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AGEING WORKING PAPERS

Maintaining Prosperity In An Ageing Society: the OECD study on the policy implications of ageing

**WORKING PAPER AWP 3.4**

# RETIREMENT INCOME SYSTEMS: THE REFORM PROCESS ACROSS OECD COUNTRIES

This is one of a series of analytic papers that supported the OECD's horizontal work on ageing. The results of the entire project are summarised in *Maintaining Prosperity in an Ageing Society*, OECD 1998. Chapter V of *Maintaining Prosperity*—on retirement income reforms—drew on this working paper.

Retirement income arrangements in OECD countries are generally quite complex, with the multiple tiers of provision, the rules and regulations attached to both public and private pensions and the interplay between these tiers. This paper seeks to provide an overview of features of the public pension systems (separated into flat-rate and earnings-related schemes), with additional information also provided of private pension and savings arrangements in selected countries. Information on the age at which pensions can be accessed, eligibility requirements, benefit amounts, contribution rates, and the nature of government's financial involvement is provided in some detail..

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# RETIREMENT INCOME SYSTEMS: THE REFORM PROCESS ACROSS OECD COUNTRIES

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## Summary

1. Old-age pensions, and retirement income arrangements more generally, play a significant role in OECD economies to ensure older people have sufficient income to enjoy a sufficient standard of living in retirement. Public pension systems are maturing in many countries and in some instances are providing significant benefits to those entering retirement years. Poverty among those of older ages is becoming less prevalent in the OECD, but still remains a concern for a portion of the retired population.

2. Retirement income arrangements in OECD countries are generally quite complex, with the multiple tiers of provision, the rules and regulations attached to both public and private pensions and the interplay between these tiers. This paper seeks to provide an overview of features of the public pension systems (separated into flat-rate and earnings-related schemes), with additional information also provided of private pension and savings arrangements in selected countries. Information on the age at which pensions can be accessed, eligibility requirements, benefit amounts, contribution rates, and the nature of government's financial involvement is provided in some detail. As an overview, many public pension systems have statutory retirement ages of around 65 years (at least for men), most flat-rate public pensions have residence and/or means testing criteria for benefit eligibility, most do not require contributions and the government generally covers the full cost. By contrast, public earnings-related schemes generally require contributions for at least a minimum period, with the government often responsible for some portion of the costs. In total, the replacement rates generated from these public pension schemes generally far exceed the ILO Convention No. 102 that public old-age pensions have a replacement rate of at least 40 per cent for a couple. Private pension arrangements are being promoted in a number of OECD countries, largely to supplement public pensions, and the general features of arrangements in a number of countries are also outlined.

3. Pension systems are facing a number of economic, demographic and social challenges. This paper highlights a number of these, such as the ageing of the population, the multitude of changes to labour market and family arrangements over the last twenty or more years which are expected to continue to be factors influencing retirement income outcomes and issues, as well as noting the importance of the private wealth of some entering retirement.

4. At the forefront of concerns facing most OECD countries is ensuring the medium and long-term viability of public pension systems, with some countries also concerned with (the related aspect of) the low effective retirement age in their country. Other priority areas which were noted by some countries include the adequacy of pension benefits, improving the coverage of pension arrangements and improving the work incentives inherent in pension systems.

5. Many OECD countries have been active in pursuing pension reform. Changes in benefit rates (including increases in the level of contributions and/or employment history required to generate the same level of benefits) and changes to retirement ages are among the areas where reform has been focused. Many countries are actively reducing or removing their financial incentives for early retirement, although there are some exceptions. More emphasis is being placed on private pension arrangements to diversify arrangements away from public pensions and in some cases supplement low public benefits. Some countries have introduced or extended pension incentives to encourage people to work longer, while others have introduced arrangements to enable workers to phase down their working as they move into retirement. By contrast, other countries discourage old-age pensioners from working while drawing a pension.

6. A common feature of pension reform is that it is often phased in over many years, with a 20 year phase in of programme changes not unusual. For those countries where the demographic ageing peak is anticipated around 2020-30 this is satisfactory, although not all OECD countries have this window of opportunity. Some countries have regular cycles of pension review while others have established review mechanisms to draw upon external expertise as well as try to build public support for reforms. While there is evidence that many countries are responding to challenges which have been identified to date, countries also need to be alert to new and emerging challenges to their retirement income arrangements.

**Introduction**

7. All OECD countries, as well as many other countries, have institutional arrangements in place to provide income for older people in their later years. The mere fact that retirement pensions are available in so many countries, economically developed and developing alike, signals their importance to many communities. When social protection systems emerged in OECD countries, the first element to be introduced as a matter of priority was generally income support arrangements for those who are older. Similarly, development of a stable, adequate and well-functioning system of retirement income has been a priority for social programme reform in eastern European countries moving from command to market economic structures, and in other developing countries seeking to expand their social provisions.

8. There are clear differences in the history of pension development between OECD countries, although there are specific clusters of time around which pension systems were first introduced. Germany, Denmark and New Zealand acted to introduce pension arrangements prior to the 20th Century, and old-age pension systems were operating in a large number of OECD countries prior to World War I. Other countries soon followed, such that by 1950 all but one of the current OECD countries had established pension systems covering at least part of the population. The one exception, the Korean pension system, has been in place since 1988.

9. While all other countries have had pension systems for at least 50 or so years, in many countries, earnings-related and supplementary pension systems were introduced at a later time than flat-rate benefits and/or may have started with only limited industrial coverage. Since the inception of the programs, most of the countries have developed their system by enhancing the amount of benefit and extending the coverage of population, among other items. As a general trend in the member countries, this enhancement of the programs continued until just before the world-wide economies encountered the beginning of stagflation caused by the first oil shock in the early-mid 1970s. Thus, these pension arrangements in total may only now be coming towards the stage of maturation in a number of countries.

10. Old-age pensions are the single largest social security benefit in OECD countries, even in those countries with significant labour market difficulties which have high unemployment benefit expenditures. This reflects the larger number of retirees compared to the unemployed in OECD countries, the long average duration of receipt of old-age pensions, and in some countries the relative generosity of old-age pensions compared to the value of other social security benefits.

11. Old-age pensions are also a significant contributor to economic activity in OECD economies, comprising between six and ten per cent of GDP in most OECD countries. Sudden changes in this level of expenditure could have a significant immediate impact on domestic consumption and economic activity, in addition to the very direct impact on the financial well-being of many older people. To provide a picture of the total magnitude of retirement savings and economic resources which is available for older people, the total value of private pensions and other forms of retirement savings should be added. However, it is nonetheless important to recognise that retirement benefits are not equally distributed among the older population, so that some older people may have a very satisfactory level of income in their later years while other older people may be in poverty.

12. This paper will first seek to outline the rationale and basic structures of old-age pension programmes. Public and private pensions (including employer schemes and voluntary savings schemes) are identified to show the full range of retirement income benefits. Having described the current

programme arrangements in OECD Member countries, some factors which currently impact on pension systems are identified. Population ageing is the most significant factor, but changes in labour market outcomes and family structures are also important. Many OECD countries have identified areas of concern with their current pension systems and the paper will then document recent progress by countries in implementing reform.

**Rationales for pension arrangements**

13. One possible codification of the some potential premises behind the retirement pension arrangements available in so many countries could include the following:

- Those who are no longer able to earn a sufficient livelihood for themselves because they are older and unable to work (because of reduced capacity to work or limited employment opportunities) should receive income assistance - the **social protection or poverty alleviation rationale**;

- Those who have contributed to the economic and social development of the country during their working life should receive economic benefits in retirement from the collective resources of the community - the **reward rationale**;

- There is a long history of care and respect for the elderly in society, partly reflecting the potentially vulnerable economic position they may have in retirement, but also reflecting notions of respect for the elderly as well as children in some way reciprocating the care they received when they were younger - the **obligations of younger generations rationale**;

- There is also recognition that people, including even those with substantial economic means during their workforce years, may underprovide for their retirement years, because of preferences for current consumption over savings, insufficient saving for retirement when the person is young, poor judgement on the likely level of resources required for retirement years, etc. Pension systems respond to these difficulties by redistributing income within a persons' lifetime through the accumulation of wealth to be used in retirement - the **long-term savings rationale**; and

- There may be market failure in the potential provision of retirement income provisions through the private insurance market, especially with respect to insurance against unanticipated inflation. Also, adverse selection may cause financial difficulties for the lifetime annuities market if purchase is voluntary and encourages only those with good prospects of longevity to purchase these annuities - the **private market failure rationale**.[1]

14. These specific factors help explain the basis of current arrangements. The social protection and reward rationales both receive considerable priority in many of the comprehensive multi-faceted retirement income systems. The long-term savings rationale helps explain why pension systems often operate as compulsory funds, including for those with relatively high lifetime earnings who have greater capacity for private savings. Some countries have placed greater emphasis on the social protection or poverty alleviation objective for their public pension schemes. In this environment, those who have been working

[1] This issue of private insurance market failure is described in more detail in the first in a series of nine issues briefs prepared by Lawrence H Thompson for the International Social Security Association's Stockholm Initiative (publication forthcoming in 1998).

and receiving considerable earnings during their working life will need to resort to private savings in at least one form if they want to continue to have a relatively high standard of living in retirement. The social protection rationale and the private insurance market failure rationales both explain the significant involvement of the public sector in pension provision.

15. The relative importance of these objectives can also change over time - increased longevity of the population makes the long-term savings rationale more important, increases in the general living standards of the community and past improvements in old-age pension benefits may reduce the significance of the social protection objective, and upcoming working age generations may have different views on the relative importance of pension contributions and government expenditures on older people compared to other potential uses for these funds. Understanding these underlying rationales for pension systems, and the relative priority accorded to each of these in different countries, could be central to achieving successful reform of pension systems in respective OECD countries.

**Features of retirement income arrangements in OECD countries**

16. There are several typologies of the pension programs which are often used. This paper initially classifies the programs from the perspective of management entities as well as the level of program co-ordination. First of all, as the basic element, public pension programs are identified as those which are managed by public entities and/or with a great extent of national-level co-ordination. Significantly, those schemes with national-level financial co-ordination based on pay-as-you-go funding (e.g. managed by *Association des régimes de retraites complémentaires* (ARRCO) in France) are regarded as public schemes in the System of National Accounts even if they are primarily managed by the private entities. They are divided into flat-rate basic schemes and earnings-related schemes[2] according to their function and respective roles. The pension programs managed by private entities with the role of the public body often confined to that of supervision,[3] or private pensions[4], which have grown in significance in income maintenance and income replacement for the elderly over time, are then identified. The latter will be further classified into two categories: corporate private pensions and personal savings.

17. Public flat-rate basic pensions are intended to ensure the minimum level of income for the elderly. Their funding is tax-based or contribution-based, and, significantly, their eligibility requirements are often based only on age and/or a certain length of the residence in the country, with a means test in many cases. By contrast, earnings-related pension schemes are primarily intended to raise the income to "adequate" or "desirable" level. In those countries which have flat-rate basic pension schemes, the earnings-related schemes often serve as the second tier of the whole structure of pension programs. The amount of benefit is related to the income which is earned before retirement, and the funding is usually contribution-based (with subsidies from government in some cases). Eligibility requirements are based on a certain length of employment or vesting period in which the insured pays contributions.

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[2] Strictly speaking, defined-contribution schemes are only indirectly related to the earnings of the insured people: contributions and the return from them determine benefits, not earnings histories. However, since contributions are themselves a function of earnings, this paper includes defined-contribution schemes among the earnings-related schemes.

[3] It has to be noted that private schemes are sometimes made compulsory (at least to some extent) based on statutes (e.g. Australia) or collective agreements (e.g. Denmark), as stated later.

[4] Schemes for public sector employees, while managed in the public sector, are more akin to private schemes provided by an employer to employees as part of the remuneration package.

18. The following provides a general overview of the public pension programs which member countries have established.

### *Flat-rate pensions*

19. Looking over all the member countries, 25 countries have flat-rate pension schemes, which do vary significantly in terms of their features and characteristics:

1. Some countries (for example, Canada, Denmark and New Zealand) have flat-rate basic pension schemes funded by general taxation but separate from general social assistance schemes. They are all means-tested in some way or another.[5] Eligibility requirements for the benefit generally include a certain length of residence in the country.

2. Nordic Countries except for Denmark, as well as the Netherlands, have schemes which accept contributions, but do not require any proof of prior contributions when providing the benefit. This scheme is different from the former one in that they are funded by contributions specifically imposed for the scheme, but similar to it in that there is no actual linkage between contribution and benefit. Again, they require a certain length of residence in the country[6], but do not impose a means-test for the payment of the benefits (except for Finland[7]). In the Netherlands, entitlement is accumulated at the rate of 2% for each year of insurance, based on residence.

3. Denmark has a contribution-based supplementary pension scheme (ATP) which provides benefits linked to contributory history rather than earnings, on top of the basic flat-rate pension scheme.

4. Ireland, Japan, and UK have a totally different style of basic flat-rate pension scheme than those of other countries. They are regarded as the basic pension in each country, but unlike other schemes mentioned above, the elderly cannot receive this benefit if they do not accumulate contributions before they retire. None of these countries use residence eligibility criteria, as they already have contribution requirements, and the basic flat-rate pensions are not means-tested (although the tax-financed, non-contributory pensions in Ireland and the United Kingdom are means-tested).

5. Other than the above three categories of basic pension programs, there are other schemes which are not old-age pensions *per se* but have functions similar to them within the social security system. They consist of those parts of the general social assistance scheme, funded by general taxation, which are specifically targeted to the elderly and designed for long-term benefit provision. They are called *social pensions*[8] in some countries, and are usually administered differently from conventional social security administration for pension programs.

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5 The basic pension scheme in Canada (Old-Age Security) was not originally means-tested, but has been since 1989 when the wealthy elderly were required to pay-back entitlements. Also, the Old-Age Security and other benefits and tax relief are to be replaced by a new means-tested Senior Benefit Scheme by 2001.

6 They have a three year minimum residence requirement for payment of benefits.

7 Finland has taken a similar path to that of Canada, with the pay-back of benefits introduced in recent reforms.

8 Strictly speaking, they are not usual "pension programs" which serve as income maintenance for the elderly. Under this notion, Italy has changed the name from *social pension* to *social allowance*.

All of them are means-tested and function as the last resort of the state to ensure minimum income of the elderly. In the Netherlands, social assistance may supplement the basic flat-rate pension for those with insufficient insurance coverage. In Italy, the social pension was amended in January 1996 to provide higher benefits with a stricter means test for new recipients.

**Table 1: Public flat-rate pension programmes in Member countries**

20. Pensionable age, eligibility requirements or other details of each program are shown in Table 1. These demonstrate great variety of practices with respect to both the funding and entitlement in schemes which assure the minimum income for older people. Pensionable age is often around 65 years, with eligibility requirements often linked to residence periods and/or means testing. In most cases, the government is responsible for the full cost of the scheme, or where there are contributory requirements the government usually covers any funding deficit.

***Earnings-related pensions***

21. All of the member countries except for Australia, Ireland, the Netherlands and New Zealand have some form of public earnings-related pension program. Some apparent similarities and differences do appear for the purpose of comparison, which are as follows:

1. The countries which do not have a scheme of flat-rate basic pension (apart from social assistance measures) have generally followed a different path in terms of the development of earnings-related pension programs (e.g. Germany and France). In these countries, distinct schemes were at least initially established in separate sectors of the workforce. These distinctions are mainly of historic origin; the individual schemes were established initially in particular industries and coverage was then expanded over time. In countries with only earnings-related pension benefits, social assistance schemes usually guarantee minimum income levels for older people[9].

2. The majority of the member countries have set the pensionable age at 65 years old at least for men (including Canada, Finland, Sweden). However, in some of the transitional economies (such as the Czech Republic and Hungary) the age is lower than 65, while a few other countries have a pensionable age of 67 (Iceland and Norway). There are also gender differences; about one third of member countries still set different pensionable ages between men and women (for example, in Austria, Finland and Greece). This is changing in a number of countries, and will be discussed later.

3. Some countries require full or partial retirement before they will pay benefits when the older person reaches the standard pensionable age (e.g. Czech Republic, Finland, Spain). Other countries allow ongoing workforce participation together with pension receipt after the statutory pensionable age, though the rate of benefit may be reduced somewhat to reflect the level of earned income (e.g. United States).

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[9] Japan has a unique transitional feature in this regard. Historically, Japan had managed a system based on the arrangements of many individual insurers, learning from the corresponding systems of Germany. However, in order to pursue more egalitarian approach, it underwent a drastic change of the system and introduced the basic pension. This is also a reason why the basic pension in Japan requires individual contributions, while 1/3 of the payment is subsidised from the government as statutory arrangement.

4. A certain portion of the working population -- self-employed persons in most cases -- is not covered in about half the cases. Other countries exclude very low income earners from coverage (e.g. Austria, Finland and the United Kingdom).

5. All of the countries require a minimum "vesting" period. This is represented by *employment* in Hungary and the Slovak Republic and *contribution* or *coverage* in others.

6. The method by which final benefits are calculated according to prior earnings can vary considerably between countries. The benefit formulas used by countries are often complicated, however, as a general rule, the formula reflects the amount of average earnings as well as length of coverage and contributions made by the retired person.

   - Some schemes base the final payment on a percentage of average earnings over the entire contributory history (e.g. Japan, Luxembourg), while other countries take into account average earnings over part of the coverage period (e.g. 10 years for France (*Régime Général*) and 20 years for the United Kingdom[10]).

   - Some other countries use a two step method of calculation which first uses average earnings drawn from the latest and/or best 5-10 years of earnings history and then has a separate part of the calculation which takes account of (all, or a part of) the remaining number of coverage/contributory years (e.g. Greece, Hungary, Portugal, Turkey and the Slovak Republic). Those parts are then added to generate the final benefit.

   - Some other countries first produce a base amount determined by the government which is then multiplied by the "pension points" calculated for the individual, with these points calculated on the basis of prior earnings, length of coverage and contributions among other factors (e.g. Germany and Sweden).

   - Some countries have provision to deliberately exclude a limited number of low or no earnings periods from the benefit calculation (e.g. Canada) or count some periods outside the labour force because they were unemployed or caring for young children or close family members as still building up pension rights (e.g. Finland, Belgium, Switzerland).

   - Many earnings-related schemes have some element of income redistribution in the benefit calculation. For example, there may be a simply a maximum limit on final benefits (e.g. Canada, Italy, Luxembourg); a maximum limit on earnings in the calculation of final benefits but no limit on prior contributions based on earnings (e.g. Czech Republic); a minimum amount of benefit or a fixed component in the calculation to which is added an earnings-related component (e.g. Luxembourg, Switzerland); a wage floor for accepting contributions while still taking such periods into account for the calculation of benefits (e.g. Canada); supplementation of the pension benefit up to a minimum level for all who meet the qualifying contributory period (e.g. Italy); and differential weighting given to prior earnings in the middle and low income range compared to high earnings (e.g. United States). These measures can skew the value of benefits to provide higher replacement rates for prior lower income earners as well as constrain the level of public earnings-related benefit available to those who were previously very high income earners.

[10] As is described later, there is a tendency to extend these periods of average earnings used in the calculations.

7. There are two distinct methods of indexing final benefits, according to changes in price inflation or wage growth. Countries uprate benefits according to changes in inflation to maintain the purchasing power of the pension (e.g. Sweden, the US), in line with wage movements (e.g. Austria, Germany) or both (e.g. Finland, Turkey)[11].

**Table 2: Public earnings-related pension programmes in Member countries**

### *The level of final benefits from public pensions*

22. These public schemes, both flat-rate and earnings-related, are designed to provide a particular level of benefit to those who retire. This is often measured in terms of a replacement rate, which provides a comparison between the level of pension benefits and the prior earnings of workers.

23. ILO Convention No. 102 (established in 1952) recommends that public old-age pension schemes should ensure a replacement rate of at least 40 per cent for a couple of pensionable age.[12] The Council of Europe European Code of Social Security has adopted a similar standard.

**Table 3: Replacement rate of public pension programmes**

24. The way in which pension systems determine the level of benefits is very much influenced by the structure of the pension system, and in particular whether there is an earnings-related benefit, and the degree to which governments seek to influence the distribution of retirement incomes through either raising the level of benefits to low income earners or reducing the benefits available to very high income earners.

25. The conclusion from an examination of replacement rates is that most OECD countries generally (and quite easily) meet the ILO Convention recommendation on the value of public pensions. Many countries provide far in excess of the recommended minimum level of benefit, providing replacement rates in the region of 60-80 per cent, such as in the cases of Denmark, Germany, Italy, Korea, Norway, and Sweden.[13] Of course, countries with low public pension replacement rates may in fact have high replacement rates through private schemes and these are not reflected in this comparison of public pension benefits only.

