

Key results

For average earners, the net replacement rate across the LAC averages 66%, which is 4 percentage points higher than the gross replacement rate. This reflects the higher taxes and contributions that people paid on their earnings when working than they pay on their pensions in retirement. Net replacement rates again vary across a large range, from under 24% in the Dominican Republic to well over 100% in Ecuador and Paraguay for average earners.

For low earners (with half of mean earnings), the average net replacement rate across LAC countries is 76%. For high earners (300% of mean earnings) the average net replacement rate is 57%, lower than for low earners. As with gross replacement rates, the differences with earnings reflect progressive features of pension systems, such as minimum benefits and ceilings on pensionable earnings.

The previous indicator of the “Tax treatment of pensions and pensioners” showed the important role that the personal tax and social security contribution systems play in old-age income support. Pensioners often do not pay social security contributions and receive preferential treatment under the income tax. Progressivity of income taxes coupled with gross replacement rates of less than 100% also mean that pensioners pay less in income tax than workers. As a result, net replacement rates are usually higher than gross replacement rates.

For average earners, the pattern of replacement rates across countries is very similar to that for the gross replacement rate. In many countries there is either no income tax liability at any earnings level or the threshold means that it does not apply to average earners. Also pensioners are even more unlikely to have to pay tax than those of working age. Therefore for those countries where replacement rates are relatively low, people tend to pay much less in income tax when retired than they did when working. The liability to social security contributions is also greatly reduced, if not removed entirely. Specifically pensioners are certainly not going to have to pay contributions from their income towards pensions and unemployment but other social security payments are also usually at a lower rate.

Within the LAC region there is considerable variation between countries at average earnings level, with Ecuador, Nicaragua, Paraguay and Venezuela either above or very close to a 100% replacement rate. Conversely the Dominican Republic, Haiti, Mexico and Suriname all have replacement rates under 33%.

For low-earners, the effect of taxes and contributions on net replacement rates is more muted than for workers higher up the earnings scale. This is because low-income workers typically pay less in taxes and contributions than those on average earnings. In many cases, their retirement incomes are below the

level of the standard reliefs in the personal income tax (allowances, credits, etc.). Thus, they are often unable to benefit fully from additional concessions granted to pensions or pensioners under the personal income tax.

The difference between gross and net replacement rates for low earners is 4 percentage points on average. Argentina, Peru and Uruguay have much higher replacement rates for low earners measure on a net basis than in gross terms.

The net replacement rate for workers earning 200% of the average is highest in Ecuador and Paraguay, both still above 100%. The lowest replacement rates are found in the Dominican Republic, El Salvador and particularly Suriname. In all countries, workers earning 200% of the average will receive pensions that amount to well below one-third of their net earnings when working.

For the highest earners, at 300% of the average, the highest net replacement rates are again in Ecuador and Paraguay. The number of countries with replacement rates below one-third has increased compared to those earning 200% of the average. As well as the Dominican Republic, El Salvador and Suriname, as above, the Bahamas, Mexico and Peru can also be included, with Bolivia and Haiti just above this level.

Definition and measurement


The net replacement rate is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking account of personal income taxes and social security contributions paid by workers and pensioners. Otherwise, the definition and measurement of the net replacement rates are the same as for the gross replacement rate (see the previous indicator).

Details of the rules that national tax systems apply to pensioners can be found in the country profiles.

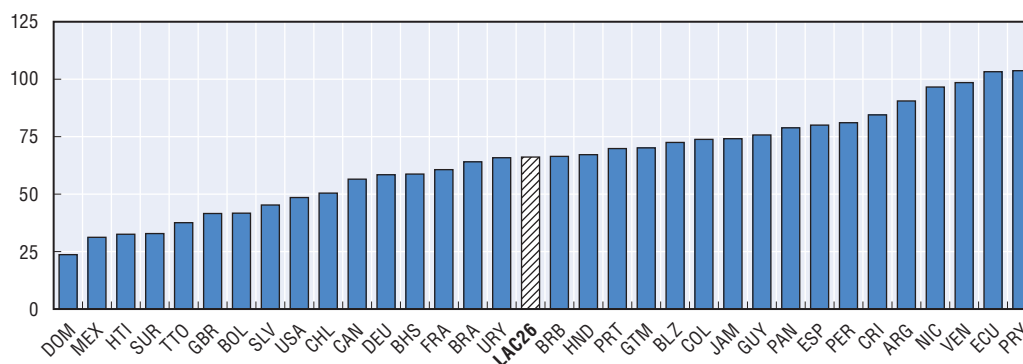
3.8. Net pension replacement rates by earning

