

### 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 4.1 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 4.1 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. Seven 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 nine 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 17 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 second-tier pensions, with the United Kingdom also phasing it out. In the other countries, there are four kinds of scheme.

Public pay-as-you-go schemes will follow **defined benefit** (DB) rules for future retirees in 17 OECD countries. In another 10 countries, they apply to current retirees but have been replaced due to financial sustainability issues. Private occupational DB schemes are mandatory or quasi-mandatory in three OECD countries (Iceland, the Netherlands and Switzerland). Retirement income depends on the number of years of contributions, accrual rates and individual pensionable earnings.

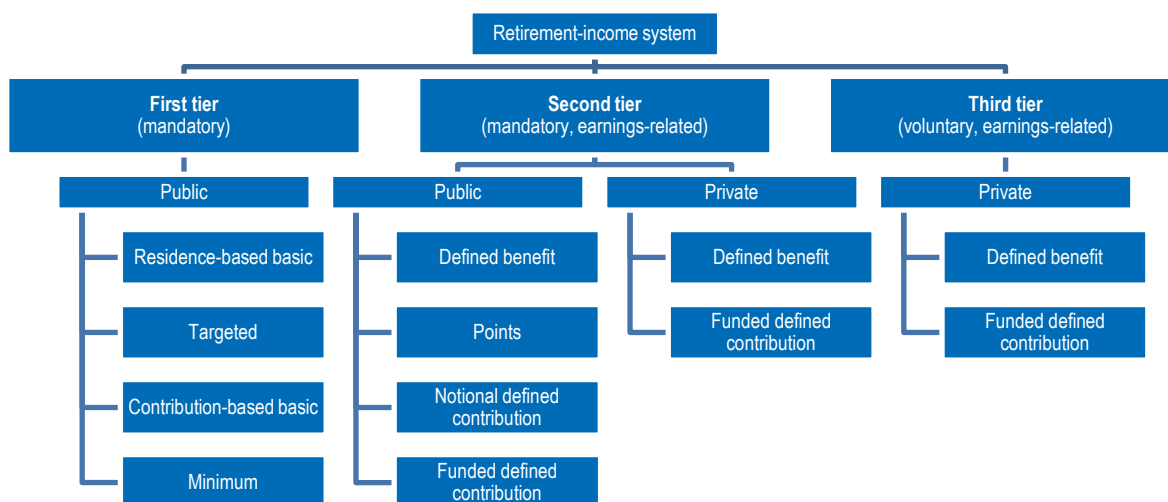
There are **points** schemes in five OECD countries: French occupational plans managed by social partners under public supervision and the Estonian, German, Lithuanian and Slovak public schemes. Workers earn pension points based on their earnings. At retirement, the sum of pension points is multiplied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

**Funded defined contribution** (FDC) plans are compulsory for future retirees in nine 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.

There are **notional defined contribution** (NDC) schemes in five OECD countries (Italy, Latvia, Norway, Poland and Sweden). These are pay-as-you-go public schemes with individual accounts that apply a notional rate of return to contributions made, mimicking 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. NDC schemes are a comparatively new development (OECD, 2019).

### Further Reading

OECD (2019), Will Future Pensioners Work for Longer and Retire on Less? Policy Brief on Pensions, July 2017, OECD Publishing, Paris, <https://www.oecd.org/pensions/public-pensions/OECD-Policy-Brief-Future-Pensioners-2019.pdf>.

Figure 4.1. **Taxonomy: Different types of retirement-income provision**Table 4.1. **Structure of retirement-income provision through mandatory schemes**

| 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     | Netherlands             | ✓        |                    |         |              | DB [q]  |
| Austria  |          |                    | ✓       | DB           |         | New Zealand             | ✓        |                    |         |              |         |
| Belgium  |          |                    | ✓       | DB           |         | Norway                  |          | ✓                  |         | NDC          | FDC     |
| Canada   | ✓        |                    |         | DB           |         | Poland                  |          |                    | ✓       | NDC          |         |
| Chile  | ✓        |                    |         |              | FDC     | Portugal                |          |                    | ✓       | DB           |         |
| Czech Republic   |          | ✓                  | ✓       | DB           |         | Slovak Republic         |          |                    | ✓       | Points       |         |
| Denmark  | ✓        | ✓                  |         | FDC          | FDC [q] | Slovenia                |          |                    | ✓       | DB           |         |
| Estonia  |          | ✓                  |         | Points       | FDC     | Spain                   |          |                    | ✓       | DB           |         |
| Finland  | ✓        |                    |         | DB           |         | Sweden                  |          | ✓                  |         | NDC + FDC    | FDC [q] |
| France   |          |                    | ✓       | DB + Points  |         | Switzerland             |          |                    | ✓       | DB           | DB      |
| Germany  |          | ✓                  |         | Points       |         | Turkey                  |          |                    | ✓       | DB           |         |
| Greece   | ✓        |                    |         | DB           |         | United Kingdom          |          | ✓                  |         |              |         |
| Hungary  |          |                    | ✓       | DB           |         | United States           |          |                    |         | DB           |         |
| Iceland  | ✓        | ✓                  |         |              | DB [q]  |                         |          |                    |         |              |         |
| Ireland  |          | ✓                  |         |              |         | Remaining G20 countries |          |                    |         |              |         |
| Israel   | ✓        | ✓                  |         |              | FDC     | Argentina               |          | ✓                  | ✓       | DB           |         |
| Italy  |          |                    |         | NDC          |         | Brazil                  |          |                    | ✓       | DB           |         |
| Japan  |          | ✓                  |         | DB           |         | China                   |          |                    | ✓       | NDC + FDC    |         |
| Korea  |          | ✓                  |         | DB           |         | India                   |          |                    | ✓       | DB + FDC     |         |
| Latvia   |          |                    | ✓       | NDC + FDC    |         | Indonesia               |          |                    | ✓       | DB + FDC     |         |
| Lithuania  |          | ✓                  |         | Points       |         | Russian Federation      |          | ✓                  |         | Points       | FDC     |
| Luxembourg   |          | ✓                  | ✓       | DB           |         | Saudi Arabia            |          |                    | ✓       | DB           |         |
| Mexico   |          |                    | ✓       |              | FDC     | South Africa            |          | ✓                  |         |              |         |
| Panel B. Current legislation where different from Panel A (applying to new retirees in 2018) *         |          |                    |         |              |         |                         |          |                    |         |              |         |
| Chile  | ✓        |                    | ✓       | DB           | FDC     | Mexico                  |          |                    | ✓       | DB           |         |
| Estonia  |          | ✓                  |         | DB/Points    | FDC     | Norway                  | ✓        | ✓                  |         | DB           | FDC     |
| Italy  |          |                    | ✓       | DB + NDC     |         | Poland                  |          |                    | ✓       | DB/NDC       |         |
| Latvia   |          |                    | ✓       | DB/NDC + FDC |         | Sweden                  | ✓        | ✓                  |         | DB/NDC + FDC | FDC [q] |
| Lithuania  |          | ✓                  |         | DB/Points    |         | 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 Iceland and 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. These schemes are 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/pap>.



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