### *Financing arrangements for public pensions*

26. Almost all public retirement income pensions in the OECD are funded on a pay-as-you-go (PAYG) basis, where current pension financing sources (either current contributions and/or tax revenues) from the current working population are used to fund the retirement benefits of the currently retired population. Denmark is the one exception with a fully-funded supplementary public pension scheme[14], while a small number of OECD countries also operate buffer funds which provide a level of reserves to assist with the payment of pension benefits.

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11 Flat-rate public pension schemes can also have this feature (e.g. Australia, the Netherlands).

12 More than two-thirds of OECD Member countries have ratified this ILO Convention.

13 In most cases, the high replacement rates are funded through the high contribution rates for employers and employees to these schemes, rather than through subsidies from the general budget. Also, high rates in some current schemes (e.g. Korea) will not be sustainable when the schemes mature.

14 The Danish basic flat-rate public pension scheme has a PAYG funding basis.

27. PAYG funding means that the currently working population provides the financial provision for the retirement pensions of the older generation. Any prior contributions of the current retired population are not recycled as benefits at a later stage. With fully-mature schemes with a long history, the now older generation when they were working funded the retirement pensions of the previous generation of older people. Alternatively, with schemes that have been more recently developed or enhanced, the current older generation may now be receiving higher benefits without the burden of funding during their working life more generous benefits to previous retired cohorts.

28. With flat-rate benefits, PAYG arrangements can have the advantage that full rate benefits can be provided to the currently retired soon after the introduction of the scheme. With earnings-related benefits this is often not the case, as 30-40 years generally needs to elapse for schemes to mature and for people to build up contribution rights and receive the maximum benefits.

**Table 4: Funding arrangements of selected public pension programmes**

29. The mechanism by which pension payments are funded can often be confused with the contributions made to establish eligibility for payments. In a PAYG-financed system, the contributions made by the working population serve a dual purpose - to contribute towards the pension payments of the current retired population as well as establish the future pension rights of the contributors. These contributions do not fund the pensions of the contributors, an aspect which is not well understood by many in the community, including many retired persons. Nevertheless, irrespective of the details of the financing aspects, many of these contributors believe they have entered into a contract for future delivery of pension payments under certain agreed conditions, which can explain why some proposed changes to future conditions may be strongly resisted.

30. In a number of OECD countries (such as Germany, Canada, Belgium, Sweden and Spain), contributions alone already do not cover the full cost of current public pension payments, with this expected to become a stronger feature in many OECD countries in the context of ageing populations (OECD 1996). These contributions are in some sense a hypothecated tax[15] which is supplemented by general revenue sources to pay the entire pension bill in these countries. In other countries, such as Australia and New Zealand, there are no individual contributions to the public pension system, with all payments sourced from general tax revenue.

31. There have been some questions raised about the desirability of maintaining full PAYG funding arrangements in a number of OECD countries (e.g. Sweden, Canada). Some countries which have sought to enhance their retirement income systems have tended to place greater reliance on semi- or fully-funded pension systems. In some instances, this has been a function of necessity, as countries seeking to expand their retirement income provisions have not able to finance markedly expanding pension provisions from national budgets in the initial phases of the new scheme. New provisions have been introduced on the basis that future pension payments will be matched by available contributions through funded schemes. There has also been some expectation that funded schemes will contribute to higher domestic savings and sustainable economic growth, however the evidence is far from clear on this aspect.[16] Other countries have seen the

[15] A hypothecated tax is one which is collected for a defined purpose, such as for pensions or health care, but the resulting revenues are not quarantined to be only used for that purpose.

[16] A recent survey by the Economics Department of the OECD on the “Macroeconomics of Ageing, Pensions and Savings” concluded that promoting private pensions, especially with tax concessions, will more than likely have no impact on aggregate national savings, but there may be a net increase for low-income earners in mandatory schemes.

continuation of PAYG funding as important, and have adjusted benefits and/or contributions to achieve greater funding balance (for example in Japan, Germany).

32. In funded schemes there is a clear relationship between contributions and payments, with many funded schemes delivering payments which rely on the long-term investment performance of the specific contributions. The neatness of the link between contributions and final payments may be quite attractive, as well as the feature that there is generally no prospective additional liability for government.[17] However, this does place all of the risks on the contributors, and fund managers in other ways, with government effectively taking no share of the risk of providing future pension payments. Full or partial funding is more common in private pension systems, where there is not so much opportunity to draw upon alternative financing sources if contributions do not cover promised payments at a later stage.

***Private pension schemes***

33. In a number of OECD countries, private pension arrangements are becoming more important in the total scheme of retirement income provision. Some of the attractions of private pensions include:

- providing a mechanism for individuals to make greater provision for their retirement in relatively safe forms of saving;
- encouraging long-term saving in mechanisms which have restrictions on early access;
- introducing retirement income provisions where the end-benefits are generally fully-funded and where the level of benefits is predominantly determined by the earnings on prior contributions;
- some expectation that greater private pension provision may raise the level of national savings and the internal capacity of the nation to provide investment capital for ongoing economic growth (although as mentioned earlier the findings from recent studies cast doubt on this perspective).

34. The form of these private savings and their interaction with public pensions also can vary significantly between and within countries. Private pension schemes may be largely limited to particular occupational groups or industries, or alternatively some form of private pension scheme may be legislatively mandated for all but very temporary employees. Some occupational groups, such as the self-employed and small business owners, may still have very limited or no public or private pension entitlement, but rely on savings for their retirement in the form of private savings or the proceeds from the sale of a business. The nature of the direct interaction between public and private pension schemes can also vary, as private savings may be available to supplement a public pension available to all; alternatively it may substitute for public pension benefits. The key elements determining this outcome is the extent of universality of public pension arrangements, as well as the degree of means testing of public pension payments according to the level of income they have from other sources.

35. Private pensions do not necessarily mean no involvement of government, as private pension savings usually receive some form of government financial subsidy (generally through the tax system) and/or regulatory protection. Governments have an interest in ensuring that retirement savings are available for people when they reach retirement age. This is particularly relevant in those countries where contribution to

[17] There may be some liability for government in limited circumstances, for example if government acts as guarantor for private funded schemes that subsequently fail because of poor management of funds or fraud.

private funds is mandatory by law. Government may also provide financial subsidies to private retirement savings as a trade-off for the legislative provisions which restrict access to these private retirement savings until retirement age.

**Table 5: Selected private pension programmes for employees**

**Table 6: Examples of major personal savings programmes**

36. The major private pension arrangements in OECD countries have the following features:

- The majority are on the basis of voluntary participation, although countries such as Denmark and Australia (up to a minimum level of contribution) have mandatory requirements which cover most of the workforce.

- The age of eligibility for final benefits is often lower than the statutory ages for public pensions.

- They are almost exclusively fully-funded.

- There is a mix of defined benefit and defined contribution schemes with these private pensions, although there is a clear trend of countries now promoting defined contribution arrangements.

- Tax concessions are provided by government (except in New Zealand) in order to encourage participation in the schemes and/or increase the level of final benefits.

- These private pensions predominantly provide a supplement to public pension schemes, although this appears to be changing with some schemes replacing more of the public benefit, possibly also in the context of reductions in public pension benefits.

37. The major personal savings schemes included in Table 6 also have a number of common features with the major private pension schemes mentioned earlier, especially with the possible early access to benefits and the tax-favoured treatment of these savings. While not reflected in this table, some OECD countries have other policy measures to support and encourage other forms of private savings. These may also be important sources of financial resources for many older people.

### *Taxation of retirement incomes*

38. Income tax concessions for the elderly (or pensioners) also influence the living standards of older people. Although the detailed nature of such concessions can differ considerably between countries, many countries do provide tax relief for elderly people or pensioners from their liability for income tax, property tax, etc.[18] [19]

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[18] However, some countries (e.g. Denmark, Germany) also reported that they had recently made, or would shortly carry out, tax reforms to make the system less favourable to pensioners or to abolish most part of the concession.

[19] Some of the countries reported that they also have concessionary measures in terms of social security contributions which are on the grounds of age or pensioner status. For example, pensioners do not have to pay contributions to the Health Care Services out of their pensions in Italy; the elderly people after the state pension age do not have to pay the National Insurance Contributions in the UK (Ireland also has the same arrangement for the elderly after age 66).

**Table 7: Tax concessions for pension benefits and other income/savings**

39. The simplest approach is to regard pension benefits as tax-free income. This ensures that pensioners receive the full benefit of their pension in terms of increasing their disposable income. This approach is taken, for example, in Czech Republic, Hungary, Korea, Mexico, Turkey.[20] In other cases, Germany only imposes income tax on a certain portion of pension benefits which corresponds to notional interest for the pension savings.[21] In addition, income-tested supplementary benefits for pensioners (e.g. Guaranteed Income Supplement in Canada, housing supplement in Sweden, etc.) and disability pension benefits (e.g. the UK, the US) are not taxable in these countries. Benefits from private pensions are not given special status as tax-free income, probably the benefits increase retirement incomes on top of the public pension benefits, and because contributions to these private schemes usually gain from tax concessions.[22]

40. One approach which is common among OECD countries is to provide an income tax credit or rebate for pensioners of public pension programs (e.g. Australia, Finland, Japan, Sweden). These options are usually designed to stop taxing pensioners when their only income source is (basic) pension benefits, or the amount of other sources of income is relatively small. The elderly receiving benefits from private pension programs also get equivalent tax concessions in some countries. For example, Australia will introduce "savings rebate" which covers (undeducted) superannuation contributions, or net income receipt from savings and investment, or a combination of both, up to a certain amount (from July 1998). In Canada, "Pension Income Credit" enables taxfilers to claim a credit when they are receiving benefits from corporate-sponsored programs or Registered Retirement Savings Programs.

41. There are other categories of tax concessions that are directly or indirectly related to old-age. First, some countries have an income tax credit/rebate based on the age of the applicant: Age Credit (Canada), Income Tax Age Allowance (Ireland), higher tax deduction for the elderly (the UK, the US), etc. Second, concessions of some other taxes are available in some countries on the ground of age or retirement, such as property tax (Denmark, Turkey, and the US), and capital gains tax (Australia). In addition, there are other special tax deductions or tax exemptions based on specific reasons which can happen to anybody, but with a higher incidence among the elderly: for example, tax deduction based on the reason of physical/mental disability (e.g. Austria).

## Contemporary challenges to pension arrangements

42. Pension systems are being constantly challenged by social and economic developments in OECD countries. The issue with the most public exposure is the ageing of the population, but changes to labour market conditions and employment patterns as well as changes to family structures also can have significant implications for pension arrangements and desirable directions for policy reform.

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20 Making pension benefits tax-free may be justified as fair in some circumstances. When pre-pensioners have to contribute after-tax money to the pension fund, it is considered unfair to then tax the benefit that will be provided after they retire. Hungary and Korea reported that they do not tax pension benefits for this reason..

21 *supra*, note 18.

22 A notable exception about this taxation on private pension benefits is the case in the US. The portion of the benefit which corresponds to employee contributions are not taxable, maybe because employees have to contribute after-tax money to the program except for the cases of 401 (k) plan.

***Ageing of the population and financial viability of pension schemes***

43. Many OECD populations have been ageing gradually for some years, and this ageing phenomenon is expected to accelerate over coming years. In the context of pensions and health care systems which are predominantly funded on a pay-as-you-go basis, one of the best indicators of the challenge of ageing populations is the proportion of older people to the working age population.

44. This elderly dependency ratio shows quite clearly why many countries are concerned about the medium and long-term financial viability of their pension systems. Falling and/or low birth rates across the OECD over the last 20 or so years, which is projected to continue for the immediate years to come, reduce the projected size of the working age population which is available to fund the public pension bill. This lower working age population then interacts with the larger number of older people as a result of increased average life expectancy, to produce large increases in the elderly dependency ratio across many OECD countries.

**Table 8: Dependency and support ratios**

45. While the expected future trends in the elderly dependency ratio show increases across the OECD, there are differences between OECD countries. Many European and Nordic countries currently have a greater proportion of their population aged 65 years or more compared to other OECD countries, and they generally expect further significant increases in the elderly dependency ratio over years to come. European countries will remain well represented among OECD countries with the highest elderly dependency ratios in the year 2030. Japan (and Korea) are expected to have some of the largest shares of older people in their population in coming years. Japan will rapidly move from having a very youthful population by OECD standards to a very aged population. For a number of other OECD countries, such as Mexico, Turkey, Ireland, New Zealand, Australia and Portugal, there will still be a clear tendency towards a more aged population over the next 35 years, but not to the same extent as other OECD countries.

46. It is usually recognised that greater numbers of older people in the population will have particular challenges for OECD countries in terms of pension provision, health care systems, and other social programmes heavily utilised by older people. However, this is only a very partial picture of the implications for public expenditures of ageing populations.

47. As recognised in the recent report, *Ageing in OECD Countries* (OECD 1996), the current and expected reduction in the younger age population who are also dependent for support from the working age population will also offset some of the increases in the older age population. However, this is not a simple offsetting relationship, as the public costs of older people on average outweighs the public costs of younger dependants. The *Ageing in OECD Countries* report provided estimates of the change in demographic dependency ratios which were adjusted to take some account of the differences in resources devoted to the elderly compared to resources devoted to children, with the outcome reflected in the so-called "needs-weighted dependency ratios". These show a decline in the proportion of the working age population to the needs-weighted dependent populations in almost every OECD country, with the exceptions of Ireland, Mexico and Turkey. Germany, Japan, Austria, Greece, Luxembourg, Sweden and Switzerland are the OECD countries exhibiting the greatest change in this modified dependency ratio, with a reduction of at least 10 percentage points.

48. The nature of the pension systems in place in OECD countries will also have significant implications for the future public funding commitments as a result of a more aged population. Those countries with more expansive public pension systems and/or with systems which are yet to mature will have a tendency to greater growth in public pension expenditures compared to other countries, *ceteris*

*paribus*. While it is important to recognise that high total public pension expenditure does not necessarily imply high budget costs as generous benefits can be funded through high contribution rates, it is interesting to compare the projected public pension expenditures against the backdrop of past expenditure trends.

49. The following table compares changes in past and prospective public pension expenditure over a ninety year period. It provides two time periods for past growth in pension expenditure provides some limited guide to help us put in context projections of likely increases in pension costs over the next 50 or so years which were recently undertaken by the OECD. These data show that many OECD countries have had considerable previous experience with increasing costs of old-age pensions. This was especially the case in the initial 1960-80 period, when many earnings-related public pension systems were developing and maturing. The trends for the later 1980-93 period, when there were less significant increases and even reductions for some countries compared to the previous period, reflect the interaction of emerging concerns with future pension increases associated with ageing populations, overall pressures for fiscal consolidation and more mature public pension systems in some countries.

**Table 9: Public pension expenditure, 1960-2050, selected countries**

50. With respect to projected pension expenditures, the 2010-2030 time period stands out as the key period when public pension expenditures are expected to grow the most across many OECD countries. The anticipated increase in public pension expenditure over this twenty year period of more than three percentage points of GDP in 11 of the 16 countries included in the above table demonstrates why the old-age pension issue has absorbed the interests of governments and communities in many countries.

51. The simple trends indicated above do not indicate a consistent expectation of large increases in pension expenditures over the next 50 years, measured as a proportion of GDP of the respective country, as may have been expected from an understanding of the very striking demographic changes. Of the countries shown in the comparative table, Finland (2010-30), Germany (2010-30), and Japan (1995-2050) stand out as having a large expected growth in pension expenditures compared to their experience over the 1960-93 period. For many countries, the projected increase in pension expenditures over the next fifty years will be either in line with or below historical increases in pension expenditure.

52. Nevertheless, simple trends can be deceptive. The expected growth in public old-age pension expenditure over 2010-30 will be greater than growth over the more recent (and albeit shorter) 1980-93 period for every country shown in the above table, except the United Kingdom. Of some concern is the capacity of countries to finance this anticipated expenditure over the long run if they have a smaller working age population, with the resulting burden on the future working age population often being used as a justification for current pension reforms. As noted before, those systems which have a greater degree of adequate funding for future pension payments may be able to cope better with increases in pension expenditure without resorting to other budget funding to make up for any imbalance between contributions and payments (in the contributory schemes). Here, there are many unknowns about what the future holds, in terms of overall economic developments in each country, future employment rates, the extent of unsatisfied labour supply and productivity growth which all impact on prospective living standards.

53. Many OECD countries still face considerable pressures for fiscal consolidation and would be prudent to take ameliorative action to try to reduce the expected call on public funds from growing pension expenditures in especially the 2010-30 period. In this context, where governments can anticipate future public expenditure requirements, there is a case to try to limit that level of exposure to increasing public pension costs in order to provide future governments with greater flexibility to determine their priority

areas for public expenditure. If governments act to limit their exposure to future pension expenditures which are in excess of contributions, they may have greater capacity to direct funds towards other more pressing social problems which could develop in the future.

### *Are old-age pension payments a community priority?*

54. There is a wide range of perspectives across the community as to the priority governments should give to the payment of adequate or generous old-age benefits. Historical traditions and cultural factors will exert an influence, particularly if there are strongly held views about respect for older generations as well as economic assistance to the older generation no longer able to work to provide for themselves. Even though there is evidence of a breakdown in some family relationships, and changes in the living arrangements of families, there still remains a keen interest to protect and assist older members of society.

55. Across OECD countries, the scale of pension expenditures suggests that this is a priority area for social expenditure. Public policy does exert a significant influence on pension outcomes, in terms of qualification and eligibility rules, the rate of payment and mechanisms for adjusting rates over time. Nevertheless, governments generally act cautiously when they try to pursue policy changes in the pension area because they will affect the interests of a growing proportion of the population who are older as well as the longer term interests of the working population. The experience of some countries which have gone down the reform path, and not achieved the full range of proposed reforms, indicates the power which the general public as well as sectional interests can exert on reform proposals. It is also important to recognise that retirement incomes issues may have a heightened sensitivity because of the economic vulnerability of some retired people, as they generally cannot generate income from workforce participation as an alternative to pension income. Pension debates also have a time dimension which transcends just the current retired population, as the working age population may also consider the likely implications for their own future pension entitlements.

### *The specific challenge of longevity*

56. One of the main reasons for ageing populations is the increased time people are living. Since pension systems were developed, there has been a consistent increase in life expectancies for both men and women across OECD countries.

**Table 10: Future life expectancy at age 60, 1960-95**

57. Average life expectancy of both men and women is still increasing. Comparing those aged 60 years in 1960 compared to those aged 60 in 1995, there is estimated to have been an increase in future life expectancy of between 2 and 5 years in most OECD countries. Nevertheless, some countries have much lower growth in future life expectancy, with little change overall (and even some falls at times) for older men in Hungary, Poland Denmark and the Netherlands. By contrast, very strong growth in future life expectancy is estimated for Japan (of 5.5 years for men and 7.5 years for women) and Switzerland (of 3.8 years for men and 5.3 years for women) over a 35 year period. Women have a higher life expectancy than men, and recent projections suggest this gender differential will increase in many countries.

58. Longer life expectancy has significant challenges for pension systems which were designed to provide benefits to a particular segment of the population in their retirement. As mentioned before, most

public pension systems in OECD countries have a statutory retirement age where full benefits are accessible at age 65 at least for men, with retirement ages for women sometimes slightly lower. For those aged 60 in 1960, they expected to live until around age 75-77 for men and 78-80 for women.

59. Until recently, these statutory retirement ages have been very stable reflecting those set at the time of establishment of the pension scheme. Yet, the average older person is now living far beyond the statutory age of retirement, with recent projections suggesting those reaching age 60 in 1995 will live on average until their mid to late 70s for men and between 80 to 85 for women across most OECD countries. Later cohorts could live even longer if past trends are any guide.

60. This has implications for both the financial viability of schemes which provide lifetime pensions as well as the level of private savings older people may wish to have for their retirement years. Most pension systems were designed a number of years ago when people were not living as long and pension payments were potentially not as high as they are today. There was much less likelihood of PAYG-funded public pension systems having an imbalance between contributions received from the working age population compared to pension payments to the retired population. Longer time in retirement also has significant implications for the adequacy of private savings held by the retired, as they run down their savings over the years. If people are living longer, those accumulating private savings for their retirement years may need to factor the possibility of living well into their older years when they assess the level of savings they want to achieve.

