Key results

In some countries, such as Ecuador, Panama and Paraguay, there is a very strong link between pension entitlements and pre-retirement earnings. In contrast, flat-rate benefits in Suriname mean that there is no link between pension and earnings.

The charts show relative pension levels on the vertical axis and individual pre-retirement earnings on the horizontal. A flat curve in the charts shows no relationship between pension and earnings, while a linear increasing function means the link is strong.

Countries have been grouped by the degree to which pension benefits are related (or not) to individual pre-retirement earnings.

Panel A shows just one country where there is no link between pension entitlements and pre-retirement earnings. In Suriname there is a flat rate payment based on residency requirements rather than having any direct link to the past career. Therefore the graph is flat and is the same across all the earnings levels with no direct link.

At the other end of the spectrum for the LAC region lie about 14 countries with a very strong link between pension entitlements and pre-retirement earnings (Panels D and E). In all of the countries contained in these two charts there are no ceilings on pensionable earnings at twice the average. Therefore as the earnings increase the future pension entitlement increases proportionally. The difference in gradients represents the difference in accrual rate for each additional period of contribution in a defined-benefit scheme or the contribution for a defined-contribution scheme.

In some cases the lowest earners are entitled to a minimum pension but these tend to pass once earnings are slightly above the 50% of average level. In many of these countries the upward trend would continue as the earnings levels increase as again there is no ceiling that would apply. This can be seen more in the gross replacement rate indicator discussed previously.

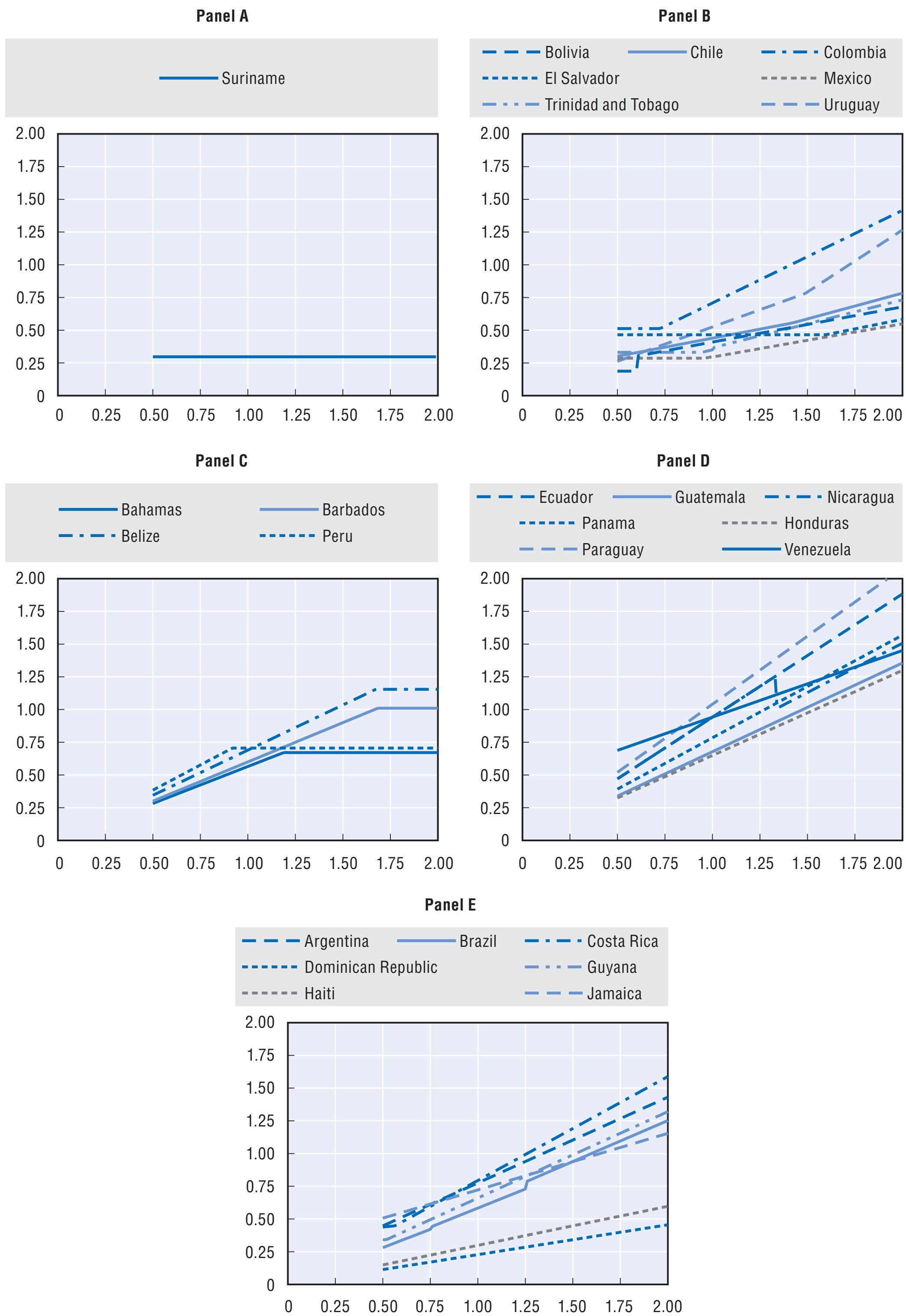
Perhaps the most interesting group of countries are covered in Panel B and Panel C. The countries have been split into two distinct groups depending on the structure of the pension system in place.

Panel B generally includes those countries that have a reasonably high level of minimum pension but thereafter there is a clear link between earnings and future pension entitlement. For example in El Salvador the minimum pension is at such a level relative to average earnings that those earning up to about 160% of the average are still entitled. After this level of earnings then the pension increases proportionally to the earnings level as the pension is defined contribution with a ceiling well above twice the average. At the other end of the spectrum in Colombia the minimum pension would be paid to those up to about 70% of average earnings under a defined-benefit approach. Above this earnings level there is a standard defined-benefit formula with additional accrual increases for each year of contribution.

The remaining countries in Panel C follow the reverse pattern to those included in Panel B. In this sense there is a clear link to earnings at the lower end of the pay scale but then there is a ceiling to contributions or there is a maximum pension in place. The value of this maximum pension in relation to earnings level clearly affects the point at which the graph flattens. More countries would be included here if we expanded the earnings level beyond two times the average as discussed above. In both Barbados and Belize the ceiling comes into effect at approximately 170% of average earnings whereas in the Bahamas it is at 120% of average earnings and at only 90% of average for Peru.

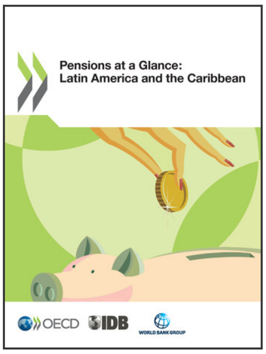
3.15. The link between pre-retirement earnings and pension entitlements

Gross pension entitlements as a proportion of economy-wide average earnings



Source: OECD pension models.

StatLink http://dx.doi.org/10.1787/888933161539



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