	Individual earnings, multiple of mean for men (women where different)								
	0.5	1.0	2.0	3.0		0.5	1	2	3
Argentina	104.6 (96.1)	90.6 (82.1)	89.6 (81.4)	83.3 (76.1)	Nicaragua	94.2	96.6	76.7	77.8
Bahamas	58.8	58.8	34.5	22.8	Panama	79.1 (73.4)	78.8 (73.2)	84.1 (78.1)	89.1 (82.7)
Barbados	66.2	66.5	60.5	42.5	Paraguay	104.1	103.8	105.6	105.8
Belize	76.3	72.5	59.4	41.6	Peru (DB)	88.3	81.1	40.6	28.5
Bolivia	36.4	41.7	36.0	33.9	Suriname	62.6	32.8	18.6	13.3
Brazil	61.1 (55.7)	64.1 (58.4)	72.8 (66.4)	64.3 (58.7)	Trinidad and Tobago	68.3	37.6	43.8	42.5
Chile	69.2 (58.3)	50.5 (39.6)	46.3 (31)	47.3 (31)	Uruguay	67.7	65.9	75.2	86.2
Colombia (DB)	102.7	73.8 (66.8)	75.3 (68.2)	75.8 (68.6)	Venezuela	143.7 (138.8)	98.5 (93.6)	75.4 (70.5)	67.8 (63.1)
Costa Rica	90.3	84.5	86.0	87.4	LAC26	76.4 (74.9)	66.2 (64.4)	60.9 (58.6)	57.3 (55)
Dominican Republic	23.2	23.7	24.2	25.6					
Ecuador	102.8	103.3	103.6	105.3	OECD countries				
El Salvador	85.4	45.2	30.1 (23.9)	30.6 (23.4)	Canada	94.8	56.5	31.4	22.6
Guatemala	69.9	70.1	72.2	75.7	France	64.6	60.7	48.9	44.2
Guyana	72.0	75.7	74.4	59.4	Germany	56.3	58.5	45.3	30.6
Haiti	31.8	32.5	33.8	33.7	Portugal	71.0	69.8	71.8	69.4
Honduras	67.0 (62.8)	67.1 (62.9)	66.0 (61.9)	65.6 (61.5)	Spain	79.3	80.1	63.9	45.3
Jamaica	103.9	74.1	67.1	52.6	United Kingdom	70.2	41.6	23.7	16.6
Mexico	58.0	31.2 (30.3)	32.1 (29.2)	32.4 (29.4)	United States	59.7	48.5	38.9	28.9

Source: OECD pension models.

StatLink  <http://dx.doi.org/10.1787/888933161925>

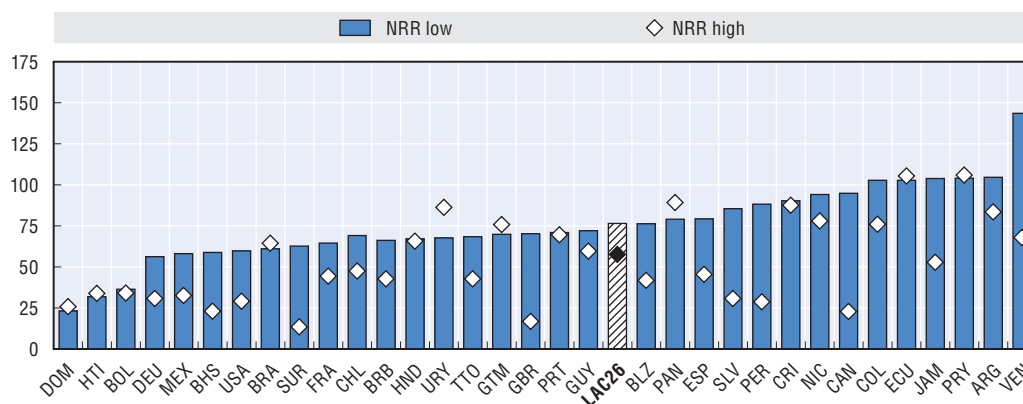
3.9. Net pension replacement rates: Average earners




Source: OECD pension models.

StatLink  <http://dx.doi.org/10.1787/888933161491>

3.10. Net pension replacement rates: Low and high earners



Source: OECD pension models.

StatLink  <http://dx.doi.org/10.1787/888933161502>



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