***Labour market challenges to pension arrangements***

61. As most pension systems in OECD countries are contributory schemes, with eligibility requirements and the level of payments more than likely linked to either previous years of employment or salary, the labour force experience of the working age population impinges heavily on future pension outcomes. Many of the people who are now retired and receiving old-age pensions in OECD countries had previously worked in a full-time job, probably continuously and many for a period of at least 40 years. This stylised picture of the average characteristics of the currently retired population may be quite different for future cohorts of retired people.

62. Labour market conditions have changed substantially compared to 25 years ago, with high and persistent unemployment now a feature of all too many OECD economies. High unemployment is expected to remain in many countries for some time to come. Widespread unemployment is creating serious funding difficulties for the pension systems in a number of the eastern European countries in transition (such as Hungary and Poland) where there has been many people newly accessing retirement benefits at the same time as pension contributions have been declining.

63. There is also some suggestion that on average employment tenure is becoming more precarious, and an increasing proportion of the workforce in the future may have spells of unemployment during their working life. Long breaks in employment can seriously affect the accumulation of pension rights, as well as deplete whatever private savings the family may have in order to meet more immediate income needs. There may be some question over the adequacy of current pension arrangements in some countries to adequately cater for the retired people in the future who will have had only a limited employment history. The increased incidence of part-time and temporary jobs in many OECD countries, which often do not have well established links to the accumulation of future pension rights, is another challenge to current pension arrangements.

64. Some OECD countries (such as the United States, Australia and the United Kingdom) historically have mobile workforce with relatively low average job tenure. Other countries may have labour markets which are moving closer to this feature. This type of labour market creates challenges for private schemes to deal appropriately with issues of vesting, transfer and preservation of pension rights when people change jobs, and more importantly when they change employers. Care needs to be taken to ensure that private pension schemes themselves do not significantly reduce the level of labour market flexibility, which may occur when private pension provision is predominantly available in only some industries.

65. Over many years, there has been a clear trend towards lower male labour force participation particularly at older ages. In some instances, this is related to increased living standards of the population, with these older men choosing to enjoy more leisure time funded by the savings they have built up during their working life. In other instances, older workers have been targeted for displacement as companies hit by structural changes or poorer economic conditions have sought to reduce the size of their workforce. Public policy has also had some influence as a number of countries facing high unemployment sought to encourage early retirement among older workers (through access to public benefits) with the hope of freeing up employment opportunities for younger unemployed people.

**Table 11: Labour force indicators, for men and women aged 55-64, 1980 and 1996**

66. Over the last fifteen years or so, employment rates for older men have continued to decline in many OECD countries. The scale of the decline has been more substantial in some countries compared to others, with more limited reductions in Japan, the United States and Sweden. By contrast, other OECD countries of Canada, Germany, Finland, France, Netherlands and Spain have had reductions of around 20 percentage points or more in the employment/population ratio for men aged 55-64 years between 1980 and 1996. In some countries, these employment declines are also reflected in high unemployment rates for older men. In 1996, Germany and Spain had unemployment rates for older men above 10 per cent, with Finland around 25 per cent. However, the norm is for these men to leave the labour force when they leave employment and involuntary job losses among this population are not fully reflected in unemployment statistics. The employment situation for older women has seen more variability across OECD countries, with some countries continuing to see increases in labour force activity as new cohorts of women with more established workforce patterns reach older ages, while in other countries there has been a clear decline in employment participation among older women aged 55-64 years as well as older men.

67. The labour force trends for older people, particularly for older men, contrasts significantly with the continuing increase in female labour force participation more generally. Women are now much more likely than in the past to have their own pension rights as a result of a significant period of employment during their working life. While some women, particularly those with dependent children, may be more likely to participate in part-time employment which may not generate pension entitlements, increasing child-care opportunities in OECD countries are improving the likelihood of women being able to take full-time jobs if they are available. This provides increasing protection for those women who may have been married but who now live alone in their older age, especially if they do not have access to survivor benefits from a deceased spouse.

68. For the increasing proportion of couples with a history of significant labour force participation by both partners, where they have both accumulated future pension rights, the retirement decisions they face may be quite different to the outcomes and choices for many other workers. These two-earner couples will derive pension benefits from systems largely designed to provide sufficient means for those living alone or supporting a dependent spouse. These couples will also have on average accumulated

greater private savings throughout their working life, which may be only partially reflected in their direct retirement income provisions. From their advantageous position in terms of family incomes, savings and asset accumulation, these couples may have significant opportunity to retire early and enjoy their leisure, while still enjoying a high standard of living. These couples may also choose to align the timing of their retirement, focused on family and joint retirement income considerations.

***Changes to family arrangements***

69. A number of the broader socio-demographic trends apparent in many OECD economies also have implications for pension arrangements. As mentioned above, OECD countries have all experienced increasing labour force participation of women, which in turn leads them to accumulate their own pension entitlements in many countries. The tendency towards increasing economic independence of women, later average age of marriage, later average age at which they have their first child as well as having on average smaller families are among the reasons why women are recording longer periods in the paid workforce during their working life. While many pension systems do provide some form of pension coverage and protection for dependent spouses of the employed, those women who actively participate in the paid workforce will generate greater old-age pension entitlements and private savings than those who did not participate in paid work.

70. Recent socio-demographic changes may change the extent to which children will or can care for their parents. The increasing difficulty which more recent young entrants to the labour force have had to establish secure employment patterns limits the extent to which children can be relied upon to help their parents who may require financial assistance. If anything, in many OECD countries there appears to be an increasing tendency for parents to provide financial assistance to their teenage and adult children, rather than transfers from children to aged parents. The smaller average family size also limits the extent to which (the now fewer) children may be able to directly assist their longer-living parents.

71. To some extent, pension systems, with PAYG funding, still reflect historical traditions in many countries of children caring for their aged parents who are no longer able to work. In an indirect way, the children of the retired generation are contributing to the financial well-being of their parents, albeit through a redistributive filter on both the contributions paid by the children and the benefits received by retired parents.

72. Many OECD countries have generally experienced higher divorce rates over the last 25 or so years compared to previous times. This poses particular challenges for the pension rights of the former spouses now divorced who have not been active labour force participants, yet who may have assisted and facilitated the career progress of their former spouse who retains their entire pension rights after divorce. Countries may wish to consider whether their pension systems cater well to this potentially dispossessed group, as a result of the phenomenon of divorce.

***Private wealth of older people***

73. A final major aspect which has implications for public retirement incomes policy concerns the level of private wealth of individuals and families. This may have been accumulated through a number of sources, such as income derived from continuous long-term and full-time employment, increased likelihood of both members of a couple participating in the labour market, rising real wages and living standards of the population, generous returns on prior savings and investments, appreciation of the value of assets as well as payments from private pension funds.

74. Recent information compiled for the OECD provides some indication of the relative scale of the stock of private wealth compared to current annual income for people approaching retirement and in retirement in selected OECD countries (Table 12). These data suggest that the cohort approaching retirement can have substantial levels of private wealth, at least in the upper income quintiles.

**Table 12: Wealth to income ratios, household with head around 55 and 67**

75. In the context of many OECD governments concerned about the growing costs of public pension systems as a result of ageing of the population, as well as continued pressure for fiscal consolidation, it is legitimate to question the extent of public support and public subsidy being directed to the group of wealthy older people via possibly both the public pension system and private pension arrangements. Governments may have some difficult choices to make in the future about where they allocate public funds, and the substantial level of private wealth for at least a proportion of the older population may justify some reallocation of public moneys away from this group.

## Retirement income concerns across the OECD

76. Pension systems are being constantly challenged by social and economic developments in OECD countries. The issue with the most public exposure is the ageing of the population, but changes to labour market conditions and employment patterns as well as changes to family structures also can have significant implications for pension arrangements and desirable directions for policy reform.

77. There are many and complex factors impinging on pension systems, emphasising the wide scope of issues facing governments when they are undertaking major reviews of their pension arrangements, and the challenges facing governments when they are considering reform or adaptation of their pension systems.

78. From their response to the OECD Caring World synthesis questionnaire, countries have explicitly commented on the main challenges they are facing with their national retirement income arrangements.

**Table 13: Current retirement income concerns and processes**

79. At the forefront of these concerns is the medium and long-term financial viability of public pension systems. This is by far the main issue OECD countries are grappling with as they consider and pursue reform to their pension systems. There is a strong belief among many countries that they should prepare for the impact of the ageing of the population on public pension costs. This is not just related to the expected changes in the financial balance of public pensions funded predominantly on a PAYG basis, but is also linked to other pressures on government such as fiscal consolidation and desires to not overly constrain government budgetary choices in the future because they need to finance a growing pension bill. Issues of intergenerational equity are also related, in terms of concern over the potential burden to be placed on future working generations to fund the public pensions of the large number of future retirees.

80. A lesser, but still significant number of countries are also concerned with the low effective age of retirement in their country. Some of the reasons for this outcome were commented on in the previous section, such as long-term trends for declining labour force participation of older men, high displacement of older workers from employment, public benefits which encouraged early retirement, and possibly greater wealth of the current generation approaching retirement compared to previous generations. Nevertheless, some countries are concerned with the prospective changes in the demographic composition of their

population, in particular the increase in the population aged 65 years and over at the same time as they expect a fall in the share of the population aged 15-64 years. In this context, countries are looking for ways to shift the balance between work and retirement so that people will on average work longer.

81. There are a range of other concerns among OECD countries with current pension systems, as shown in the table above. These include:

- the adequacy of pension benefit levels, in the eastern European countries in transition, but also in other developed countries such as Australia, Belgium, Ireland and the United Kingdom;
- improving the size of the population covered by pension arrangements, which may involve elements of extending coverage to other industries not already covered, greater convergence between existing pension schemes and/or expansion of private pensions;
- improving the financial incentives inherent in pension systems for people to work (and possibly work longer), as some pension systems currently provide little benefit to people who reach a certain number of years of employment or contributions, give little increase in pension for contributions made in later years, or may be highly redistributive in providing relatively small additional benefits to those who have worked for many years compared to those with a limited workforce history.

82. Many OECD countries have pursued some reform of their pension systems over the last ten years, as shown in the above table. They are responding to the many challenges facing pension systems. A number of countries have also established national consultative commissions to investigate further options for pension reform. These arrangements may enable government to make better use of expert advice available outside government, introduce greater transparency to the process of deliberation of the direction for reform, as well as more actively engage the public in the process at an early stage while options are still being developed and considered.

**Details of recent pension reforms across OECD countries**

83. Pension reforms undertaken in OECD countries over the last ten or so years have taken many different forms. These include measures to increase the age at which people can receive pensions, policies promoting longer employment, reductions in the generosity of benefits through reductions in benefit payments or increases in the number of years of employment to generate the same level of benefit, increases in contribution rates to assist in achieving a better balance between contributions and payments in future years with PAYG systems, and promotion of private pension arrangements together with greater funding of future pension commitments.

84. Comprehensive pension reform usually does not involve a single policy change. It is evident that a number of countries have sought to reduce future public funding commitment to pension payments through a number of measures, which may, for example, involve changes in pension benefits, contribution rates and extension of private pensions. Similarly, policies encouraging longer workforce attachment may involve limiting public early retirement opportunities with public pensions, increasing the standard age of retirement, and introducing higher pension payments for those who work beyond the statutory retirement age.

**Table 14: Directions of recent pension reforms in Member countries**

**Chart: Countries taking policy action in retirement incomes, as a proportion of countries surveyed**

### *Reductions in pension generosity*

85. Reductions in the generosity of pension payments have been pursued in a number of OECD countries in order to reduce the financing pressures associated with the future ageing of the population. These have taken a number of different forms, only some of which have involved actual cuts in rates:

- Reductions in the final benefit available after the usual number of years of work and/or contribution, in Germany, Italy, Norway, Canada, Greece and Finland (including means testing of the previously universal public flat-rate benefit since 1989 and 1996 respectively), United Kingdom (reduction in the value of the second-tier earnings-related benefit), New Zealand (both benefit reductions and some income targeting of benefits), Sweden (both reduced benefits and changes to the calculation of payments), and Portugal (reducing the rate at which pensions accumulate by 10 per cent).

- Less generous adjustment of benefits to changes in inflation, in Japan and Germany (with the introduction of net income wage indexation which removes the effects of changes in income taxes and social security contributions rather than the previous gross wage indexation method), and Finland.

- Increases in the level of contributions and/or years of employment required to generate the same level of benefits, in Turkey (increase in the number of days of premium payment required for maximum payment and no amnesty for unpaid contributions), Portugal (increase in qualifying period from 10 years to 15 years before a pension entitlement is established), and Finland (gradual increase in contributions until 2030). The Czech Republic is contemplating an increase in contribution rates in responses to the anticipated imbalance between payments and contributions in 1997.

- Increases in the number of years of earnings used to calculate final pension payment, in Spain (where it increased from 8 to 15 years), France (*Régime Général*: 10 to 25 years) and Sweden.

- Sweden will transform its present PAYG defined-benefit system to a PAYG defined-contribution system.

- As part of its broader pension reforms to operate from 1999, Sweden is also to incorporate an element in the benefit calculation which adjusts the pension for increases in the average life expectancy of new cohorts of retirees. Germany will also implement a similar life expectancy factor into their pension calculations.

### *Greater adequacy of pension benefits*

86. Other OECD countries have had concerns about the adequacy of pension benefits and responded through increases in the level of benefits over recent years. For example, Australia has a long-standing bipartisan target for public pension payments that they should be set at a value of at least 25 per cent of male total average weekly earnings, so pension payments increase broadly in line with community living standards. The current government has now taken the step to enshrine this target into legislation and set

aside provision in future budgets for meeting this requirement. Other countries which have historically had very low retirement pension benefits, such as Poland, have also pursued increases in the real level of benefits over recent years. The Czech Republic has recently introduced price indexation of pension payments as well as the capacity for adjustment in line with increases in community living standards. Greece has also sought to increase the coverage of retirement income arrangements across a greater proportion of their employed workforce. In Greece from 1996, a pension supplement was available using a means-test, the first time such a concept was used in the Greek social security system. In 1997, Farmers' social insurance coverage was brought into line with the rest of the population, through the introduction of a contribution-related pension scheme to gradually replace the current government-financed flat-rate scheme.

***Increased funding of public pension schemes***

87. As noted above, benefit reductions have been pursued in many of these countries to reduce the anticipated growth in public pension expenditure over coming years. As most public pension schemes operate on a PAYG funding basis, some countries have also sought to combat the expected future funding difficulties through increasing the level of funding of these schemes. For example, Canada is seeking to increase the funded element of its public earnings-related benefit (Canada Pension Plan) from the current level of two years worth of reserves up to the level of five years of reserves. The Swedish public system is also to introduce new funding arrangements with 2.5 percentage points of the total level of contributions of 18.5 per cent being set aside in a fully-funded component which will grow as the current buffer fund declines with ageing of the population.

***Expanded coverage of private pension arrangements***

88. An alternative approach to modifying the funding basis of public schemes is to instead place greater reliance on expansion of a fully-funded private pension system. This strategy has been pursued in a number of OECD countries.

89. Countries in transition, such as Hungary and the Czech Republic, are looking to private pension arrangements as a means of supplementing retirement pension benefits for workers without further expanding large public schemes. Reform of the pension system in Poland will rely on the investment earnings of retirement funds to finance the second-tier earnings-related benefits, while encouraging the establishment of a third tier of retirement benefits reliant upon private pensions and voluntary savings. The Slovak Republic allows private pension provision, but the rate of coverage is still very low.

90. Other OECD countries encouraging greater reliance on the private pension system to provide retirement benefits include Australia, Denmark, Mexico, Japan, Korea, Canada, Ireland, New Zealand, Germany, and the United States. Those countries with relatively low replacement rates from their public schemes (e.g., Canada, Australia, Ireland and the United Kingdom) place greater importance on private schemes to supplement the low level of public benefits, particularly for those who want a relatively high standard of living in retirement.

91. In a number of countries, such as Australia, Ireland and the United Kingdom, public policy supporting private pensions has been accompanied by increased public supervision and regulation of private funds to improve the safeguards on the funds managed for contributors. This highlights the decisions these funds may face in attempting to achieve high investment earnings in ways that may have a greater element of risk, compared to lower investment returns and therefore lower final payments for contributors through risk-averse fund management practices.

92. Most of these countries provide tax concessions as a means of encouraging greater investment in these forms of saving. Tax concessions have not been provided in New Zealand which has instead pursued a public education campaign and in the Czech Republic, and over coming years it may be interesting to compare growth of private pension funds and changes in national savings in these countries compared to those countries offering tax inducements.

93. In both Australia and Denmark, the mandatory private pension coverage of most of the workforce has achieved considerable increases in coverage of around 50 percentage points of the employed labour force within the last ten years. Australia has achieved this level of coverage through legislative requirements on employers to provide a minimum level of contributions for all eligible employees, while new collective wage agreements in Denmark have been the means of extending private pension coverage in that country. Other countries with extensive but voluntary private arrangements generally only cover around 50 per cent of the employed labour force at best, well below the 80-90 per cent currently achieved in Australia and Denmark. Mexico has also chosen to pursue the mandatory route from 1997.

***Policies to change the effective age of retirement***

94. OECD countries have been active in pursuing policy changes designed to increase the financial incentives for individuals to work longer. While most countries have statutory retirement ages at which people can access full public pensions of around 65 years, and slightly lower for women in a number of countries, the average age of retirement in many countries (where information is available) is well below this statutory age. For example, over the last twenty years, the average age of retirement in Canada has fallen from 65 years to 62 years and in Denmark it has fallen from 65 years to 61.5 years. Recent estimates for the Netherlands put it around 60 years there and it is below 60 years in Poland.

**Table 15: Pensionable age and early/deferred retirement**

95. There are relatively few examples of policy changes to increase the statutory retirement age for both men and women in OECD countries. Where this is planned, it is usually to bring the retirement age above the current age of 60 (as in the case of Japan, Hungary and the Czech Republic). Italy will increase the male retirement age from 63 to 65 by the year 2000 at the same time as the female retirement age is increasing from 58 to 60 years. Only the United States has a firm policy to increase the pensionable age beyond 65 (taking it up to 67 over the next 25 years), although Denmark, Iceland and Norway already have statutory retirement ages of 67.

96. More often, the proposed changes to the statutory retirement ages will align (increase) the retirement age for women up to the same age as for men (as in Australia, Belgium, Germany, Greece, Hungary, Japan, Portugal and the United Kingdom). In other instances, the age for women is being increased but will still remain below the retirement age for men (in Switzerland, Czech Republic, Italy). Most of the remaining OECD countries already have an alignment of retirement ages for men and women.

97. Pensions and other income support payments are generally available to people who retire before the set statutory ages. These payments may be part of the broader income support arrangements for the unemployed, with the early retirement benefit available to people within a specified range of the statutory retirement age and who may have exhausted their unemployment insurance entitlements. Alternatively, they may be available as an adjunct to the public retirement pension system. During the 1970s and 1980s, these provisions were encouraged as a means of providing long-term income support for those older workers

below statutory retirement ages who had lost their jobs and in the anticipation that more job opportunities would be created for younger unemployed people.

98. During the 1990s, many OECD countries have questioned the merits of these policies and a number have taken steps to reduce the financial inducements in these provisions for older people to retire early. While some of these changes are still to be introduced as a result of slow phasing in of new arrangements, they encompass:

- Increasing the minimum age at which early retirement payments can be accessed, in Finland, Germany and Poland.

- Changing the age at which people can access early retirement pensions or introducing early retirement pensions in association with increases in the statutory age of retirement, in the Czech Republic, Switzerland and Hungary.

- Increasing the number of years of prior employment or prior contributions before individuals can access early retirement benefits, in Belgium, Hungary, Italy and Germany.

- Reductions in benefit payments for those who retire early, in Australia (with the Mature Age Allowance) and Hungary (with the Labour Market Fund) or through introducing actuarially-based payment adjustments, such as in Sweden and the Slovak Republic.

- A requirement that authorities fully explore all relevant possibilities first apart from provision of an early retirement pension, that opportunities for training and rehabilitation are tried and that all measures to assist the applicant to re-enter the labour force must have failed before a decision is taken to provide an early retirement pension (Denmark, from July 1998).

99. The policy changes to public benefits which are designed to reduce the attractiveness of early retirement may have limited effectiveness on the actual retirement decisions of individuals. The extension of private pension schemes, many of which have opportunities for early retirement as in the United Kingdom, Australia, Finland and Sweden, may lead to further reductions in the effective age of retirement. The financial situation of the family, in terms of employment attachment and other private savings could also be more important contributing factors to the retirement decision than the availability of public pensions. Nevertheless, it is desirable for countries to limit the extent of public subsidy for early retirement. Retirement decisions should be taken in an environment where public policy is at least neutral in terms of financial incentives for early retirement.

