

Key results

The retirement-income package is divided into different components. The first is a redistributive part, designed to ensure pensioners achieve an absolute minimum standard of living. A savings part forms the second, with the aim of achieving a target income in retirement compared with earnings when working. This indicator, showing the division of national pension systems between these tiers and between public and private provision, again demonstrates substantial differences in national policies.

Starting with the first tier, it is important to note that the calculations cover full-career workers only. All of the first-tier programmes will be much more important for people with incomplete contribution histories. But it is hard to obtain information on the distribution of past contribution histories let alone predict them into the future.

There are basic schemes in five LAC countries. The value of these benefits does not depend on individual earnings or other pension entitlements. Mandatory pensions for full-career workers in Suriname are entirely from a basic scheme. In Bolivia and Jamaica basic pensions contribute 43-44% of the total pension promise. The levels in Argentina and Mexico are slightly lower at 17% and 12% respectively.

For full career workers there is a minimum pension in only one LAC country, Mexico, accounting for 15% of the total pension. Most LAC countries have a safety-net for low-income pensioners. But in most of them, full-career workers, even those with low earnings, will not be eligible. There is one exception, Chile, providing 17% of the pension promise.

The balance between first- and second-tier schemes in the retirement-income package is shown in the top chart. The second tier accounts for 82% or more in all but five LAC countries. In many cases, this reflects high target replacement rates in the second tier. In others, the benefit formula of the public scheme is progressive: redistribution done by the first tier in other countries is carried out by second-tier plans.

Second-tier schemes

The second tier of mandatory benefits is divided in the table between public and private providers and between defined-contribution (DC) and defined-benefit (DB) or earnings-related provision. There are public, earnings-related schemes in 23 LAC countries. The exceptions are Chile and Mexico which have private defined-contribution schemes and Suriname which only has a basic scheme. For the 23 countries they provide all of the benefits for full-career workers in 18 of the countries, with the exceptions being Argentina, Bolivia, Costa Rica, Jamaica and Uruguay.

Six countries – Chile, Costa Rica, Dominican Republic, El Salvador, Mexico and Uruguay – mandate participation in privately managed, defined-contribution schemes. In addition, a significant share of workers in Colombia and Peru exercise the option to contribute to privately managed, DC schemes, although they have the option to choose a public, DB scheme. The proportion of the benefits generated by the DC component of the system varies widely. For example, in Chile and Mexico, the simulation shows that 83 and 72% of the pension is generated by the DC component while the same figure for Costa Rica and Uruguay is 19 and 3%, respectively.

Definition and measurement

The structure of the pension package is illustrated using the indicator of weighted average pension wealth presented above, divided into different components. The weights derive from earnings-distribution data.


3.18. Structure of the retirement-income package

Percentage contribution of mandatory components of the pension system to weighted average pension wealth

	First tier			Second tier				Total		First tier			Second tier				Total
	Resource -tested	Basic	Minimum	Public ER	Public DC	Private DB	Private DC			Resource -tested	Basic	Minimum	Public ER	Public DC	Private DB	Private DC	
Argentina	17.4			82.6				100.0	Nicaragua				100.0				100.0
Bahamas				100.0				100.0	Panama				100.0				100.0
Barbados				100.0				100.0	Paraguay				100.0				100.0
Belize				100.0				100.0	Peru				100.0				100.0
Bolivia	43.2			56.8				100.0	Suriname	100.0							100.0
Brazil				100.0				100.0	Trinidad and Tobago				100.0				100.0
Chile	17.1						82.9	100.0	Uruguay				97.4			2.6	100.0
Colombia				100.0				100.0	Venezuela				100.0				100.0
Costa Rica				80.7			19.3	100.0	OECD countries								
Dominican Republic					100.0			100.0	Canada	15.8	32.9		51.3				100.0
Ecuador				100.0				100.0	France				100.0				100.0
El Salvador					100.0			100.0	Germany				100.0				100.0
Guatemala				100.0				100.0	Portugal			0.7	99.3				100.0
Guyana				100.0				100.0	Spain				100.0				100.0
Haiti				100.0				100.0	United Kingdom	1.7	47.5	38.3	12.5				100.0
Honduras				100.0				100.0	United States				100.0				100.0
Jamaica	43.8			56.2				100.0									
Mexico	12.3	15.3					72.4	100.0									

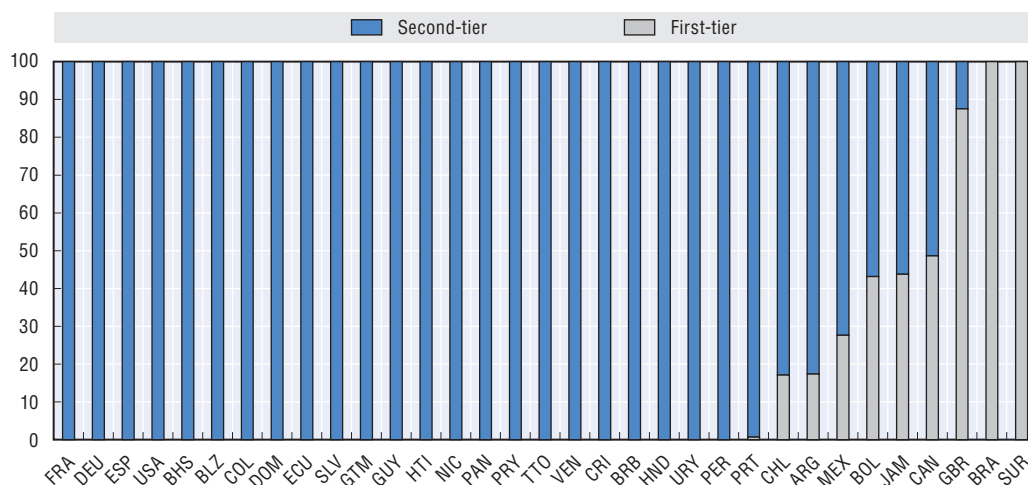
DB = defined benefit; DC = defined contribution; ER = earnings related.

Source: OECD pension models.


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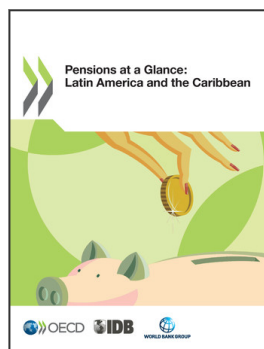
3.19. Balance between first-tier, redistributive programmes and mandatory, second-tier, income-replacement schemes

Percentage of weighted average pension wealth



Source: OECD pension models.

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