

Key results

Pension wealth measures the total value of the lifetime flow of retirement incomes. For male average earners, pension wealth in the region is, on average, 12.0 times annual earnings. The figure is higher for women – 13.7 times individual earnings – because of their longer life expectancy.

Replacement rates give an indication of the pension promise, but they are not comprehensive measures; they look only at benefit level at the point of retirement. For a full picture, life expectancy, retirement age and indexation of pensions must also be taken into account. Together, these determine for how long the pension benefit is paid, and how its value evolves over time. Pension wealth – a measure of the stock of future flows of pension benefits – takes account of these factors. It can be thought of as the lump sum needed to buy an annuity giving the same flow of pension payments as that promised by mandatory retirement-income schemes.

Gross pension wealth for men is highest in Ecuador at average earnings level, followed by Nicaragua. Pension wealth in Ecuador averages 23.2 times earnings for average earners, nearly double the LAC26 figure of 12.0 times earnings. Pension wealth for average earners is lowest in the Dominican Republic and Mexico, due to relatively low replacement rates.

Higher replacement rates mean that pension wealth tends to be higher for low earners than for average earners. For men with half-average earnings, pension wealth is 13.9 times individual earnings on average, compared with 12.0 times for people with average earnings. Similarly, for women with low earnings, pension wealth of 16.1 compares with 13.7 times individual earnings for average earners. For men, in the three countries where pension wealth for low earners is highest (Ecuador, Nicaragua and Venezuela), its value is between 22 to 25 times individual earnings.

For the very high earners, at three times the average wage, the pension promise is naturally lower than for average earners, at 10.1 for men and 11.4 for women. There is even more variation at this earnings level as for men Ecuador is still highest at 23.2 reflecting the lack of a ceiling to pensions, whilst Suriname is at only 2.1 due to the flat rate benefit that is paid to all.

Impact of life expectancy

In countries with shorter life expectancies, such as Bolivia, Guyana and Haiti, the expected duration of retirement is shorter, and so, other things equal, the pension promise becomes more affordable. The effect is the reverse in Chile, Costa Rica and Uruguay, where life expectancies are high. Unlike measures of replacement rates, the link between affordability and life expectancy is captured by the pension-wealth indicator.

Similarly, since women's life expectancy is longer than men's, pension wealth for women is relatively higher in all countries. This is simply because pension benefits can be expected to be paid over a longer retirement period. Also, some countries still have lower retirement ages for women; this extends the payment period even further.

Impact of indexation

Pension wealth is also affected by indexation rules. If pensions are indexed to wage growth then the impact on pension wealth figures will generally be greater than if price indexation, or a combination of the two were used. This of course assumes that earnings tend to grow faster than prices, so that pension wealth is higher with these more generous indexation procedures than with price indexation.

Different indexation policies also affect the pension wealth of women relative to men. Women's longer life expectancy means that they tend to benefit more from more generous indexation procedures (above price inflation, for example).

Definition and measurement

The calculation of pension wealth uses a uniform discount rate of 2%. Since the comparisons refer to prospective pension entitlements, the calculations use country-specific mortality rates by age and sex projected for the year 2055. Pension wealth is expressed as a multiple of gross annual individual earnings.