100. Public and political pressure may limit the extent to which countries can pursue reforms to early retirement provisions. For example, in Norway where the government has a policy stance to increase the effective age of retirement, the lower age limit for access to the early retirement pension is to fall from the current age of 64 to 62 years in March 1998, as part of a recent collective wage settlement.

101. Above the age of statutory retirement, some countries have introduced financial incentives for people to keep working and delay taking up their pension entitlements. This usually takes the form of permanent increments to the pension rate when it is finally accessed, adjusted according to the period of deferment. Some countries have limits on the maximum period of deferment, such as to age 70, but Finland, Sweden (from 1999) and the United Kingdom (from 2010) will allow indefinite delay of pension take-up with commensurate bonuses to be paid from the time when the pension is accessed.

102. In some cases the rate of pension is increased according to actuarial adjustments (in Canada since 1987, Luxembourg and Sweden from 1999) while other countries have set permanent increments according to the number of months the pension is deferred (Finland, Hungary, Germany, the Slovak Republic and Sweden). Australia plans to introduce a single lump-sum bonus for those who defer retirement, payable at the time they initially take up the old-age pension according to a formula which takes account of the number of years they defer and the value of their pension payment.

### *Other employment and pension linkages*

103. Some retirement income systems are being adjusted so that they provide greater direct relationship between years of contributions and final payments. Some countries, such as Spain and Hungary, have identified design faults with current arrangements in that they provide only limited increases in pension payments for working longer and/or there is not a clear link between the level of contributions and final pension payments. The imminent pension reforms in Sweden will introduce a greater linkage between contributions and final benefits, by introducing a PAYG defined-contribution system in combination with a fully funded premium reserve system.

104. One way in which some countries are breaking the linkage between contributions and final payments includes recognition of periods of unemployment towards the establishment of pension rights. The Canada Pension Plan allows interruptions to contributions for illness, unemployment and education, and up to 15% of months (with ether low or no earnings) can be disregarded in the calculation of final benefits. Luxembourg and Finland also allow certain periods outside employment (such as unemployment, sickness, disability and training/education) to contribute to pension qualification requirements.

105. Other countries, such as Turkey, Italy and Greece have identified difficulties of very early access to pensions once people have met the necessary number of contributory years, and some reforms provide improved incentives for people to work longer. Switzerland allows people to keep working past the usual retirement age and this enables the people enrolled in the compulsory occupational pension to accumulate a higher pension if they are not eligible for the maximum pension payment (perhaps because of limited prior work or contributory history).

106. Many OECD countries have pension rules which encourage people to phase down their labour force participation gradually, particularly as they approach the statutory retirement age. With respect to those in receipt of pensions above the statutory age of retirement, OECD countries have conflicting approaches to encourage or discourage labour force participation.

**Table 16: Pensions and employment: linkage in selected countries**

107. Availability of partial pensions is one method by which a number of countries attempt to facilitate a smooth transition from work to retirement, enabling people below the statutory retirement age to reduce their hours of work with the loss of income from earnings partially compensated by the partial pension. Examples of countries which currently provide this option include Denmark, France, Japan, Luxembourg, Germany, and Sweden. In many cases, phased retirement has only become available over the last decade or so. In Sweden, where the partial pension arrangement was introduced in 1976, recent reforms restrict access (the minimum eligibility age is increasing from 60 to 61 years) and the generosity of the pension payment is being reduced from 65 per cent to 55 per cent. From 2001, the partial pension option will be withdrawn as part of the set of broader pension reforms to be introduced in Sweden.

108. For those above retirement age, older people already in receipt of a pension may face incentives or clear discouragement to keep working (usually on a part-time basis), aside from the deferred pension incentives discussed earlier. There are clear differences between OECD countries on this aspect of their pension design. Belgium and the United States both provide concessional treatment for earnings obtained by old-age pensioners. Norway also provides incentives for people drawing pension between ages 67 and 70 to keep working through generous limits on earned income. In Denmark, the policy direction is to encourage older workers to delay retirement through improvements in working conditions. Employers and unions, supported by the government, are to develop specific strategies aimed at making it more attractive to continue to work after the age of 60. Other countries, such as Poland, provide pensioners with the opportunity to earn extra income without significant concessions or incentives. Still other countries are looking to restrict the employment activity of old-age pensioners: Italy is moving to limit the opportunity for people to concurrently draw a pension and work, and the Slovak Republic has draft legislation which would preclude old-age pensioners from working while drawing a pension. France has a principle that people must leave employment before they can draw a pension, but temporary rules allow a combination of work and pension receipt in some cases.

109. Countries have been slower to respond to the retirement income challenges from changes in employment patterns. Finland is seeking to improve pension coverage for those with short-term employment arrangements from 1998. The first revision of LPP (legislation for occupational compulsory schemes) in Switzerland which is now underway will allow to correct the current exclusion of many part-time workers from occupational pension schemes because their earnings are generally below the lower income limit for compulsory coverage. The National Pension Reform commission in Korea is also considering options to extend coverage to the urban self-employed. Over the last decade, Ireland has expanded coverage of its social insurance pension to include both the self-employed and part-time workers.

110. On the international front, OECD countries are witnessing not only increased globalisation in product markets but also increased globalisation of labour services. Some OECD countries have also historically had high rates of net migration. In response, some countries have developed bilateral (and in other cases multilateral) agreements to cater appropriately for people who have established pension rights in several countries.

**Box: Examples of international social security agreements for pension totalisation**

***Policies responding to changes in family circumstances***

111. A number of countries have modified their pension arrangements to respond to changes in family circumstances. Germany allows periods spent raising children (up to the age of 10 years), and since April 1995, periods spent providing unpaid home nursing care, to count as pension contribution periods. Belgium also allows career break periods, such as when parents care for young children, to be included as time accumulating pension rights. As part of the recent pension reforms in Italy, women with a contributory record are given an extra three months notional contribution for each child they have had, up to a maximum of twelve months. Switzerland similarly enables those caring for young children and close family members to benefit from notional pension contribution credits since the 10th AVS Review which was effective from January 1997, while the United Kingdom is considering the establishment of a Citizenship Pension which for example would provide increased benefits to those unable to contribute to alternative schemes because they are undertaking caring duties. In Ireland, persons receiving the One Parent Benefit or the Carer’s Allowance may be eligible for credited contributions, which assist in qualifying for pensions. These moves contrast with steps taken by other countries to limit the extent to which non-contribution

periods count as qualifying periods for pension, in order to improve the financial balance of their pension funds.

112. Belgium has an innovative approach to respond to the increased incidence of divorce. A special old-age pension is available to the divorced husband/wife at age 60, based on 37.5% of the former spouse's earnings during the marriage reduced by the amount of pension they earned in their own right during those years. This provides some income protection to dependent spouses who subsequently become divorced and would be without adequate retirement income provision in the absence of such a pension.

## Concluding remarks

113. Pension reform is neither simple or easy, if it is done properly. Yet governments do need to respond to the multitude of challenges to pension arrangements. The process of reform may be assisted by a comprehensive internal review of pension arrangements, to establish the major threats to the pension system, involve experts outside of government and enable community involvement in the process -- although this does not guarantee that governments will get their way on the final agreed policy changes.

114. Pension reform often does not provide an instant solution. Most changes are phased in over a number of years, so as not to disadvantage those who have made retirement plans and are now close to retirement and to ease any potential public disquiet over the nature of the changes themselves. For many OECD countries, the phasing in of changes in response to the ageing of their population will not matter, as long as the new policy position is operational and effective for the critical peak time around 2010-30. Nevertheless, it does point to the need for the implementation of responses to take account of the generally long phasing in of many changes.

115. Governments need to be alert to the need for further change. The social and economic environment in OECD countries has been subject to considerable change over the last thirty years -- and there is no reason to expect that the pace of change will recede. New policy approaches adopted now may exacerbate other identified problems; for example, greater encouragement of private sector pensions may lead to further reductions in the effective age of retirement.

116. There are limits on the effectiveness of public policy to achieve certain outcomes. Many of the factors affecting the retirement decision of individuals and couples, such as employer hiring and firing practices, prior growth in living standards and asset accumulation, preferences for leisure and the health status of those approaching retirement, are not within the direct control of government. However, public policy can adapt to influence incentives at the margin and remove any perverse subsidies or incentives that are currently provided.

117. This paper has largely documented the directions of recent pension reforms in OECD countries. Other countries are still in the process of determining the nature of desired reforms. What remains to be seen is whether these reforms will turn out to be adequate and achieve their desired outcomes.

**Table 1: Public flat-rate pension programmes in Member countries**

| Country (1) | Pensionable age | Eligibility requirement (for full pension) (2) | Amount of benefit (full pension, unless otherwise indicated) (3) | Rate of contribution (4) | State Subsidy | Supple-ment (5) |
|---|---|---|---|---|---|---|
| Australia (1908*) | 65 (M)<br>61 (W)<br>(Jul.1997) | 10 yr continuous residence<br>(5 yr continuous residence if total years exceed 10) (income/asset-tests) | A$ 173.90 a week (for single)<br>A$ 290.10 a week (for couple) (Mar.1997)<br>(27.4%*) | None | All cost | Yes (means-test) |
| Austria | 65 (M)<br>61 (W) | (income-test) | Amount to raise pension to 7,887 schillings a month for individuals, 11,253 schillings for couples, plus 840 schillings per child<br>(30.5%) | None | All cost | |
| Belgium | 65 (M)<br>61 (W) | (income-test) | BF 246,076 a year (for single)<br>BF 328,098 a year (for couple) (Aug.1997)<br>(28.7%*) | None | All cost | Yes (means-test) |
| Canada (1951) | 65 | 40 yr residence after age 18<br>(income-test) | C$ 405.12 a month (Sept.1997)<br>(14.4%) | None | All cost | Yes (income-test) |
| Czech Republic | 65 | (income-test) | Up to 2,460 crowns a month (Jan.1995)<br>(36.0%) | None | All cost | |
| Denmark (1891*) | 67 | 40 yr residence between 15 and 67<br>(income-test) | 3,810 kroner a month<br>(n/a) | None | All cost | Yes (income-test) |
| (ATP, for wage earners only) (1964) | 67 | Having paid contributions from 1964 (the year when the scheme was introduced) | 14,500 kroner a year for those who have paid full contributions<br>(n/a) | Up to 894 kroner a year (ip)<br>Up to 1.788 kroner a year (er) | None | |
| Finland (1956) | 65 | 40 yr residence<br>(other-benefits-test) | 2,140 - 2,547 marks per month, according to municipality, marital status, other income received, etc.<br>(24.5%) | None (ee)<br>Up to 20.4% (sp, as of Jan.1996)<br>2.4-4.9%(er, private)<br>3.95% (er, public) | about 36%<br>(as of Jan.1996) | Yes (income-test) |
| France (6) (1941*) | 65 | (means-test) | Up to a basic minimum (41,196 francs a year)<br>(45.4%*) | The fund for this scheme is largely funded by the General Social Contribution (3.4% of 95% income). | Much of the taxes on alcohol and non-alcoholic drinks finances the fund for this scheme. | |

**Table 1: Public flat-rate pension programmes in Member countries (continued)**

| Country (1) | Pensionable age | Eligibility requirement (for full pension) (2) | Amount of benefit (full pension, unless otherwise indicated) (3) | Rate of contribution (4) | State Subsidy | Supple-ment (5) |
|---|---|---|---|---|---|---|
| Greece (OGA: for agricultural workers) (1961) (7) | 65 | • 25 years of employment in agriculture or other rural activities<br>• Not in receipt of a social security pension | 34,000 drs/month<br>(15.8%) | None | All cost | Yes (for disabilities) |
| (For non-insured) (1982) | 65 | • No household member should receive a social security pension<br>• Family income should be no higher than the equivalent of anOGA pension. | 34,000 drs/month<br>(15.8%) | None | All cost | Yes (for dependent members and for disabilities) |
| Hungary | 60 (M)<br>56 (W) | (means-test) | 80% of the minimal old-age pension<br>(The amount of minimal pension is 40% of the net average earnings.)<br>(n/a) | None | All cost | |
| Iceland (1909*) | 67 | At least 3 years residence at ages 16-66 | Up to IKr 13,640 a month<br>(n/a) | None (ip)<br>3.88-6.28% (er) | Remaining costs | Yes (income-test) |
| Ireland (1908*) | 65 (retirement)<br>66 (old-age) | Insurance coverage before age 56 or 57, 156 weeks of paid contribution, etc. (Maximum pension -- yearly average of 48 contributions, paid or credited from date of entry; Minimum pension -- average of 24, if retired at age 65; average of 20, if retired at age 66) | Up to £Ir 75.00 a week<br>(weekly allowances paid for adult and child dependants)<br>(29.0%) | 5.50% of covered weekly earnings plus some addition (ip)<br>5.0% of covered weekly earnings plus some addition (sp)<br>Up to 12% (er) | Any deficit | Yes (means-test) |
| Italy | 65 | (income-test) | Up to 390,300 lire a month, with additional 125,000 lire a month available for those who live alone with no other means of support or if spouse only receives equivalent of the social pension.<br>(18.1% for basic benefit) | None | All cost | Yes (means-test) |
| Japan (1985) | 65 | 40 years of contribution | ¥785,500 a year<br>(23.5%) | ¥12,800 a month (Apr.1997) (sp) (8) | 1/3 of the payment cost, plus adminis-trative cost | |
| Luxembourg | 60 | Residence of at least 10 yrs during the last 20 yrs (income-test) | The amount which will fulfil, with other income, the guaranteed minimum income set out by the state (RMG) (n/a) | None | All cost | |
| Netherlands (1957) | 65 | Residence from age 15 through 64 | 1,542.21 guilders a month for single person<br>1,069.79 guilders for each of couple<br>(37.2%) | 15.40% of income (ip)<br>None except for supplement (er) | Fund needed to bring low benefits up to social minimum | |

**Table 1: Public flat-rate pension programmes in Member countries (continued)**

| Country (1) | Pensionable age | Eligibility requirement (for full pension) (2) | Amount of benefit (full pension, unless otherwise indicated) (3) | Rate of contribution (4) | State Subsidy | Supple-ment (5) |
|---|---|---|---|---|---|---|
| New Zealand (1898*) | 62 | 10 yrs residence (7 yrs since 50) | NZ$249.50 a week (single) NZ$368.66 a week (couple) (gross) (42.0%) * The full couple rate is income-tested. | None | All cost | |
| Norway (1936*) | 67 | 40 yrs residence | Base amount: 42,500 kroner (May 1997) (150% for aged couple) (18.6%) | Up to 7.8% of income (ee) 7.8-10.7% of income (sp) Up to 14.2% of wage (er) | Any deficits | Yes (other-benefits-test) |
| Portugal (1980) | 65 | (income-test) | 21,000 escudos a month (n/a) | None | All cost | Yes (means-test) |
| Slovak Republic | 60 (M) 53-57 (W) | (income-test) | 2,180 Sk (single) 3,850 Sk (couple) (Jul.1997) (n/a) | None | All cost | |
| Spain (1991) | 65 | 10 yrs residence from 16 to 65, with more than 2yrs continuous residence at the time of application (means-test) | Decided annually by the Law on the General State (n/a) | None | All cost | |
| Sweden (1962) | 65 | 40 yrs residence (or 30 yrs pension points) | SEK 34,245 (single) SEK 28,003 (married) (1998) (15.4%) | None (ee) 6.83% (er) 6.83% of assessable income (sp) (1998) | About 25% of cost | Yes (other-benefits-test) |
| Switzerland | 65 (men) 62 (women) | (means-test) | Up to SFR 28,488 (for a single person residing in an institution) Up to SFR 47,760 (for a couple residing in an institution) (43.5%*) | None | All cost | |
| Turkey (The law 2022: 1976) | 65 | (means-test) | TL3,201,000 (1.5 times for those who married) (1998) (n/a) | None | All cost | |
| United Kingdom (9) (1946) | 65 (men) 60 (women) | 50 weeks of paid contributions or equivalent (The amount of base earnings varies) | Up to £62.45 a week (19.9%) | 2% -10% (ee) £6.15 a week plus some addition (sp) 3%-10% of employee's total earnings (er) | None | Yes (means-test) |
| (Non-contributory retirement pension) (1971) | 80 | Ineligible for contributory pension Residence in the UK for the last 10 years | 60% of the above rate | None | All cost | Yes (means-test) |

## Table 1: Public flat-rate pension programmes in Member countries (continued)

| Country (1) | Pensionable age | Eligibility requirement (for full pension) (2) | Amount of benefit (full pension, unless otherwise indicated) (3) | Rate of contribution (4) | State Subsidy | Supple-ment (5) |
|---|---|---|---|---|---|---|
| United States | 65 | (income/asset-tests) | Up to $470 (single)<br>Up to $705 (couple)<br>(21.9%) | None | All cost | Yes (means-test) |

Source: *Social Security Programs Throughout the World - 1997* (Social Security Administration, US), country responses for “Caring World” synthesis questionnaire, etc.

* All of the items are as of 1 January 1997, unless otherwise indicated.
* The above schemes are distinguished from minimum benefits by public earning-related schemes that are employed in some countries and described in Table 6.2.
* In some countries, such as Poland, break-down of the benefit explicitly consists of flat-rate portion (“social part”) and earnings-related portion (“individual part”), with the former serving as a similar scheme of flat-rate basic pension scheme. However, that is not included in the above chart because it is not an independent system for income maintenance and is considered to be the same as the lower limit of pension benefit which is decided implicitly in relation to the lower limit of income which is covered and contribution is imposed for.
* Some countries such as the UK collect a single rate of contributions which combines flat-rate benefits and earnings-related benefits.
* Detail on the specific type of means-testing used (e.g., income/assets/other benefits) is included above where information has been made available. (In other cases, the term “means-test” is used.) With an “income-test,” the scope of income is usually the total amount of income, but in some countries it may be more restrictive to only encompass earnings, for example. “Other-benefits-test” refers to benefit payments from other tiers of pension programs. In addition, the degree of severity or generosity of the tests can vary significantly from country to country, which is not reflected in the table.

(1) The number in the bracket indicates the year when the current scheme was established, or when the first scheme was introduced ( with asterisk).
(2) Other than a certain length of residency in the country or contribution to the scheme, many countries require particular residency status, such as citizenship or permanent residency status.
-- This chart classifies reduction of benefit for relatively rich elderly as means test, though some of them are not explicitly referred as such in the country which has the system.
(3) Figures in the brackets indicate the percentage of the amount of the benefit (for single when specified) against the average annual wage (1995, local currency - manufacturing. The data with asterisk is calculated with the data in 1994 for the average income.)
(4) Basis of contributions is “earnings” in case of insured persons/employee/self-employed persons, “payroll” for employer, unless otherwise indicated.
-- (ee):employee / (er): employer / (sp): self-employed persons / (ip): insured persons
(5) “Supplement” is provided in case the overall income level of a person is certifiably low (income-test) in some country, or for particular purposes (for house rent, expenses in living in remote areas, etc.) in others.
(6) France has a 2 -tier flat-rate scheme (AVTS(AVTNS) for the elderly not eligible for contributory scheme, and a supplementary benefit which covers all the elderly to raise their income level to the basic minimum).
(7) This scheme is to be gradually phased out over the next 10 years as a new contribution-related scheme is phased in.
(8) Only self-employed persons have to pay the contribution explicitly for the basic pension; in case of other enrolees for other earnings-related schemes such as Employees’ Pension, the contribution to the scheme implicitly includes the portion for the basic pension.
(9) April 1997.

