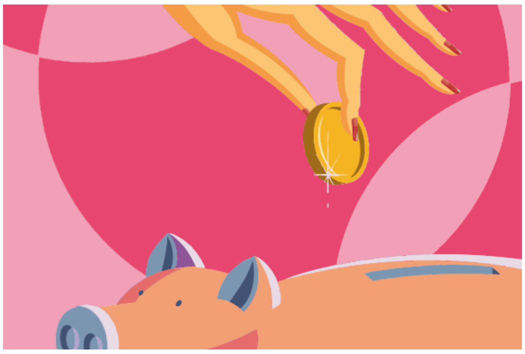


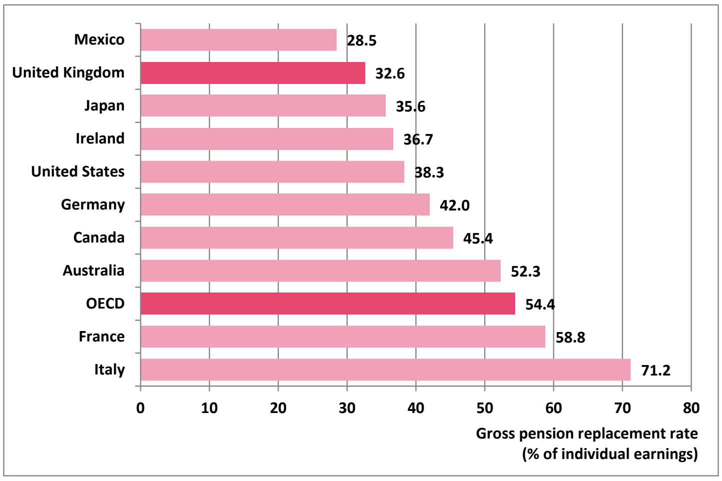
Pensions at a Glance 2013
OECD and G20 Indicators

UNITED KINGDOM

- **Future public pension replacement rates for full career workers in the United Kingdom are amongst the lowest across the OECD, but replacement rates including well-established private pensions are around the OECD average.**
- **Proposed reforms and the introduction of Automatic Enrolment should increase pension adequacy in the long-term.**

With the legislated increases in retirement age to 67 for both men and women expenditure is only expected to increase by 0.5% over the next 40 years to 8.2% of GDP, well below the OECD average of 11.7%. This low level of expenditure reflects the structure of the system which has a low public element in comparison with other OECD countries supplemented by a well-established voluntary private pension component. Under the system that is currently in place full career workers at average earnings can expect a pension replacement rate from the state of 32.6% upon retirement, the second lowest in the OECD behind Mexico and well below the OECD average of 54.4%. Low earners in the UK fair slightly better with a replacement rate of 55.8% compared to the OECD average of 71.0%, ranking the UK sixth from bottom; higher earners can expect 22.5% compared to the OECD average of 48.4% - although most will retire with some form of voluntary provision. Assuming workers contribute 8% of their earnings (the default contribution rate under automatic enrolment) to a private pension scheme the replacement rate increases to the OECD average across all earnings levels.

Pension replacement rates for average earners from mandatory pensions

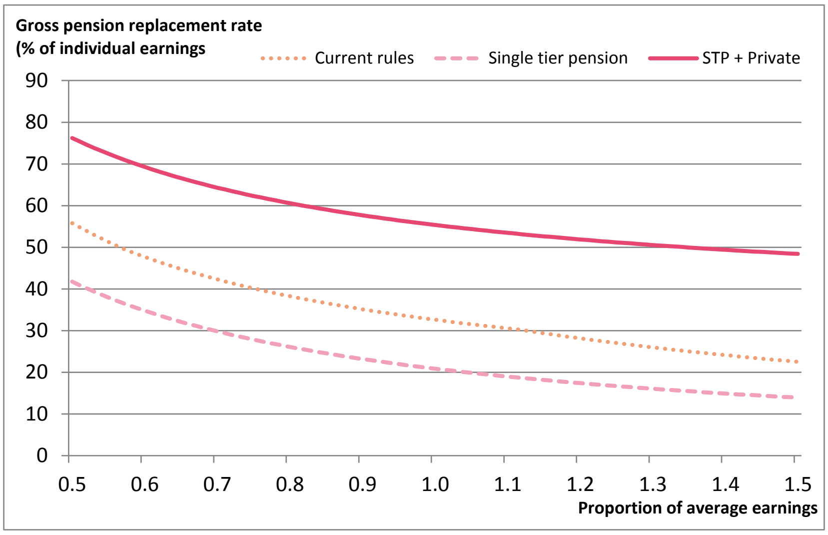


Source: OECD (2013), Pensions at a Glance

Poverty rates of the group aged over 65 in the UK fell from 12.2% to 8.6% between 2007 and 2010. But it is still important to ensure that future incomes will be adequate. Recent proposals for a flat-rate single tier pension (STP) would increase the base payment for a full career worker but overall the replacement rate from the public pension will decline. Using the White Paper assumption of GBP 144 per week, the future replacement rate for average earners would be 21% (on OECD average worker earnings measure, of £36,000). As it is a flat-rate benefit, the replacement rate for low earners would be 42% and for high earners 14%.

In 2012 though, the government introduced the new Automatic Enrolment to encourage individuals to save for their retirement. The scheme is being gradually introduced over six years dependent on employer size. This will complement the already extensive private pension network, which covered over 43% of those aged 15 to 64 in 2011, one of the highest levels in the OECD. Under the standard OECD economic assumptions, full career workers would expect a significant increase in their replacement rates, assuming a contribution level of 8%. Average earners are estimated to reach 55.4%, with low earners at 76.2% and high earners at 48.4% bringing the UK much closer to the OECD average. These calculations assume full careers making complete contribution histories important to avoid the risk of falling into poverty.

Change in replacement rates by career earnings level



Source: OECD pension models

Key indicators

		United Kingdom	OECD
Gross replacement rate	Average earner (%)	32.6	54.4
	Low earner (%)	55.8	71.0
Public spending on pensions	% GDP	6.2	7.8
Life expectancy	At birth	80.4	79.9
	At age 65	19.3	19.1
Population aged 65 and over	% of working-age population	28.9	25.5
Average earnings	GBP	35 900	26 300

Note: replacement rate is pension entitlement from all mandatory sources of retirement income relative to individual earnings. Calculations for a full-career worker entering the labour market in 2012. Low earner is assumed to earn 50% of the average.
Source: OECD (2013), Pensions at a Glance 2013: OECD and G20 Indicators.

Notes to editors:

Pensions at a Glance 2013:
OECD and G20 Indicators

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The report includes pension indicators for the OECD member countries and G20 economies with 2012 pension rules and parameters. There are two special chapters on (i) distributional impact of reforms; (ii) future retirement income adequacy, the role of housing, financial wealth and publicly provided services.

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