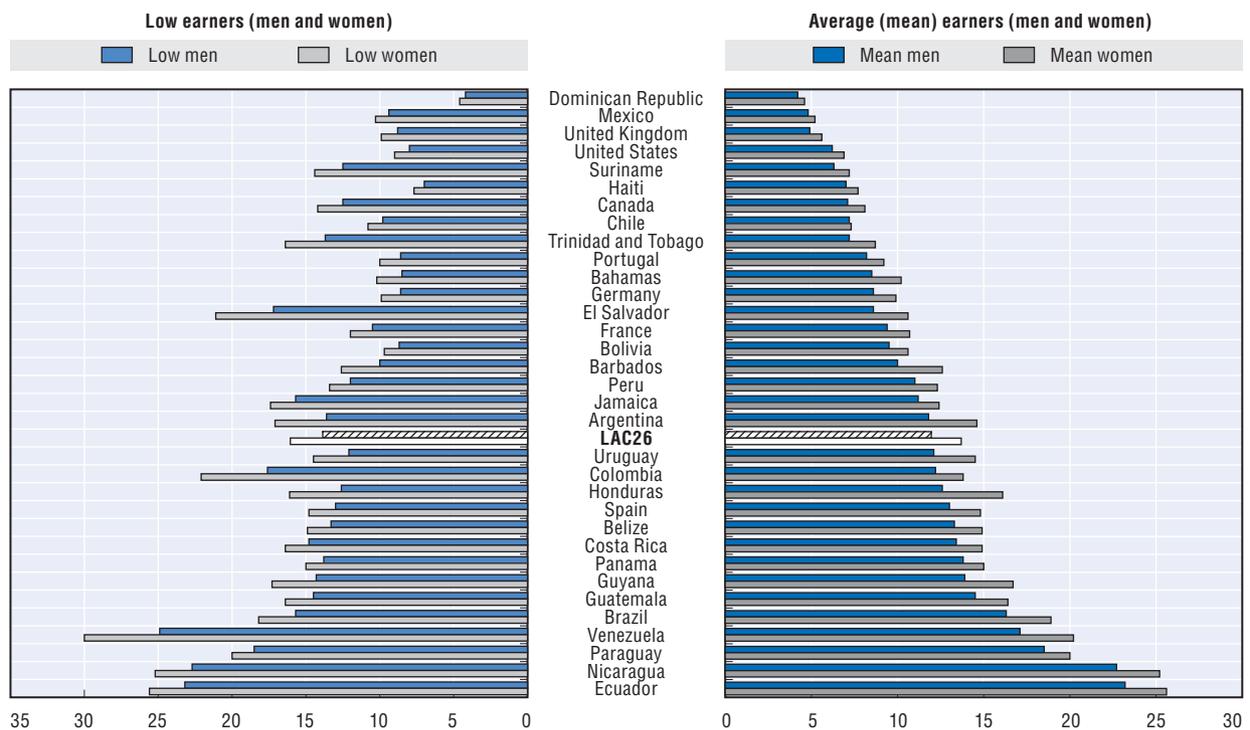
3.11. Gross pension wealth by earnings

	Individual earnings, multiple of mean								Individual earnings, multiple of mean																							
	0.5				1.0				2.0				3.0				0.5				1.0				2.0				3.0			
	Men				Women				Men				Women				Men				Women											
Argentina	13.6	11.8	10.8	10.5	17.1	14.6	13.4	13.0	Nicaragua	22.7	22.7	18.1	18.1	25.2	25.2	20.2	20.2															
Bahamas	8.5	8.5	5.1	3.4	10.2	10.2	6.1	4.1	Panama	13.8	13.8	13.8	13.8	15.0	15.0	15.0	15.0															
Barbados	10.0	10.0	8.4	5.6	12.6	12.6	10.6	7.0	Paraguay	18.5	18.5	18.5	18.5	20.0	20.0	20.0	20.0															
Belize	13.3	13.3	11.2	7.4	14.9	14.9	12.4	8.3	Peru (DB)	12.0	11.0	5.5	3.7	13.4	12.3	6.2	4.1															
Bolivia	8.7	9.5	7.9	7.3	9.7	10.6	8.8	8.2	Suriname	12.5	6.3	3.1	2.1	14.4	7.2	3.6	2.4															
Brazil	15.7	16.3	17.5	14.7	18.2	18.9	20.3	17.0	Trinidad and Tobago	13.7	7.2	7.6	7.6	16.4	8.7	9.1	9.1															
Chile	9.8	7.2	6.4	6.4	10.8	7.3	5.6	5.5	Uruguay	12.1	12.1	14.1	16.0	14.5	14.5	16.8	19.0															
Colombia (DB)	17.6	12.2	12.2	12.2	22.1	13.8	13.8	13.8	Venezuela	24.9	17.1	13.1	11.8	30.0	20.2	15.3	13.7															
Costa Rica	14.8	13.4	13.4	13.4	16.4	14.9	14.9	14.9	LAC26	13.9	12.0	10.8	10.1	16.1	13.7	12.3	11.4															
Dominican Republic	4.2	4.2	4.2	4.2	4.6	4.6	4.6	4.6	OECD countries																							
Ecuador	23.2	23.2	23.2	23.2	25.6	25.6	25.6	25.6	Canada	12.5	7.1	3.6	2.4	14.2	8.1	4.1	2.7															
El Salvador	17.2	8.6	5.4	5.4	21.1	10.6	5.3	5.0	France	10.5	9.4	7.1	6.3	12.0	10.7	8.1	7.2															
Guatemala	14.5	14.5	14.5	14.5	16.4	16.4	16.4	16.4	Germany	8.6	8.6	6.7	4.5	9.9	9.9	7.7	5.1															
Guyana	14.3	13.9	13.9	10.9	17.3	16.7	16.7	13.1	Portugal	8.6	8.2	8.0	7.9	10.0	9.2	9.0	8.9															
Haiti	7.0	7.0	7.0	7.0	7.7	7.7	7.7	7.7	Spain	13.0	13.0	10.1	6.7	14.8	14.8	11.5	7.6															
Honduras	12.6	12.6	12.6	12.6	16.1	16.1	16.1	16.1	United Kingdom	8.8	4.9	2.6	1.7	9.9	5.6	2.9	1.9															
Jamaica	15.7	11.2	9.0	6.7	17.4	12.4	9.9	7.4	United States	8.0	6.2	4.6	3.3	9.0	6.9	5.1	3.7															
Mexico	9.4	4.8	4.5	4.4	10.3	5.2	4.5	4.4																								

Source: OECD pension models.

StatLink  <http://dx.doi.org/10.1787/888933161934>

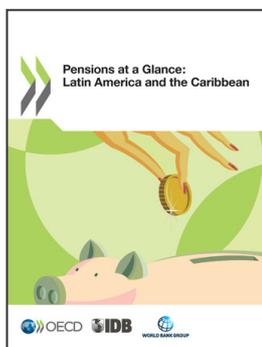
3.12. Gross pension wealth by earnings and sex



Note: Countries are ranked in order of gross pension replacement rates (GRR) of average earners, i.e. mean GRR in the chart.

Source: OECD pension models.

StatLink  <http://dx.doi.org/10.1787/888933161517>



From:
Pensions at a Glance
Latin America and the Caribbean

Access the complete publication at:
https://doi.org/10.1787/pension_glance-2014-en

Please cite this chapter as:

OECD/Inter-American Development Bank/The World Bank (2014), “Gross pension wealth”, in *Pensions at a Glance: Latin America and the Caribbean*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264224964-14-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 and any 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.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.