## Table 2: Public earning-related pension programmes in Member countries

| Country (1) | Coverage of the Program (2) | Pensionable Age (standard) | Eligibility Requirements (3) | Amount of Benefit | (Maximum/ Minimum Benefit) | Rate of Contributions (4) | Coverage of State Subsidy |
|---|---|---|---|---|---|---|---|
| Austria (1956) | Coverage:(a)<br>• Special systems for public employees, self-employed persons, etc.<br>• Lower earnings limit for coverage of employee | 65 (M)<br>60 (W) | At least 180 months of insurance coverage in the last 30 years or 180 months of contribution | 1.83% of average earnings in best 15 yrs for each of first 30 insurance yrs, plus 1.675% for each insurance yr from 31-45<br>• Maximum limit of earnings in calculating benefits | Max: 80% of average covered earnings | 10.25% (ip)<br>12.55% (er)<br>• Maximum limit of earnings in calculating contributions | Any deficits |
| Belgium (1967) | Coverage: (a)<br>• Special systems for public employees, self-employed persons, etc. | 65 (M)<br>61 (W) | 45 years (M) or 41 years (W) of coverage | Based on the salary earned during the recipient's working life and on the length of working career | Max: 60 % (75 % for couple) of average lifetime earnings | 7.5% (ip)<br>8.86% (er) | Annual subsidies |
| Canada (Canada Pension Plan) (1965) | Coverage: (b)<br>• Casual employment, brief agricultural employment, etc. are excluded from coverage.<br>• Lower earnings limit for coverage (5) | 65 | Having made at least one year of contribution | 25% of average covered earnings<br>• Maximum/minimum limit of earnings in calculating benefits | Max: C$736.81 a month | 3% (ee)<br>6% (se)<br>3% (er)<br>• Maximum/minimum limit of earnings in calculating contributions | None |
| Czech Republic (1906*) | Coverage: (b) | 60 (M)<br>53-57 (W) | At least 25 years (at year of age 65) of insurance<br>• Substantial limitation of work is ordinarily needed during the first 2 yrs after the retirement age. | 920 crowns plus earnings-related portion of 1.5% of average indexed earnings for each yr of insurance after 1985<br>• Maximum limit of earnings in calculating benefits | Min: Basic flat rate plus 770 crowns | 6.5% (ip)<br>19.5% (er) | Any deficit |

**Table 2: Public earning-related pension programmes in Member countries (continued)**

| Country<br><br>(1) | Coverage of the Program<br>(2) | Pensionable Age<br>(standard) | Eligibility Requirements<br><br>(3) | Amount of Benefit | (Maximum/ Minimum Benefit) | Rate of Contributions<br><br>(4) | Coverage of State Subsidy |
|---|---|---|---|---|---|---|---|
| Finland<br>(TEL)<br>(1961) | Coverage: (a)<br>• Special systems for public employees, self-employed persons, etc.<br>• Lower earnings limit and minimum employment period for coverage of employee | 65 | 40 years coverage<br>• Retirement from covered employment | 1.5% (2.5% for years at age 60 or older) of average pensionable earnings times years of coverage until age 65<br>• Pensionable earnings are calculated by modifying average earnings with a certain formula. | Full pension when the coverage lasts 40 years from age 23 | 4.5% of taxable income (ee)<br>9.46% to 25.34% (er)<br><br>• Maximum limit of earnings in calculating contributions | The portion for self-employed and farmers not covered by their own contributions |
| France<br>(Régime Général)<br>(1930*) | Coverage: (a)<br>• Special systems for public employees, self-employed persons, etc. | 60 | At least 150 quarters of coverage | 50% of average earnings in 25 highest years (in 2008)<br>• In the meantime, the year is increasing from 11 ('94) to 24 (2007).<br><br>• Maximum limit of earnings in calculating benefits | Max: 50% of maximum earnings for contribution<br><br>Min:38,524.90 francs per yr if have 150 quarters of coverage | 6.55% of pensionable earnings + General Social Contribution of 3.4% of 95% income (ip)<br>8.2% of covered earnings plus 1.6% of total payroll (er)<br>• Maximum limit of earnings in calculating contributions | Variable subsidies |
| (ARRCO, Association des régimes de retraites complémentaires)<br><br>* There are other compulsory occupational schemes such as AGIRC. | Coverage: (b)*<br>Compulsory for "non-cadre" personnel as well as "cadre" personnel, some farm workers, etc.<br><br>• Special systems for public employees, etc. | 65 (60 when the require-ments for Régime Général (minimum contributions, etc.) are fulfilled) | Retirement (Beneficiaries can take up gainful employment with certain conditions) | (Defined-contribution scheme) Acquired pension points (accumulated annually) multiplied by current point value | Average: 1,316 FF (monthly: 1994) | Compulsory portion: 6.875% (The ratio between employer/employee is 3:2.)<br>(1998: will be 7.5% in 1999) | |
| Germany<br>(1957) | Coverage: (b)*<br>• Special systems for public employees, self-employed persons, etc. | 65 (M)<br>60 (W) | At least 5 yrs coverage | Individual "earning points" related to average earnings and the age at the beginning of the pension multiplied by the actual pension value | Target rate: About 70% of current average net income when completed 45 working years | 10.15% (ee)<br>18.6% (sp)<br>10.15% (er)<br>• Maximum limit of earnings in calculating contributions | Annual subsidy of about 20 % of total cost of pension insurance |

## Table 2: Public earning-related pension programmes in Member countries (continued)

| Country (1) | Coverage of the Program (2) | Pensionable Age (standard) | Eligibility Requirements (3) | Amount of Benefit | (Maximum/ Minimum Benefit) | Rate of Contributions (4) | Coverage of State Subsidy |
|---|---|---|---|---|---|---|---|
| Greece (IKA) (1934*) | Coverage: (b)* • Special systems for public employees, agricultural workers, etc. | 65 (M) 60 (W) | At least 15 years of coverage | 80% of average earnings of last 5 years for 35 years of coverage<br><br>• Maximum limit of earnings in calculating benefits<br><br>(For those entering the labour market after 1993, the rate is 60% and the maximum limit of calculation is not applied.) | Max: Earnings on which pension has been calculated Min: 86,940 drachmas a month, increased by dependants' supplement | 6.67% (ee)<br>13.33% (er)<br>(d)<br>• Maximum limit of earnings in calculating contributions (not applicable to those entering the labour market after 1993) | Any deficit, plus 10% of earnings of those entering the labour market after 1993 |
| Hungary (1928*) | Coverage: (b) | 60 (M) 56 (W) | At least 20 years of employment | (For 20 yrs coverage) 53% of net earnings during best 4 year period in 5 years preceding retirement. Earnings of the next 15 yrs are differently evaluated for full benefit.<br>• There are other variations according to coverage years and amount of earnings. | Min: 6,400 forints a month | 6% of gross earnings (ip)<br>24.5% (er) | Any deficit |
| Iceland (1909*) | Coverage: (b) | 67 | 40 yrs residency | Depends on paid contributions | | 4% (ee)<br>10% (se)<br>6% of employee's wages (er) | None |
| Italy (*Old-age Pension*) (1919*)<br><br>(6) | Coverage: (a) • Special systems for industrial managers, civil servants, self-employed farmers, etc. | (Old system) 63 (M) 58 (W)<br><br>(New system) 57-65 | (Old system) At least 18 years of coverage<br><br>(New system) For retirement before 65, at least 5 contributory years and earned pension 1.2 times equivalent to the social allowance. Otherwise, 40 years of contribution enables the provision regardless of age. | (Old system) Coefficient (0.9-2) times salary and years of service<br><br>(New system) Amount of accumulated contributions times coefficient (4.72 (age 57)-6.136(age 65))<br>• Maximum limit of earnings in calculating benefits (for the new system) | Min: 685,400 lire a month | 33 % (for wage workers in public and private sector: includes the portion for family allowances)<br>20% (sp)<br>10% (others)<br>* Those rates are used to calculate the benefit amount. The rate for collection is decided differently.<br>• Maximum/minimum limit of earnings in calculating contributions (Maximum limit is for the new system) | Any overall deficit and means-tested allowance |

**Table 2: Public earning-related pension programmes in Member countries (continued)**

| Country<br><br>(1) | Coverage of the Program<br>(2) | Pensionable Age<br>(standard) | Eligibility Requirements<br><br>(3) | Amount of Benefit | (Maximum/ Minimum Benefit) | Rate of Contributions<br><br>(4) | Coverage of State Subsidy |
|---|---|---|---|---|---|---|---|
| Japan<br>(*Employees' Pension Insurance*)<br>(1941 ) | Coverage: (a)<br>• Special systems for public employees, private school teachers, etc. | 60 (M)<br>59 (W) | At least 25 years of coverage | (1-0.75)% of indexed monthly wages times the number of months of coverage<br>(7)<br>• Minimum/minimum limit of earnings in calculating benefits | | 8.675% (ip)<br>(d)<br>8.675% (er) (8) (9)<br><br>• Maximum/minimum limit of earnings in calculating contributions | Cost of administration |
| Korea<br>(*National Pension Scheme*)<br>(1988) | Coverage: (b)<br>• Special systems for public employees, private school teachers, etc. | 60 | At least 20 years of coverage | 2.4 times the sum of average monthly earnings of all insured persons in the preceding year plus some additions for each insured year in excess of 20 | | 3% from 1998 (ee)6% from 1998 (er)<br><br>(sp): 3% (1995-2000)<br>6% (2000-2005)<br>9% (2005-)<br>(d) | Partial cost of administration and flat-rate subsidy (W2,200) for farmers and fishermen |
| Luxembourg<br>(1987) | Coverage: (b)<br>• Special systems for railway and public employees | 65 | At least 120 months of coverage | Lump-sum of 9,711 francs per month if insured for 40 years plus increments equal to 1.78% of adjusted lifetime covered earnings per yr of complete insurance coverage<br><br>• Maximum/minimum limit of earnings in calculating Benefits | Max: 183,920 francs per month<br><br>Min: 39,727 francs per month if insured for 40 years | 8% (ip)<br>8% (er)<br><br>• Maximum/minimum limit of earnings in calculating contributions | 8% of earnings |
| Mexico (10)<br>(RCV)<br>(1943) | Coverage: (b)*<br>• Special systems for petroleum workers, public employee, etc. | 65 | At least 500 weeks of contributions | 35% of average earnings during last 250 weeks of contributions, plus 1.25% of earnings per year of contribution beyond 500 weeks<br>• Maximum/minimum limit of earnings in calculating benefits | Max: 100% of earnings if 2,000 weeks of contributions or more<br>Min: 100% of minimum salary in the Federal District | 2.075% (ip)<br>5.810% (er)<br><br>• Maximum/minimum limit of earnings in calculating contributions | 0.415% of payroll |

**Table 2: Public earning-related pension programmes in Member countries (continued)**

| Country (1) | Coverage of the Program (2) | Pensionable Age (standard) | Eligibility Requirements (3) | Amount of Benefit | (Maximum/ Minimum Benefit) | Rate of Contributions (4) | Coverage of State Subsidy |
|---|---|---|---|---|---|---|---|
| Norway (1936*) | Coverage: (b)<br>• Special systems for railway, public employees, etc.<br>• Lower earnings limit for coverage | 67 | 20 years of coverage (increasing to 40 years) | 42% of the current base amount multiplied by the enrolee's average annual number of pension points in 20 years with the most points.<br>• Minimum limit of earnings in calculating benefits | Full pension with 20 years of coverage | Up to 7.8% of income (ee)<br>7.8-10.7% of income (sp)<br>Up to 14.1% of wage (er) | Any deficit |
| Poland (*General Social Insurance Fund*) (1982) | Coverage: (b)*<br>• Special systems for police, and independent farmers | 65 (M)<br>60 (W) | At least 25 years (men) or 20 years (women) insurance.<br>• Partial retirement necessary. | 24% of average national salary with some earnings-related addition which reflects the coverage yrs (1.3% of workers earnings base multiplied by the number of contributory years (0.7% for the periods when contribution is exempted))<br>• Maximum limit of earnings in calculating benefits | Min: 274.02 zlotys a month | None (ip)<br>45% (er) | None |
| Portugal (General contributory scheme run by IGFSS) (1935*) | Coverage: (b)<br>• Special systems for miners, railway workers, etc. | 65 (M) (Pensionable age for women was 62 in 1993, and will be 65 in 1999.) | At least 15 years of contribution (120 days of contribution at least by year). | 2% of average annual earnings during highest 10 of last 15 years times year of insurance. | Max: 80% of average earnings<br><br>Min: 30% of average earn-ings or 30,100 escudos, whichever is higher | 11% (ee)<br>25.4% for mandatory coverage, 32% for voluntary coverage (sp)<br>23.75% (er) | Subsidy for social pension and health care |
| Slovak Republic (*Pension Fund*) (1906*) | Coverage:(b) | 60 (M)<br>53-57 (W) | At least 25 years of employ-ment (20 years for women)<br>• Substantial retirement usually necessary | 50% of average earnings during highest 5 of last 10 years plus 1% of earnings per year of employment between 26 and 42 years<br><br>• Maximum limit of earnings in calculating benefits | Max: 5,650 crowns a month for all pensions<br><br>Min(with full career): 550 crowns a month plus amount necessary to bring total monthly income to 2,507 crowns | 5.9% of revalued earnings (ee)<br>26.5% of revalued earnings (sp)<br>21.6% (er) | Any deficit |

**Table 2: Public Earning-related Pension Programmes in Member Countries (continued)**

| Country<br>(1) | Coverage of the Program<br>(2) | Pensionable Age<br>(standard) | Eligibility Requirements<br>(3) | Amount of Benefit | (Maximum/ Minimum Benefit) | Rate of Contributions<br>(4) | Coverage of State Subsidy |
|---|---|---|---|---|---|---|---|
| Spain<br>(general regime)<br>(1919*) | Coverage: (a)<br>• Special systems for agricultural workers and small farmers, self-employed, etc. | 65 | At least 15 years of contribution, including 2 years in last 8 years.<br>• Retirement necessary. | 60 % of benefit base plus 2% per year of contribution over 15 years<br>• Maximum limit of earnings in calculating benefits | Max: 100% of benefit base with 35 years contribution<br>Min: 54,825 pesetas a month for single | 4.7% of covered earnings (ip)<br>23.6% of earnings (er)<br>• Maximum limit of earnings in calculating contributions | Annual subsidy |
| Sweden<br>(ATP)<br>(1960) | Coverage: (b)<br>• Lower earnings limit for coverage | 65 | 30 years coverage | 60% of the current base amount multiplied by enrolee's average annual number of pension points in 15 years of most points.<br>• Maximum limit of earnings in calculating benefits | Full pension for 30 yrs of coverage | 1% of assessable income (ee)<br>13.0% (er)<br>• Maximum limit of earnings in calculating contributions | None |
| Switzerland<br>(AVS)<br>(1948*) | Coverage: (b) | 65 (M)<br>62 (W) | Contribution during all years from 21 | Flat-rate portion plus earnings-related portion based on annual income (2 different formula according to the income level) | Max: 1,990 francs a month<br>Min: 995 francs a month | 4.2% (ee)<br>7.8% (sp)<br>4.2% (er)<br>* Also covers the risk of survivorship | Annual subsidies covering about 20% of the old age benefit |
| Turkey<br>(Wage earners scheme by *Social Insurance Institution*)<br>(1945) | Coverage: (a)<br>• Special systems for public employ-ees, self-employed people, etc. | 55 (M)<br>50 (W) | 1) At least 5000 days of contributions<br>2) 15 years of coverage and at least 3,600 days of contributions<br>3) 25 (M) or 20 (W) years of coverage and at least 5,000 days of contributions | (For persons who fulfilled the eligibility requirements) 60-85% of average indexed earnings during last 10 years (1998)<br>• The above beneficiaries also receive "social contribution" of 4,690,000 TL a month.<br>• Maximum/minimum limit of earnings in calculating benefits | Max: 75,209,485 TL a month<br>Min: 39,726,400 TL a month<br>(January 1, 1998) | 9% (ip)<br>11% (er)<br>• Maximum/minimum limit of earnings in calculating contributions<br>(d) | Social contributions (4,690,000 TL a month for one pensioner)<br>Any deficits |
| United Kingdom<br>(State Earnings-Related Pension Scheme) (11)<br>(1975) | Coverage: (a)<br>• Lower earnings limit for coverage<br>• "Constact-out" is possible when the insured person belongs to a private scheme that fulfills certain requirements | 65 (M)<br>60 (W) | Contributions paid as an employee on earnings between the lower and upper earnings level in any tax year from April 1978 | 25% of average earnings over notional working life of best 20 years | | 2% - 10% (ip)<br>£6.15 a week plus some addition (sp)<br>3% - 10% of employee's total earnings (er)<br>• Maximum/minimum limit of earnings in calculating contributions<br>(e) | None |

## Table 2: Public earning-related pension programmes in Member countries (continued)

| Country<br><br>(1) | Coverage of the Program<br>(2) | Pensionable Age<br>(standard) | Eligibility Requirements<br><br>(3) | Amount of Benefit | (Maximum/ Minimum Benefit) | Rate of Contributions<br><br>(4) | Coverage of State Subsidy |
|---|---|---|---|---|---|---|---|
| United States (Old Age, Survivorship, and Disability Insurance) (1935*) | Coverage: (b)<br>• Casual agricultural employment, domestic employment, limited self-employment, etc. are excluded from coverage. | 65 | At least 40 quarters of coverage | Average earnings are calculated over a certain period. They are divided into 3 parts according to the amount and multiplied by different coefficients.<br><br>• Maximum limit of earnings in calculating benefits | Max: $1,326 a month | 6.2% (ee)<br>12.4% (sp)<br>6.2% (er)<br><br>• Maximum limit of earnings in calculating contributions<br>(e) | Cost of special monthly old-age benefit for persons aged 72 before 1968 |

Source: *Social Security Programs Throughout the World - 1997* (Social Security Administration, US) , *Corporate Pension Schemes in the World: Recent trends and developments* (in Japanese) (ed. by Pension Fund Association, Japan, 1996), and country responses to "Caring World" synthesis questionnaire. Information also comes from *Syntheses: Suivi Annuel Des Retraites (réaultats 1995)* (INSEE, France) as well as the Internet home page of Association des régimes de retraites complémentaires, France.

* Information is as of Jan. 1997, unless otherwise indicated.
* Recent trends of changing pensionable age are described more in details in Table 6.10.
* Those pension programs are often managed by semi-autonomous institutions and funds which are usually self-governing with bipartite or tripartite boards; otherwise, the governmental organs directly manage the program. Notably, ARRCO (and other compulsory occupational pension schemes) in France is included in this table because, in spite of its origin as a private scheme, it has been integrated in the System of National Accounts as a public scheme, with PAYG funding and national-level financial co-ordination.

(1) The number in the brackets indicates the year when the current scheme was established of when the first scheme was introduced (with asterisk). Also, the name of the scheme referred to in the table is indicated.
(2) Coverage: (a): employees / (b): (a) + self-employed people / "(b)*" means that only the specific portion ofthe self-employed people are eligible for the program.
(3) For full entitlement unless otherwise indicated.
(4) Those countries with (d) has a certain amount of surcharges in the contribution rate, as well as certain exceptions for the pensionable age and benefit amount in some cases, for some industries where the work is deemed "arduous" or "unhealthy." Also, there are some cases such as in Slovak Republic and Spain where earlier retirement or other favourable treatments are granted without surcharge.
-- In terms of rates of contributions, "ip" is for insured persons, "ee" for employee, "er" for employer, and "sp" for self-employed people.
-- Basis of contribution is "earnings" in case of insured person/employee/self-employed persons, "payroll" for employer, unless otherwise indicated.
-- Those contributions are usually not collected only for retirement pension; the fund is usually used for disability and survivors' benefits. The countries with (e) includes funds for health services for the elderly (e.g. US) or whole population (e.g. UK)
-- Some countries such as the UK collect a single rate of contributions which combines flat-rate benefits and earnings-related benefits. In the same way, the General Social Contribution, imposed in France, funds non-contributory flat-rate pensions and other benefits.
(5) Canada Pension Plan (CPP) does not cover the residents in the Province of Quebec; they are covered by Quebec Pension Plan, whose eligibility and benefit rules are basically the same as those of CPP.
(6) Italy introduced a new system in 1995, which covers new entrants to labour market from 1996 (fully) and those who had contributed to the old system for less than 18 years at the time of the reform (partially: coverage from 1996 is based on the new scheme). Therefore, "old system" and "new system" are both described in the Table. In addition, about "seniority pension," see Table 6.10.
(7) In addition to this earnings-related benefit, flat-rate pension is paid out of the same scheme (1,625 yen times (1.875-1.000) times the number of the month of coverage) to its enrolees, as well as additional allowances for those having spouse and children. Those ratios with brackets are decreasing according to the beneficiaries' date of birth. (Note: This special payment continues until the pensioners become eligible to the flat-rate basic pension at their age 65.)
(8) On top of the contributions, employees and employers pay 0.5% each from "bonus," or periodical lump-sum payment of wage/salaries.
(9) A certain portion of the contributions is used to finance the flat-rate basic pension.
(10) Mexico introduced a new mandatory private pension system in July, '97. The old system still remains and the insured people can enrol in either of them. The new scheme imposes different contribution rates (1.125% specifically for old-age benefit (ip) and 2% - 3.15% (er)).
(11) April 1997.

