-2.4)		
Netherlands	71	70.9		71	72.2			-1.2			
New Zealand	65	39.7		65	39.7			0.0			
Norway	67	45.4		67	47.6			-2.1			
Poland	65	(60)	29.4	(22.5)	65	(60)	30.7	(23.4)		-1.3	(-0.9)
Portugal	68	74.4		68	74.4			0.1			
Slovak Republic	64	49.6		64	52.0			-2.4			
Slovenia	62	38.8	(40.7)	60	38.8	(40.7)	2.0	0.0			
Spain	65	72.3		65	72.3			0.0			
Sweden	65	54.1		65	56.2			-2.1			
Switzerland	65	(64)	42.4	(41.3)	65	(64)	42.9	(41.8)		-0.5	(-0.5)
Turkey	62	(60)	67.4	(64.3)	62	(60)	72.0	(68.9)		-4.6	(-4.6)
United Kingdom	68	21.7		68	21.7			0.0			
United States	67	39.4		67	39.4			0.0			
OECD	66.1	(65.7)	49.0	(48.2)	65.9	(65.4)	50.4	(49.6)		-1.5	(-1.4)
Argentina	65	(60)	71.2	(64.4)	65	(60)	74.0	(67.1)		-2.7	(-2.7)
Brazil	57	(52)	58.9	(46.1)	57	(52)	62.5	(48.8)		-3.6	(-2.7)
China	60	(55)	71.6	(60.8)	60	(55)	76.0	(65.1)		-4.4	(-4.3)
India	58		83.4	(80.4)	58		86.3	(83.0)		-2.9	(-2.6)
Indonesia	65		55.3	(53.0)	65		57.9	(55.5)		-2.6	(-2.5)
Russian Federation	64	(59)	49.6	(45.2)	63	(58)	50.5	(46.1)		-0.9	(-0.9)
Saudi Arabia	47		59.6		45		59.6			0.0	
South Africa	60		17.2		60		17.2			0.0	
EU28	66.3	(65.9)	52.0	(51.7)	66.0	(65.5)	53.4	(53.0)		-1.3	(-1.3)

Source: OECD pension models.

StatLink  <https://doi.org/10.1787/888934041459>



From:
Pensions at a Glance 2019
OECD and G20 Indicators

Access the complete publication at:

<https://doi.org/10.1787/b6d3dcfc-en>

Please cite this chapter as:

OECD (2019), “Gross pension replacement rates for different entry age”, in *Pensions at a Glance 2019: OECD and G20 Indicators*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/4e2ce4f2-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.