## Table 3: Replacement rate of public pension programmes

| Country | Description |
|---|---|
| Australia | As there is only a flat-rate scheme which is need-based, there is no target replacement rate. However, the maximum payment rate is equivalent to 25% male average total weekly earnings for a single person and 40% for a couple. |
| Austria | At maximum, 80% of average covered earnings are covered by earnings-related pension.(*) There is no target replacement rate. |
| Belgium | A target replacement rate is 60% for single persons. In case of married couple, this rate increases to 75% after fulfilling some requirements. |
| Canada | A target replacement rate (statutory) is 25% for individuals (earnings-related scheme only). Combined with flat-rate pension, about 40% (53% for one-earner couple) is currently insured. |
| Czech Republic | Current old-age pension benefit is composed of 920 crowns plus earnings related portion of 1.5% of average indexed earnings for each year of insurance after 1985.(*) (The base amount is 1,260 crown from 1 Aug.1997.) No target replacement rate is provided. |
| Denmark | A current replacement rate is nearly 80% for single, a little over 50% for married or cohabiting couple, in 1994, for basic and supplementary pension inclusive. (a) No target replacement rate is provided. |
| Finland | A target replacement rate is 60% of earnings for 37-42 years of coverage. In practice, an actual replacement rate is usually 40-50%. As to public sector, the target rate is 66%. |
| France | Depending on age and duration of insurance coverage, 25-50% of average salary for the best 25 years, as of 1 Jan. 2008. In the meantime, the length of the best years vary between 11 and 24 years.(*) A net replacement rate (public and occupational/compulsory schemes inclusive) in the private sector in 1993 is about 78%. (b) |
| Germany | A target replacement rate is about 70% after insurance period of 45 working years. This is envisaged to be reduced to 64% in about 30 years. |
| Greece | 80% (basic pension for employees (IKA): 60% for those entering the labour market after 1993) and 20% (supplementary pension for employees (IKA-TEAM)) of pensionable earnings are ensured after 35 year of insurance. |
| Hungary | There is no target replacement rate. The rate varies according to the covered years, etc., but currently 55-60% of national average earning is prevalent. Because of the recent reform, this rate would be 66% (for old system) or 48.8% (for new system) to the gross average earnings from 2013. |
| Iceland | A current replacement rate is a little over 80% in 1994, for basic and supplementary pension inclusive. (a) |
| Ireland | As there is only a flat-rate scheme, there is no target replacement rate. Currently the social insurance pension represents 26% of national average earnings for a single person and 45% of national average earnings for a couple. |
| Italy | Prior to the ‘95 Reform, maximum replacement rate could be 80% (2% for each contribution year, with full-benefit for 40-year contribution). After the reform, a replacement rate is expected to be about 60%. |
| Japan | A replacement rate is 68% of covered earnings. (c) |

## Table 3: Replacement rate of public pension programmes (continued)

| Country | Description |
|---|---|
| Korea | A target replacement rate is 70% (40%) for 40 (20) years coverage (respectively). |
| Luxembourg | There is no target replacement rate. An old-age pension is made up with flat-rate elements of 1/40 for every year (maximum of 40) and of proportional elements representing to 1.78% of total taxable income taken in to account. |
| Mexico | A current replacement rate is 35% of average earnings during last 250 weeks of contribution, plus 1.25% of earnings per year of contribution beyond 500 weeks. (*) |
| Netherlands | Benefits of public pension are related to net minimum wage: 100%, 90%, 70% for couple, single parents and single persons respectively. |
| New Zealand | As there is only a flat-rate scheme, there is no target replacement rate. The current scheme provides a retired couple with maximum payment a benefit equivalent to just under 70 % of net average earnings. |
| Norway | A current replacement rate is nearly 70% for single, a little less than 60% for married or cohabiting couple in 1994, for basic and supplementary pension inclusive. (a) There is no target replacement rate |
| Poland | A current replacement rate is 24% of average national salary, plus 1.3% of worker's earning base multiplied by the number of contribution years (and 0.7% of worker's earnings base multiplied by the number of credit years (e.g. for bringing up children)). (*) No target replacement rate is provided. |
| Portugal | The amount of retirement pension corresponds to 30% (minimum) to 80% (maximum) of average earnings. Non-contributory supplement is added when the calculated benefit amount is less than the minimum rate. |
| Slovak Republic | A target replacement rate is 40% of previous incomes from which the insurance fee was paid (though calculation basis could be different from actually earned income). |
| Spain | A replacement varies according to the length of working years, amount of salary, etc. Currently, for example, a pensioner with dependent spouse, having had average salary and worked for 35 years, receives 90% of income (net replacement rate). |
| Sweden | A current replacement rate is nearly 70% in 1998, for basic and supplementary pension inclusive . There is no target replacement rate. |
| Switzerland | There is no target replacement rate. A basic pension scheme and an occupational pension scheme (private but compulsory) together ensure currently about 60% of gross annual income. |
| Turkey | A target replacement rate varies from 60% to 100% depending on the schemes. That also varies based on the period of insurance. |
| United Kingdom | As to earnings-related schemes, 25% of average earnings over notional working life of best 20 years is ensured. This is planned to be reduced to 20% of average earnings over entire working life, for pensioner reaching pensionable age between April 1999 and April 2009. (*) There is no target replacement rate. |
| United States | There is no target replacement rate. Historically, about 40% of prior income has been ensured. |

Source: Country responses to "Caring World" synthesis questionnaire, and *Social Security Programs Throughout the World - 1997* (Social Security Administration, US)

* The information with asterisk is taken from the SSA report. Others are from national responses, unless otherwise indicated.

(a): *Social Security in the Nordic Countries; Scope, expenditure and financing 1994* (Nordic Social Statistical Committee, 1996), p76.

(b): SESI. échantillon interrégimes de retraités. reproduced in *Syntheses: Les Revenus Sociaux 1981-1995* (Institute National de la Statistique et des Études Économiques, 1996)

(c): A current standard method of calculation is different in Japan; "Bonus," or a lump-sum payment usually paid a few times in a year, was not a basis on which contribution is imposed (though '94 reform has introduced the 1% contribution on the bonuses, split between employer and employee.), nor is included in the usual calculation of replacement rate. When the method is adjusted according to the ILO standard, it becomes 55.7% (1995).

**Table 4: Funding arrangements of selected public pension programmes**

| | Financial Arrangements | Comparison of accumulated assets to current annual payment | Recent change of Amount | Projected change of amount | Recent/Projected Reforms | Note |
|---|---|---|---|---|---|---|
| Canada | PAYG with "buffer" fund | 2 .44 years ('96) | | The ratio is projected to decrease to 1.54 yrs by 2030, according to the '93 estimate. | 1997 Funded portion increases from 2 yr to 5 yr worth of total yearly payment, with advancing a current schedule of raising contribution rates. | |
| Denmark (ATP) | Fully-funded (defined-contribution) | | 80.6 → 116.3 ('90) ('94) (bil.kroner) | | | |
| Germany (former West Germany only) | PAYG | 0.05 year ('96) | 38,697→14,204 ('93) ('96) (mil. DM) | | | |
| Japan | Partially funded | 5.4 years (FY'95) | 76.9 → 111.8 (FY'89) (FY'95) (tril.yen) | | | |
| Sweden | Partially funded | 5.1 years ('98) | 320,064→639,226 ('87) ('98) (mil.kronor) | | New system (from 1999) allocates 2.5% of contribution specifically to funded management. | |
| United Kingdom (1) | PAYG | 0.06year (FY'94) | 4,897 → 1,008 (FY'92) (FY'95) (£ mil.) | | | |
| United States (2) | PAYG with "buffer" fund | 1.48 years ('94) | 155,063→413,460 ('89) ('94) ($ mil.) | It is expected that, under the current formula, the Social Security Old Age and Survivors Trust Fund will have payroll revenue which fall short of obligations in 2011, and will be exhausted in 2034. | | |

(1) The numbers used as "accumulated asset" and "current annual payment" are "Excess of Receipts over payments" and the sum of expenditures for retirement pension, widows benefit and invalidity benefit, respectively.

(2) The fund for disabilitybenefit is independent and excluded from the calculation.

Source: Turner, J. and Noriyasu Watanabe (1995), *Private Pension Policies in Industrialised Countries*, W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan; *Social Security in the Nordic Countries: Scope, expenditure and financing 1994* (Denmark), *Rentenversicherungsbericht* (Germany), *Annual Report on Health and Welfare* (Japan), *Social Insurance Statistics* (Sweden), *Social Security Statistics* (the UK), *Social Security Bulletins* (the US). Information also comes from country responses to "Caring World" synthesis questionnaire, and the internet homepage of the Department of Human Resources Development, Canada.

## Table 5: Selected private pension programmes for employees

| Country | Name of the programme | Establishment (1) | Age of eligibility for benefits | Contribution | Benefit | Funding | Tax treatment | Regulation/ security measures | Relation with public pension |
|---|---|---|---|---|---|---|---|---|---|
| Australia | Superannuation | Voluntary/ Compulsory (91.5%: 1993) *A basic portion is compulsory under the Superannuation Guarantee (SG) | 55 (will be 60 by 2025) to receive full tax-assisted benefits | (SG) 6% (employer, will be 9% in 2002) | DB or DC 98 % of all the superannuation funds are managed on DC basis. | Private schemes fully funded. Some schemes for public employees are PAYG. (A$198bil., 1995) | Tax concessions | 1999 Introduction of new superannuation regulations, key responsibility of insurance and superannuation commission | Supplement largely to means-tested pension, will replace public pension for those with large payments |
| Canada | Registered Pension Plans | Voluntary (45%, 1993, all employer-sponsored pension plans) | Usually 65 | Majority: (employee) 5% (private sector) 7-9% (public sector) | DB or DC * DB schemes are majority, but DC schemes are increasing rapidly. | Funded ($ 272,387 mil. : 1988) | Tax concessions | "Prudent man" concept for portfolio regulations | Supplement to public pensions |
| Denmark | Labour Market Pension | Compulsory (based on the collective agreements) (65% in 1994) | 60 | Majority: 12% (for workers with intermediate education) * Majority of new schemes (for workers at low education) reaches 9 % in 8 to 12 yrs. | DC | Funded (20.1% of GDP, 1993) | Tax concessions | Regulation on asset allocation | Supplement to public pensions |

**Table 5: Selected private pension programmes for employees (continued)**

| Country | Name of the programme | Establishment (1) | Age of eligibility for benefits | Contribution | Benefit | Funding | Tax treatment | Regulation/ security measures | Relation with public pension |
|---|---|---|---|---|---|---|---|---|---|
| Germany | Regulatory framework: "BetrAVG" | Voluntary (About 50%, without public sector) | 65, in principle | Maximum tax exemption is 8,610 DM for single person (employee) | DB or DC (More than 90% is based on DB) | PAYG | Tax concessions | Insurance for payment of benefit was introduced in 1974. This insurance is managed by PAYG scheme. | Supplement to public pensions |
| Ireland | Occupational and private pension schemes | Voluntary (46% of workforce: 1995) | Almost 65 (men) 64 (women) * average figure | Average: 4.43% for employee | DB or DC | Funded in most cases (46% of GDP, 1996) | Tax concessions | Minimum funding standard, disclosure of information, etc. | Supplement to public pensions |
| Italy | Complementary Pension | Voluntary | The same as statutory schemes | 2% for employers 2% for employees | DC or DB (self-employed) DC (employee) | Funded | Tax concessions (taxable base: 87.5% of total annuity) | L 241/92 L 335/95 | Supplement to public pensions |
| Japan | Corporate pension Major schemes: * Employees' Pension Funds (EPFs) * Tax Qualified Pensions (TQPs) | Voluntary | Usually 60 | EPFs: 3.2-3.8% (split between employers and employees) for the contracted-out portion Others: No regulation | DB (Introduction of DC is being considered) | Funded (44.7% of GDP, 1993) | Tax concessions (EPFs and TQPs) | The Federation of EPFs ensures payment of the benefits by EPFs to a certain extent. | Supplement to public pensions |
| New Zealand | Superannuation | Voluntary (23%, 1987) | As a general trend, the age is lowering from 65 to 60. | Majority (1990): 4.1-5.0% (employee) 0.1-5.0% (employer) * As for DC schemes, majority of the employers do not pay contributions. | DB or DC 87% are DC in 1990 (excluding Government Superannuation Fund and personal saving plans) | Funded (In very rare cases based on PAYG) (NZ$ 11,093 mil. in 1990) | No tax concession (From 1987 Reform) | "Prudent man" concept for portfolio regulations | Supplement to public pensions |

**Table 5: Selected private pension programmes for employees (continued)**

| Country | Name of the programme | Establishment (1) | Age of eligibility for benefits | Contribution | Benefit | Funding | Tax treatment | Regulation/ security measures | Relation with public pension |
|---|---|---|---|---|---|---|---|---|---|
| Sweden | Industrins Tilläggs Pension (ITP) (for white-collar)<br><br>Särskild Tilläggs Pension (STP) (for blue-collar) | Compulsory (based on the collective agreement) | 65 | 5-20% (ITP) 3.30%:'95 (STP) * for schemes managed by insurance | DB | PAYG ("book-reserve") or Funded (over 10% of GDP,'90, for funded schemes only) | Tax concessions | Schemes based on "book-reserve" management must belong the payment insurance system. | Supplement to public pensions |
| United Kingdom | Occupational pension funds | Voluntary (48%, 1991) | Mostly 65 (60 for women) * 50-75 is possible according to the tax regulations. | Maximum tax exemption is 17% of salary. (In 1991, 9.75% (employer), 5.5% (employee), on average) | DB or DC (Proportion of DC is increasing) | Full-funded (supported by tax system)<br><br>(79.4% of GDP, 1993) | Tax concessions | 1995 Pension Act guaranteed payment to the 90% income, in case of fraud or misappropriation) | * Contract-out<br>* Supplement to public pensions |
| United States | Regulatory framework: Employee Retirement Income Security Act (ERISA) of 1974 | Voluntary (58.8%, 1988) | Majority is 65. Most of other cases are 62 and 60. | Maximum amount of tax exemption varies among plans. | DB or DC (DC is promoted by favourable tax treatments) | Full-funded<br><br>($59.1% of GDP, 1993) | Tax concessions (2) | Benefits of DB schemes are ensured by the Pension Benefit Guaranty Corporation. | Supplement to public pensions |

Source: *Private Pensions and Public Policies* (OECD, 1992a), *Private Pensions in OECD Countries*: *The United States* (1993a), *New Zealand* (1993b), *Ireland* (1994c), *Canada* (1995d), *The United Kingdom* (1997e), *Australia* (1997f). *Supplementary Pensions in Denmark: A description of the future pension system* (The Danish Labour Market Supplementary Pension Scheme, 1995).*Corporate Pension Schemes in the World: Recent trends and developments* (in Japanese) (ed. by Pension Fund Association, Japan, 1996). Information also comes from the Ministry of Health and Welfare, Japan.

(1) The number in the bracket indicates the proportion of coverage against the total population of employed persons.

(2) Employee contributions are exempted from taxes when the scheme matches several requirements under the Internal Revenue Code and the Tax Reform Act (401(k) plan).

**Table 6: Examples of major personal savings programmes**

| Country | Name of the programme | Benefit and Eligibility | Contribution | Tax treatment | Note |
|---|---|---|---|---|---|
| Canada | Registered Retirement Saving Plans (RRSPs) | In principle, the saving can be withdrawn for pension at age 60 -71. | Maximum contribution is 18% of income of the previous year annually (tax deductible) | Contribution deductible. Invest income not taxed. Taxes paid on withdrawal. | In 1990, tax treatment for RRSPs was equalised with other corporate pensions, and maximum tax exemption was increased. |
| United Kingdom | Personal Pension | The plan can start providing pension anytime for the ages 50 -75. | Maximum contribution varies (17.5-40%) according to income (tax deductible) | Contribution deductible. Invest income not taxed. Taxes paid on withdrawal. | In 1992/93, 24% of employees were contracted out of the public earnings-relate pension with personal pension. This contracting out was promoted with rebate by the government. |
| United States | Individual Retirement Accounts (IRA) | When withdrawn before 59 and 1/2, penalty tax of 10% usually applies. Distributions must commence by April 1 of the calendar year following the calendar year in which the individual reaches age 70 and 1/2. | Maximum contribution is $2,000 per year (tax deductible) | Contribution deductible. Invest income not taxed. Taxes paid on withdrawal. | 1998 revision introduced penalty-free early withdrawal with the reason of college education expenses, first-time home purchase with up to $10,000. |

Source: *Private Pensions and Public Policies* (OECD, 1992), *Private Pensions in OECD Countries*: *The Unites States* (1993), *Canada* (1995), *The United Kingdom*(1997). Also information on IRA comes from Employees Benefit Research Institute, US, and on RRSPs from a country response from Canada.

**Table 7: Tax concessions for pension benefits and other income/savings**

| | Concessions for Pensioners of Public Schemes | Other Concessions for Aged People |
|---|---|---|
| Australia | Income Tax<br>• Benefits of Age Pension (funded by general taxation) are taxable.<br>• Pensioner Tax Rebate (ensuring that a pensioner does not pay tax until private income exceeds the value of the pension and the income test free area) | Income Tax<br>• Tax-rebate for low-income self-funded retiree phased in to provide same tax concession as for pensioners<br>• Superannuation contributions with tax concessions (though there will be a tax surcharge of up to 15% on contributions by the wealthy)<br>• Savings rebate (from July 1998) will apply to (undeducted) superannuation contributions, or net income receipt from savings and investment, or a combination of both, up to an annual cap of A$3,000. The full rebate will be A$450 a year in 1999-2000 income year.<br>Capital Gains Tax<br>• Concessions from Capital Gains Tax on the income received from selling the small enterprise for the reason of retirement |
| Austria | Income Tax<br>• Contributions to the scheme are tax deductible (for both employee and employer, including additional voluntary contributions), though benefits are taxed as earned income.<br>• Pensioners Tax Credit of ATS 5,500 per annum<br>• Only 25% of the pension secured by additional voluntary contributions is taxed. | Income Tax<br>• Tax credit for extraordinary costs entailed by physical/mental disability (The elderly people are major beneficiaries of the credit. This credit is not available when the applicant receives such benefits as long-term care benefit (*Pflegegeld*), though special, partially lump-sum amounts for expenses for some chronic diseases or for some specific devices (such as wheelchairs) can still be claimed.)<br>Contributions to Social Security Programmes<br>• Retirees only have to pay social security contributions to the health insurance scheme. Moreover, the rates are smaller than those for younger persons. |
| Belgium | Income Tax<br>• Contributions to the scheme are tax deductible (for both employee and employer), though benefits are taxed as replacement income.<br>• Pensioners are awarded of tax deduction, based on the number of dependants and the level of income.<br>Contributions to Social Security Programmes<br>• Other than "solidarity contributions"(imposed on pension benefits above certain amount), pensioners do not have to pay contributions to the social insurance schemes. | |

**Table 7: Tax concessions for pension benefits and other income/savings (continued)**

| | Concessions for Pensioners of Public Schemes | Other Concessions for Aged People |
|---|---|---|
| Canada | <u>Income Tax</u><br>• Benefit of Old Age Security basic pension (funded by general taxation) is taxable.<br>• Guaranteed Income Supplement and Spouses Allowances are not taxable. (Old Age Security basic pension and Guaranteed Income Supplement are going to be merged, along with the Age and Pension Income Tax Credits, into non-taxable Senior Benefit from January 2001.)<br>• Employer contributions to Canada Pension Plan (CPP) are tax deductible. Employee contributions are not directly deductible, but subject to a tax credit. Benefit of CPP is taxable.<br>• Some provincial income-tested supplements to pensioners are also non-taxable. | <u>Income Tax</u><br>• Age Credit (deduction of "old age" amount from federal tax payable)<br>-- The amount in full is Can.$3,482 in 1995.<br>-- There is an income limit for the credit (Can.$25,921). The excess amount will also be a base for the claim of the credit reduced at a rate of 15%. The credit, or a portion of the credit, may be transferred from one spouse to the other in cases where one spouse does not require the full credit to reduce his/her tax to zero.<br>• Pension Income Credit (Taxfilers with pension income from employer-sponsored pension or Registered Retirement Savings Plan annuity may claim a credit depending on the amount of the income. Can.$1,000 maximum.)<br>• In case of annuities purchased with no tax-assisted savings, only the portion of investment earnings is taxable. |
| Czech Republic | <u>Income Tax</u><br>• Contributions are tax deductible, and benefits are tax free. | |
| Denmark | <u>Income Tax</u><br>• Contributions to the ATP scheme are tax deductible (for both employee and employer). Benefits of the old-age pension (*folkepension*. funded by general taxation) and ATP pension are taxed as earned income. Supplementary benefits to pensioners are not taxable. | <u>Property Tax</u><br>• Tax related to owner-occupier housing is reduced by 50% for persons from age 67 |

**Table 7: Tax concessions for pension benefits and other income/savings (continued)**

| | Concessions for Pensioners of Public Schemes | Other Concessions for Aged People |
|---|---|---|
| Finland | <u>Income Tax</u><br>• Contributions to the scheme are tax deductible (for both employee and employer), though benefits are taxed as earned income with the exceptions of supplements (for a child or spouse, etc.) to the basic pension benefits.<br>[Concession from tax on specific income deriving from pension benefit]<br>• Pension benefit, when below the average amount, is subject to less taxation compared to other source of income of the same size. When above the average, it is subject to more taxation than other source of income of the same size.<br>[Concession from tax on income in general for the reason of being pensioners]<br>• Pension income deduction, in municipal and state taxation, which ensures that no income tax is paid from the pension benefit in case the pensioner has no other taxable income. | <u>Income Tax</u><br>• Tax allowance for the disabled (A rather large part of pensioners are entitled to this allowance.) |
| France | <u>Income Tax</u><br>• Contributions to the scheme are tax deductible (for both employer and employee), though benefits are taxed after deduction of allowances similar to those applied to salary. | <u>Income Tax</u><br>• Pension benefits from individual plans are normally partially taxed on a fixed scale, based on the pensioner's age. |
| Germany | <u>Income Tax</u><br>• Contributions to the scheme are tax deductible (for both employee (up to a certain amount) and employer).<br>• Statutory pension benefits are only taxable for the portion which corresponds to the notional interest for the pension saving.<br>• Civil servants' pensions are fully subject to income tax except for base amount reduction ranging from 40% of the benefits to 6,000DM per calendar year. | <u>Income Tax</u><br>• Income from sources other than pensions is fully subject to income tax except for base amount reduction ranging from 40% of such income to 3,720DM per calendar year. |

**Table 7: Tax concessions for pension benefits and other income/savings (continued)**

| | Concessions for Pensioners of Public Schemes | Other Concessions for Aged People |
|---|---|---|
| Greece | Income Tax<br>• Contributions to the scheme are tax deductible (for both employee and employer), though benefits are taxed as income. | Income Tax<br>• Contributions to private saving schemes are tax-deductible. Maximum tax allowance: 200,000 drs/year or 15% of premium expenditure (whichever lower)<br>• Presumptive taxation provisions do not apply to professionals over the age of 65 who have been practising for at least 10 years. |
| Hungary | Income Tax<br>• Pension benefit is tax-free, because contributions to the scheme are taxed. | |
| Iceland | Income Tax<br>• Pension benefits (including supplementary benefits) are taxable income. | |
| Ireland | Income Tax<br>• Employer contributions to the social security scheme are in general tax deductible, but employee contributions are not. Benefits are usually taxed as earned income.<br><br>• Employer and employee contributions to occupational and private pension schemes and income from the investment of the contributions are tax deductible up to certain limits. Benefits are taxed, but part of the supplementary pension can be received as a tax free lump-sum payment up to 1.5 times of final salary.<br>• Other social security benefits from public authorities may be exempt from taxes. | Income Tax<br>• Income Tax Age Allowance (£Ir400 for single/widowed persons and £Ir 800 for married couple)<br>• Exemption limits for rent allowances become higher at the age of 55, 65, and 75.<br>Contributions to Social Security Programmes<br>• Those aged 66 or over do not have to pay contributions to the pension scheme, even if they are in employment/self-employment. |
| Italy | Income Tax<br>• Contributions to the scheme are tax deductible (for both employee and employer).<br>• Benefits are usually taxed, except for disability benefits.<br>Contributions to Social Security Programmes<br>• Pensioners do not have to pay contributions to the Health Care Services out of their pensions. | |

**Table 7: Tax concessions for pension benefits and other income/savings (continued)**

| | Concessions for Pensioners of Public Schemes | Other Concessions for Aged People |
|---|---|---|
| Japan | Income Tax<br>• Contributions to the scheme are tax deductible (for both employee and employer), though benefits are taxed as miscellaneous income.<br>• There are several deductions for pensioners, thus making the majority of pensioners not having to pay taxes. | Contributions to Social Security Programmes<br>• Contribution rules for National Health Insurance (for self-employed people, etc.) are favourable to the elderly |
| Korea | Income Tax<br>• Public pension benefit is tax-free (though the contribution to the scheme is not exempted from income tax base). | Income Tax<br>• Contributions to private pension schemes are exempted from income tax base. |
| Luxembourg | Income Tax<br>• Contributions to the scheme are tax deductible (for both employee and employer), though benefits are taxed as income. | |
| Mexico | Income Tax<br>• Employer contributions to the scheme are tax deductible, but employee contributions are not. Benefits are usually not taxed. | Income Tax<br>• Maximum tax free benefits are established in some cases such as savings funds and social welfare |
| Netherlands | Income Tax<br>• Contributions to the scheme are tax deductible (for both employee and employer), though benefits are taxed as income. | |
| New Zealand | Income Tax<br>• Benefits of NZ Superannuation (funded by general taxation) are subject to personal income tax.<br>• Tax base increase test (surcharge) for those receiving NZ Superannuation: removed from April 1998 | |
| Norway | Income Tax<br>• Employer contributions to the scheme are tax deductible, but employee contributions are not. Benefits are taxed as earned income.<br>Supplementary benefits to pensioners are not taxable.<br>Contributions to Social Security Programmes<br>• Old-age pensioners only have to pay contributions to the Health Insurance Scheme. | Income Tax<br>• General tax relief rule (income-tested, includes generally the elderly and some other groups)<br>• Special deduction in taxes due to age |

**Table 7: Tax concessions for pension benefits and other income/savings (continued)**

| | Concessions for Pensioners of Public Schemes | Other Concessions for Aged People |
|---|---|---|
| Poland | Income Tax<br>• Employer contributions to the scheme are tax deductible. (Note: no employee contributions in the current scheme) Benefits are subject to income tax. | |
| Portugal | Income Tax<br>• Contributions to the scheme are tax deductible (for both employee and employer), though benefits are taxed income.<br>• Retirement pension income follows a different tax processing from that of income tax in general (more advantageous deduction than other category of income). In terms of tax benefits, they are provided when the debtor is disabled.<br>• The social security general system pensions are exempted from the Individual Tax up to a certain amount. (There are further favourable concessions to invalidity pension.) | |
| Slovak Republic | Income Tax<br>• Contributions are tax deductible, and benefits are tax free. | |
| Spain | Income Tax<br>• Contributions to the scheme are tax deductible (for both employee and employer), though benefits are usually taxed as earned income.<br>• Disability pensions are tax exempt. | |
| Sweden | Income Tax<br>• Contributions to the scheme are tax deductible (for both employee and employer), though benefits are taxed as income.<br>• Special basic deduction for those whose basic pension exceeds SEK 6,000 a year → Maximum amount of deduction is equal to the sum of basic pension and pension supplement, reduced if there are other sources of income such as ATP, employment pensions, etc.<br>• Supplementary benefits to pensioners are not taxable, such as means-tested housing supplement. | |

**Table 7: Tax concessions for pension benefits and other income/savings (continued**

| | Concessions for Pensioners of Public Schemes | Other Concessions for Aged People |
|---|---|---|
| Switzerland | Income Tax<br>• Contributions to the public scheme (AVS, 1st pillar) are tax deductible (for both employee and employer), though benefits are taxed. This is the same as the private compulsory scheme (occupational provident fund, 2nd pillar).<br>• Supplementary AVS (old-age and survivors' insurance) and AI (disability insurance) benefits are non-taxable. | Income Tax<br>• A person who have made a saving under the linked individual provident fund (3rd pillar) benefits form preferential tax treatment (reduced rate at the time of the payment from the funds when the insurance risk occured, and contributions deductible from income).<br>• In some cantons, if retirees are in need of care, they may deduct associated expenses from their taxable income (though there are some restrictions). |
| Turkey | Income Tax<br>• Contributions to the scheme are tax deductible (for both employee and employer), and benefits are tax free. | Property Tax<br>• Estate duty (tax) on retirees is exempted when they have only one house. |
| United Kingdom | Income Tax<br>• Employer contributions to the scheme are tax deductible, but employee contributions are not. Benefits are usually taxed as earned income.<br>• Benefits that are more likely to be received by pensioners are subject to different treatment in the tax system (e.g. Some of the disability benefits are not taxable). | Income Tax<br>• Higher personal allowance in income tax for the elderly (£5,220-5,440 against £4,045 as a standard), as well as higher married couples allowance (£3,185-3,225 against £1,830 as a standard)<br>• These age-related allowances can be tapered away at the rate of 50% when income rises above £15,600.<br>Contributions to Social Security Programmes<br>• Elderly do not have to pay the National Insurance Contributions after the state pension age. |
| United States | Income Tax<br>• Employer contributions to the scheme are tax deductible, but employee contributions are not. Benefits are taxed after some favourable adjustment.<br>• Some social security benefits are non-taxable. (They are not limited to the elderly, though they are the majority.) | Income Tax<br>• Larger standard deduction for the elderly<br>-- $1,000 for unmarried person, and additional $800 per person aged 65 or older in case of married couple<br>-- However, people rather select itemised specific deductions on various grounds such as home mortgage interest payments and charitable contributions.<br>• There is a relatively small program of special tax credit for very low-income elderly and disabled people (most beneficiaries are under age 65).<br>Property Tax<br>• In many States and local governments, property tax is favourably applied to elderly homeowners. |

Source: PENSION FUND ASSOCIATION (1996), *Corporate Pension Schemes in the World: Recent Trends and Developments* (in Japanese), Social Research Institute, Tokyo; WILLIAM M. MERCER LIMITED (1995), *International Benefit Guidelines*, William M. Mercer Limited, Brussels; NORDIC SOCIAL STATISTICAL COMMITTEE (1996), *Social Security in the Nordic Countries: Scope, Expenditure and Financing 1994*, NORSOSCO, Copenhagen; and Country responses to Caring World Questionnaire.

## Table 8: Dependency and support ratios

| | Elderly dependency ratio [1] | | | | | | Total dependency ratio [2] | | | | | | Needs-weighted support ratio | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1960 | 1990 | 2000 | 2010 | 2020 | 2030 | 1960 | 1990 | 2000 | 2010 | 2020 | 2030 | 1960 | 1990 | 2000 | 2010 | 2020 | 2030 |
| Canada | 13.0 | 16.7 | 18.2 | 20.4 | 28.4 | 39.1 | 70.5 | 47.5 | 48.3 | 47.5 | 56.3 | 69.0 | 63.3 | 69.7 | 69.1 | 68.8 | 64.0 | 58.4 |
| France | 18.8 | 20.8 | 23.6 | 24.6 | 32.3 | 39.1 | 61.3 | 51.1 | 52.8 | 51.2 | 59.6 | 67.9 | 64.7 | 67.5 | 66.2 | 66.5 | 62.2 | 58.7 |
| Germany | 16.0 | 21.7 | 23.8 | 30.3 | 35.4 | 49.2 | 47.4 | 45.3 | 46.7 | 50.0 | 57.3 | 75.1 | 70.0 | 69.2 | 68.2 | 65.5 | 62.2 | 55.2 |
| Italy | 13.3 | 21.6 | 26.5 | 31.2 | 37.5 | 48.3 | 47.9 | 45.5 | 47.8 | 51.5 | 58.8 | 72.7 | 70.5 | 69.1 | 67.1 | 64.8 | 61.4 | 55.9 |
| Japan | 9.5 | 17.1 | 24.3 | 33.0 | 43.0 | 44.5 | 56.6 | 43.5 | 47.2 | 56.7 | 67.8 | 70.5 | 68.5 | 71.1 | 67.9 | 62.9 | 58.0 | 57.0 |
| United Kingdom | 17.9 | 24.0 | 24.4 | 25.8 | 31.2 | 38.7 | 53.7 | 52.9 | 54.0 | 52.3 | 58.3 | 68.0 | 67.3 | 66.1 | 65.6 | 65.8 | 62.8 | 58.7 |
| United States | 15.4 | 19.1 | 19.0 | 20.4 | 27.6 | 36.8 | 67.4 | 51.7 | 52.0 | 50.5 | 57.4 | 68.0 | 63.7 | 67.7 | 67.6 | 67.8 | 63.9 | 59.1 |
| Autralia | 13.9 | 16.0 | 16.7 | 18.6 | 25.1 | 33.0 | 63.2 | 48.9 | 48.0 | 47.6 | 53.7 | 62.6 | 65.3 | 69.4 | 69.6 | 69.2 | 65.6 | 61.2 |
| Austria | 18.6 | 22.4 | 23.3 | 27.7 | 32.6 | 44.0 | 52.1 | 48.2 | 49.3 | 51.3 | 56.7 | 71.4 | 67.7 | 68.0 | 67.4 | 65.7 | 63.0 | 57.0 |
| Belgium | 18.5 | 22.4 | 25.1 | 25.6 | 31.9 | 41.1 | 55.0 | 49.2 | 50.9 | 49.3 | 57.0 | 68.9 | 66.7 | 67.7 | 66.5 | 66.9 | 63.1 | 58.1 |
| Denmark | 16.5 | 22.7 | 21.6 | 24.9 | 31.7 | 37.7 | 55.8 | 47.9 | 49.1 | 51.3 | 57.9 | 67.0 | 67.0 | 68.0 | 67.9 | 66.4 | 62.8 | 59.2 |
| Finland | 11.7 | 19.7 | 21.5 | 24.3 | 34.7 | 41.1 | 60.6 | 48.4 | 49.2 | 50.4 | 62.7 | 70.9 | 66.6 | 68.6 | 67.9 | 66.8 | 60.9 | 57.6 |
| Greece | 12.3 | 21.2 | 25.5 | 28.8 | 33.3 | 40.9 | 52.0 | 49.6 | 48.8 | 51.7 | 57.1 | 66.3 | 69.3 | 67.9 | 67.0 | 65.3 | 62.7 | 58.7 |
| Iceland | 14.1 | 16.6 | 17.3 | 18.1 | 24.1 | 32.1 | 75.0 | 55.2 | 52.4 | 49.5 | 54.7 | 63.2 | 61.8 | 67.2 | 67.9 | 68.7 | 65.5 | 61.3 |
| Ireland | 18.6 | 18.4 | 16.7 | 18.0 | 21.7 | 25.3 | 70.6 | 61.4 | 49.8 | 51.3 | 52.6 | 54.5 | 62.1 | 64.8 | 68.9 | 68.1 | 66.8 | 65.3 |
| Luxembourg | 15.9 | 19.9 | 21.9 | 25.9 | 33.2 | 44.2 | 47.4 | 44.8 | 48.4 | 50.0 | 58.5 | 72.7 | 70.0 | 69.8 | 68.1 | 66.6 | 62.4 | 56.6 |
| Mexico | .. | 6.4 | 7.0 | 8.0 | 10.4 | 14.8 | .. | 71.6 | 61.5 | 50.2 | 45.5 | 48.1 | .. | 64.5 | 67.5 | 71.2 | 72.2 | 70.1 |
| Netherlands | 14.7 | 19.1 | 20.8 | 24.2 | 33.9 | 45.1 | 63.9 | 44.5 | 47.7 | 47.5 | 58.1 | 73.2 | 64.9 | 70.2 | 68.6 | 67.8 | 62.3 | 56.3 |
| New Zealand | .. | 16.7 | 17.1 | 18.9 | 24.6 | 30.5 | .. | 50.9 | 51.9 | 50.2 | 54.7 | 61.6 | .. | 68.6 | 68.1 | 68.2 | 65.4 | 62.1 |
| Norway | 17.3 | 25.2 | 23.9 | 24.0 | 31.2 | 38.7 | 58.2 | 54.4 | 54.1 | 51.7 | 58.6 | 68.3 | 66.1 | 65.3 | 65.7 | 66.5 | 62.8 | 58.7 |
| Portugal | 12.7 | 19.5 | 20.9 | 22.0 | 25.3 | 33.5 | 59.1 | 50.7 | 46.4 | 46.6 | 50.0 | 59.8 | 66.9 | 67.9 | 69.0 | 68.6 | 66.7 | 61.9 |
| Spain | 12.7 | 19.8 | 23.5 | 25.9 | 30.7 | 41.0 | 55.1 | 49.3 | 45.3 | 46.9 | 52.7 | 64.8 | 68.2 | 68.3 | 68.7 | 67.6 | 64.6 | 59.1 |
| Sweden | 17.8 | 27.6 | 26.9 | 29.1 | 35.6 | 39.4 | 51.8 | 55.3 | 57.9 | 58.5 | 65.1 | 70.4 | 68.0 | 64.5 | 63.9 | 63.2 | 60.1 | 58.0 |
| Switzerland | 15.5 | 22.0 | 23.6 | 29.4 | 37.8 | 48.6 | 51.5 | 46.1 | 49.6 | 53.7 | 62.4 | 77.0 | 68.7 | 68.8 | 67.2 | 64.6 | 60.4 | 54.9 |
| Turkey | 6.7 | 7.1 | 8.9 | 9.4 | 11.7 | 16.2 | 81.4 | 66.3 | 57.9 | 46.9 | 46.1 | 48.6 | 61.6 | 65.9 | 68.2 | 72.0 | 71.6 | 69.5 |
| Total OECD | 14.9 | 19.3 | 20.9 | 23.5 | 29.8 | 37.7 | 59.0 | 51.2 | 50.7 | 50.6 | 56.8 | 66.4 | 66.5 | 67.8 | 67.6 | 67.0 | 63.7 | 59.5 |
| OECD Europe | 15.3 | 20.6 | 22.1 | 24.7 | 30.8 | 39.2 | 57.9 | 50.9 | 50.4 | 50.6 | 57.1 | 67.4 | 66.7 | 67.6 | 67.4 | 66.7 | 63.4 | 59.0 |

1. Population aged 65 and over as a per cent of working age population.
2. Population aged 0-14 and 65 and over as a per cent of working age population.

Source: Bos et al. (1994), reproduced in OECD (1996).

**Table 9: Public pension expenditure, 1960 - 2050, selected countries**

| | Actual | | Projected (c) | | |
|---|---|---|---|---|---|
| | Δ1960-80 (a) | Δ1980-93 (b) | Δ1995-2010 | Δ2010-30 | Δ2030-50 |
| Australia | 1.6 | -0.1 (d) | -0.3 | 1.5 | 0.7 |
| Austria | 3.9 | 1.4 | 1.4 | 4.2 | 0.5 |
| Canada | 1.6 | 1.6 | 0.1 | 3.7 | -0.3 |
| Denmark | 4.5 | 0.8 | 0.8 | 3.3 | 0.6 |
| Finland | 2.7 | 4.0 | 0.6 | 7.1 | -0.1 |
| France | 5.5 | 2.0 | -0.9 | 3.8 | 0.9 |
| Germany | 2.4 | -0.3 | 0.7 | 4.7 | 1.0 |
| Ireland | 2.0 | -0.3 | -1.0 | 0.2 | 0.2 |
| Italy | 6.5 | 3.6 | 1.4 | 0.8 | -1.6 (e) |
| Japan | 3.1 | 1.4 | 3.0 | 3.8 | 3.1 |
| Netherlands | 7.0 | 0.7 | 0.1 | 5.1 | 0.2 |
| New Zealand | 3.3 | 0.2 (d) | -0.7 | 3.1 | 1.5 |
| Norway | 4.8 | 1.5 | 0.8 | 4.9 | 0.6 |
| Sweden | 6.5 | 2.1 | 0.6 | 2.6 | -0.5 |
| United Kingdom | 2.3 | 0.8 | 0.7 | 0.3 | -1.4 |
| United States | 2.8 | 0.4 | 0.4 | 2.1 | 0.4 |

(a) OECD (1988) Future of Social Protection, Table 7
(b) OECD Social Expenditure Data Base
(c) Italy: Official projections from Italian authorities (January 1998, taking into account recent pension reforms): Others: OECD (1996) Ageing in OECD Countries, Table 2.3 (baseline projections)
(d) Change between 1980 and 1992
(e) Change between 2030 and 2045

Note: Projections are available to 2070 in OECD (1996) which generally show a reduction in anticipated public pension expenditures for most countries over the period 2050-2070. They are not included in the above table because they are necessarily more speculative given the time frame.

**Table 10: Future life expectancy at age 60, 1960-1995[1]**

| | Men | | | | | Women | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1960 | 1970 | 1980 | 1990 | 1995 | 1960 | 1970 | 1980 | 1990 | 1995 |
| Australia | 15.6 | 15.0 | 17.1 | 18.9 | 19.5 | 19.4 | 19.4 | 21.9 | 23.2 | 23.7 |
| Austria | 15.0 | 14.9 | 16.3 | 17.9 | 18.7 | 18.6 | 18.8 | 20.3 | 22.2 | 22.9 |
| Belgium | 15.4 | 15.2 | 16.3 | 17.6 | 18.1 | 18.7 | 19.2 | 20.9 | 22.5 | 23.0 |
| Canada | 16.8 | 17.0 | 18.0 | 18.9 | 19.9 | 19.9 | 21.4 | 22.9 | 23.7 | 24.3 |
| Czech Republic | 15.1 | 14.3 | 14.5 | 14.7 | 16.0 | 18.3 | 18.0 | 18.4 | 19.5 | 20.4 |
| Denmark | 17.2 | 17.3 | 17.2 | 17.5 | 17.6 | 19.1 | 20.7 | 21.7 | 21.7 | 21.4 |
| Finland | 14.4 | 14.3 | 15.6 | 17.1 | 18.1 | 17.5 | 18.3 | 20.7 | 21.9 | 22.9 |
| France | 15.6 | 16.2 | 17.3 | 19.0 | 19.7 | 19.5 | 20.8 | 22.4 | 24.2 | 24.9 |
| Germany | 15.5 | 15.3 | 16.4 | 17.8 | 18.1 | 18.5 | 19.1 | 20.7 | 22.2 | 22.5 |
| Greece | 17.0 | 17.5 | 18.2 | 19.4 | 19.9 | 18.9 | 19.3 | 20.6 | 22.3 | 22.8 |
| Hungary | 15.6 | 15.2 | 14.6 | 14.7 | 14.8 | 17.6 | 18.2 | 18.3 | 19.0 | 19.5 |
| Iceland | 18.6 | 18.6 | 19.4 | 20.0 | 20.5 | 20.4 | 21.7 | 23.0 | 23.3 | 23.6 |
| Ireland | 16.3 | 15.4 | 15.5 | 16.7 | 17.1 | 18.3 | 18.5 | 18.8 | 20.8 | 21.1 |
| Italy | 16.7 | 16.7 | 16.8 | 18.4 | 19.0 | 19.3 | 20.2 | 21.2 | 22.8 | 23.5 |
| Japan | 14.8 | 15.9 | 18.3 | 20.0 | 20.3 | 17.8 | 19.3 | 21.9 | 24.4 | 25.3 |
| Korea | .. | .. | .. | 15.5 | 15.5 | .. | .. | .. | 20.1 | 20.1 |
| Luxembourg | 15.9 | 14.7 | 15.1 | 17.8 | 17.8 | 18.3 | 19.0 | 19.8 | 22.4 | 22.7 |
| Mexico | 16.8 | 16.9 | 17.3 | 18.7 | 18.9 | 18.1 | 18.5 | 20.2 | 21.8 | 22.4 |
| Netherlands | 17.8 | 16.9 | 17.4 | 17.7 | 18.1 | 19.9 | 20.7 | 22.5 | 22.7 | 22.8 |
| New Zealand | 16.3 | 15.6 | 16.5 | 18.2 | 18.8 | 19.5 | 19.8 | 20.8 | 22.2 | 22.8 |
| Norway | 18.0 | 17.2 | 17.7 | 18.2 | 18.9 | 20.1 | 20.9 | 22.2 | 22.7 | 23.3 |
| Poland | 15.9 | 15.7 | 15.2 | 15.3 | 15.8 | 18.7 | 19.2 | 19.4 | 20.0 | 20.5 |
| Portugal | 15.9 | 15.7 | 17.7 | 17.2 | 18.0 | 18.6 | 18.8 | 21.9 | 21.2 | 22.0 |
| Spain | 16.5 | 16.7 | 18.4 | 19.2 | 19.5 | 19.2 | 19.9 | 22.1 | 23.5 | 24.1 |
| Sweden | 17.3 | 17.8 | 17.9 | 19.1 | 19.8 | 19.3 | 20.9 | 22.1 | 23.3 | 23.9 |
| Switzerland | 16.2 | 16.7 | 17.9 | 19.1 | 20.0 | 19.2 | 20.4 | 22.3 | 23.9 | 24.5 |
| Turkey | 14.7 | 15.0 | 15.4 | 15.8 | 15.8 | 15.9 | 16.6 | 17.3 | 18.1 | 18.1 |
| United Kingdom | 15.3 | 15.2 | 15.9 | 17.6 | 18.3 | 19.3 | 19.9 | 20.5 | 21.8 | 22.4 |
| United States | 15.8 | 16.1 | 17.4 | 18.5 | 18.9 | 19.5 | 20.7 | 22.2 | 22.8 | 22.9 |

1. Data refer to given year, or closest available year.

Source: OECD, Health Data 1997.

## Table 11: Labour force indicators, for men and women aged 55-64, 1980 and 1996

| country | Men 55-64 Unemployment rates 1980 | Men 55-64 Unemployment rates 1996 | Men 55-64 Labour force participation rates 1980 | Men 55-64 Labour force participation rates 1996 | Men 55-64 Employment population ratios 1980 | Men 55-64 Employment population ratios 1996 | Women 55-64 Unemployment rates 1980 | Women 55-64 Unemployment rates 1996 | Women 55-64 Labour force participation rates 1980 | Women 55-64 Labour force participation rates 1996 | Women 55-64 Employment population ratios 1980 | Women 55-64 Employment population ratios 1996 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia[1,2] | 3.8 | 9.8 | 62.0 | 60.3 | 59.6 | 54.4 | 2.9 | 4.5 | 20.5 | 31.3 | 19.9 | 29.9 |
| Austria | .. | 5.1 | .. | 44.7 | .. | 42.4 | .. | 3.5 | .. | 17.9 | .. | 17.3 |
| Belgium[2] | 5.8 | 4.7 | 50.6 | 33.8 | 47.7 | 32.2 | 4.1 | 4.0 | 12.3 | 12.5 | 11.8 | 12.0 |
| Canada | 4.3 | 7.8 | 76.1 | 59.3 | 72.8 | 54.7 | 5.1 | 7.6 | 33.7 | 36.9 | 32.0 | 34.1 |
| Czech Republic | .. | 3.2 | .. | 55.8 | .. | 54.0 | .. | 4.1 | .. | 23.2 | .. | 22.3 |
| Denmark[2] | 6.2 | 6.0 | 67.2 | 62.1 | 63.1 | 58.4 | 6.3 | 6.3 | 41.7 | 39.5 | 39.1 | 37.0 |
| Finland | 3.5 | 24.6 | 56.9 | 48.8 | 55.0 | 36.8 | 6.0 | 26.3 | 43.8 | 44.2 | 41.1 | 32.6 |
| France | 4.8 | 8.6 | 68.6 | 42.3 | 65.3 | 38.6 | 6.2 | 8.2 | 40.1 | 31.3 | 37.6 | 28.8 |
| Germany[6] | 4.9 | 10.4 | 67.3 | 52.7 | 64.1 | 47.2 | 5.9 | 13.1 | 28.9 | 28.1 | 27.2 | 24.4 |
| Hungary | .. | 5.7 | .. | 28.0 | .. | 26.4 | .. | 4.0 | .. | 14.4 | .. | 13.8 |
| Iceland | .. | 3.3 | .. | 92.9 | .. | 89.9 | .. | 3.7 | .. | 80.4 | .. | 77.5 |
| Ireland[3] | 6.5 | 6.9 | 77.9 | 63.0 | 72.8 | 58.7 | 4.4 | 6.7 | 20.1 | 23.4 | 19.3 | 21.8 |
| Italy[2] | 1.5 | 4.3 | 56.2 | 44.0 | 55.3 | 42.1 | 2.4 | 4.3 | 15.0 | 14.4 | 14.6 | 13.8 |
| Japan | 3.7 | 5.1 | 85.4 | 84.9 | 82.2 | 80.6 | 1.2 | 2.3 | 45.3 | 48.8 | 44.7 | 47.6 |
| Korea | .. | 0.9 | .. | 79.2 | .. | 78.5 | .. | 0.4 | .. | 49.6 | .. | 49.4 |
| Luxembourg[2] | 14.7 | 0.0 | 37.8 | 35.6 | 37.8 | 35.6 | 3.6 | 0.0 | 14.7 | 10.2 | 14.1 | 10.2 |
| Mexico | .. | 2.3 | .. | 80.2 | .. | 78.4 | .. | 0.7 | .. | 27.8 | .. | 27.6 |
| Netherlands | 3.5 | 2.9 | 63.2 | 43.1 | 60.9 | 32.3 | 2.6 | 4.0 | 14.4 | 20.2 | 14.0 | 15.5 |
| New Zealand | .. | 4.3 | .. | 69.0 | .. | 66.1 | .. | 2.7 | .. | 42.8 | .. | 41.7 |
| Norway[2,4] | 0.7 | 2.5 | 79.5 | 73.2 | .. | 71.4 | 1.2 | 1.8 | 49.8 | 59.2 | .. | 58.1 |
| Portugal | 0.9 | 5.5 | 74.9 | 62.0 | 74.2 | 58.6 | 1.0 | 3.7 | 32.1 | 36.8 | 31.8 | 35.5 |
| Spain | 6.1 | 11.4 | 76.1 | 56.3 | 71.5 | 49.9 | 1.8 | 12.1 | 21.3 | 20.2 | 21.0 | 17.8 |
| Sweden | 1.6 | 8.6 | 78.7 | 72.2 | 77.5 | 66.0 | 1.7 | 6.5 | 55.3 | 65.0 | 54.4 | 60.7 |
| Switzerland | .. | 3.3 | .. | 77.9 | .. | 75.3 | .. | 3.8 | .. | 42.1 | .. | 40.5 |
| Turkey | .. | 2.3 | .. | 57.4 | .. | 56.1 | .. | 0.3 | .. | 27.9 | .. | 27.8 |
| United Kingdom[5] | 10.6 | 9.5 | 70.0 | 62.9 | 62.6 | 57.0 | 7.3 | 3.4 | 36.1 | 40.2 | 33.4 | 38.8 |
| United States | 3.4 | 3.3 | 72.1 | 67.0 | 69.7 | 64.7 | 3.3 | 3.4 | 41.3 | 49.6 | 40.0 | 47.9 |

*Source:* OECD, *Labour Force Statistics*, 1975-1996, Part III, forthcoming.
*Notes:*
1. For unemployment, data for the age group 55 to 64 refers to 55 and over
2. 1980 data refers to 1983
3. 1980 data refers to 1979
4. Unemployment rate for 1980 refers to 60 year and over
5. 1983 data refers to 1984
6. 1996 data refers to 1995
7. ".." = na

**Table 12: Wealth to income ratios, household with head around 55 and 67**

| | Singles | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 55 years, Income Quintile | | | | | | 67 years, Income Quintile | | | | | |
| | All | 1 | 2 | 3 | 4 | 5 | All | 1 | 2 | 3 | 4 | 5 |
| Australia | 9.3 | 31.7 | 4.6 | 8.8 | 7.6 | 9.4 | 15.0 | 132.5 | 7.6 | 13.2 | 11.6 | 15.6 |
| France[1] | 8.0 | 12.1 | 7.6 | 7.7 | 7.7 | 7.9 | 7.3 | 6.6 | 10.5 | 7.6 | 7.0 | 6.7 |
| Italy | 5.9 | 5.8 | 5.9 | 5.4 | 5.5 | 6.3 | 5.8 | 4.4 | 4.3 | 5.3 | 5.4 | 6.9 |
| Japan | 11.0 | 41.5 | 11.0 | 12.3 | 10.5 | 4.5 | 22.1 | 20.1 | 19.9 | 31.5 | 31.4 | 15.1 |
| Germany | 3.4 | 0.8 | 3.9 | 2.9 | 3.5 | 4.0 | 4.1 | 2.9 | 3.9 | 2.9 | 4.0 | 5.2 |
| Netherlands | 2.4 | 3.5 | 2.4 | 2.1 | 1.7 | 2.7 | 2.8 | 4.2 | 2.3 | 2.5 | 1.9 | 3.4 |
| Sweden | 2.6 | 2.2 | 1.0 | 2.8 | 1.9 | 3.8 | 3.5 | 3.8 | 2.6 | 1.8 | 2.7 | 5.2 |
| United Kingdom | 5.5 | 6.2 | 9.0 | 5.8 | 4.5 | 4.9 | 7.7 | 5.3 | 5.8 | 8.4 | 8.5 | 8.2 |
| United States[1] | 4.7 | 4.5 | 4.8 | 3.9 | 4.2 | 5.1 | 8.6 | 5.1 | 6.3 | 8.6 | 9.9 | 9.0 |
| | Couples | | | | | | | | | | | |
| | 55 years, Income Quintile | | | | | | 67 years, Income Quintile | | | | | |
| | All | 1 | 2 | 3 | 4 | 5 | All | 1 | 2 | 3 | 4 | 5 |
| Australia | 8.3 | 24.0 | 9.8 | 8.1 | 7.0 | 6.9 | 13.4 | 15.3 | 11.3 | 12.1 | 12.1 | 15.0 |
| France[1] | 7.0 | 8.9 | 7.3 | 6.2 | 7.1 | 7.1 | 11.6 | 11.0 | 9.2 | 9.3 | 7.7 | 15.8 |
| Italy | 5.4 | 7.2 | 6.4 | 5.1 | 5.5 | 5.1 | 6.9 | 6.3 | 5.8 | 6.2 | 6.3 | 7.6 |
| Japan | 8.0 | 10.6 | 7.8 | 7.2 | 8.9 | 7.3 | 15.6 | 20.6 | 17.3 | 15.2 | 14.9 | 14.6 |
| Germany | 4.3 | 3.8 | 4.3 | 4.2 | 4.1 | 4.7 | 4.7 | 3.4 | 4.1 | 4.3 | 4.8 | 5.4 |
| Netherlands | 3.0 | 3.4 | 2.6 | 2.6 | 2.8 | 3.3 | 3.9 | 5.2 | 2.2 | 2.5 | 3.9 | 4.9 |
| Sweden | 3.0 | 7.9 | 2.1 | 2.2 | 2.3 | 2.6 | 3.4 | 4.5 | 2.8 | 2.5 | 3.3 | 3.9 |
| United Kingdom | 6.7 | 13.1 | 7.5 | 6.9 | 6.7 | 5.1 | 7.8 | 6.8 | 6.8 | 8.4 | 9.2 | 7.5 |
| United States[1] | 4.8 | 6.9 | 5.7 | 4.4 | 4.4 | 4.7 | 7.8 | 9.0 | 8.1 | 8.9 | 9.0 | 6.7 |

1. As a percentage of gross income.

**Table 13: Current retirement income concerns and processes**

| Country | Financial viability of public pension system | Low effective age of retirement | Other concerns/Issues | Recent reforms undertaken and when | Current processes established |
|---|---|---|---|---|---|
| Australia | Yes | | • Adequacy of public benefits<br>• Complexity of pension arrangements | 1991-98<br>(-2025) | |
| Belgium | Yes | Yes | • Regulating public pension schemes<br>• Adequacy of public benefits, minimum entitlements | 1995<br>1996<br>1997 (-2005) | |
| Canada | Yes | | | 1998 | |
| Czech Republic | Yes | Yes | • Adequate level of pensions<br>• Consistency of pension arrangements | 1990-92<br>1996 (-2007) | |
| Denmark | | Yes | • Want more effective labour market incentives for older workers | | |
| Finland | Modest concern | Yes | • High rate of unemployment for older people<br>• Improved pension coverage of workforce | 1993-96<br>1997 | |
| France | | | | 1993 (-2013) | |
| Germany | Yes | Yes | • Promote company pensions<br>Intergenerational equity | 1992 (-2020)<br>1997 (-2012) | |

**Table 13: Current retirement income concerns and processes (continued)**

| Country | Financial viability of public pension system | Low effective age of retirement | Other concerns/Issues | Recent reforms undertaken and when | Current processes established |
|---|---|---|---|---|---|
| Greece | Yes | Yes | • Intergenerational equity<br>• Adequacy of minimum entitlements<br>• Evasion<br>• Coverage of immigrants | 1987 (farmers)<br>1990-92<br>1996 | "Social dialogue" on the future of social insurance, in particular pensions (1997-) |
| Hungary | Yes | Yes | • Adequacy of benefits<br>• Improved work incentives with pension system. | Early 90s<br>1998/9 | |
| Ireland | Yes | | • Adequacy of basic pension<br>• Supplementary pension coverage | 1988 (self-employed); 1990/91 (part-time employee); 1995 (public servants) | National Pension Policy Initiative launched in 1996. Report to be published, May 1998 |
| Italy | Yes | Yes | • Improved work incentives with pension system<br>• Greater equity of systems across industries and individuals<br><br>• Labour market outcomes may lead to inadequate pension accumulation | 1995<br>1997 (-2008) | |
| Japan | Yes | | • Intergenerational equity<br>• Worsening overall fiscal deficit<br>• Extension of private pensions | 1994 | • National Pension Council, advisory organisation to Minister for Health and Welfare, started extensive discussion to consider fundamental pension reform. |
| Korea | Yes | Yes | • Desire to extend coverage, including urban self-employed<br>• Reforming benefit structure (amount, retirement age, etc.) for the long-term financial soundness | | • National Pension Reform Committee was operating during 1997. Government is revising the current law. |

**Table 13: Current retirement income concerns and processes (continued)**

| Country | Financial viability of public pension system | Low effective age of retirement | Other concerns/Issues | Recent reforms undertaken and when | Current processes established |
|---|---|---|---|---|---|
| Luxembourg | Yes | | • Greater convergence between pension schemes | 1991 | |
| Mexico | | | • Setting upper limit (in relation to pension income) for imposing income tax | | |
| Netherlands | Yes | Yes | • Affordable private pension funds<br>• More freedom of choice for individuals and increase coverage rates for private pensions | | |
| New Zealand | Yes | Yes | | 1990<br>1991 (-2001) | • Current review of retirement income policies with a focus on the financial sustainability of the system<br>• Referendum on compulsory retirement savings scheme (not supported: Oct.1997). |
| Norway | Yes | Yes | • Intergenerational equity | 1997 | • Inter-Ministerial working group to evaluate greater retirement flexibility, committee to investigate alternative early retirement schemes<br>• Government commission investigating alternative financing methods, to report July 1998. |
| Poland | Yes | Yes | • Highly redistribute pension system | 1995/1996 | • Legislation for major reform being developed, anticipate it to operate from 1999 (phased in over 20-30 years) |

**Table 13: Current retirement income concerns and processes (continued)**

| Country | Financial viability of public pension system | Low effective age of retirement | Other concerns/Issues | Recent reforms undertaken and when | Current processes established |
|---|---|---|---|---|---|
| Portugal | Yes | | | 1994 | • Retirement pension issues: an important aspect of work of the Social Security White Book Committee |
| Slovak Republic | | | • Improved work incentives with pension system<br>• Extension of private pensions | 1993<br>1996<br>1998 | |
| Spain | Yes | Yes | • Maintain benefit adequacy<br>• Improved work incentives with pension system | 1997 (-2002) | |
| Sweden | Yes | | • Overall concern that fiscal consolidation has impacted harshly on older people | 1990<br>1993<br>1995<br>1998 | • Legislation on reformed pension system due to be operational January 1999 (phased in over 20-25 years) (The first payments will be done in 2001) |
| Switzerland | Yes | | • Exclusion of part-time workers from pension coverage of the compulsory occupational provident fund (2nd pillar) | 1997 | • Inter-Ministerial working group have analysed the social and financial consequences of extending or reducing benefits |
| Turkey | Yes | Yes | • Non-collection of social security premiums because of non-registration to the schemes. | 1998 (planned) | • Current studies on the social security bill |

**Table 13: Current retirement income concerns and processes (continued)**

| Country | Financial viability of public pension system | Low effective age of retirement | Other concerns/Issues | Recent reforms undertaken and when | Current processes established |
|---|---|---|---|---|---|
| United Kingdom | | | • Adequacy of income, rising income inequality<br>• Decline in quality and coverage of supplementary pensions<br>• Want to develop second-tier pension for those not covered by employer schemes, including carers | 1986<br>1995 | • Government leading a wide-ranging pensions review |
| United States | Yes | | • Encourage private pensions | 1996 | • Social Security Advisory Council, officially appointed body of outside experts, recently reported findings |

Source: Country responses to "Caring World" synthesis questionnaire.

## Table 14: Directions of recent pension reforms in Member countries

| | ↑ pensionable age | Promoting longer employment | Changed benefit rate | ↑ required contribution period | ↑ contribution rate | convergence of schemes | greater reliance on funded schemes | promoting private schemes | Others |
|---|---|---|---|---|---|---|---|---|---|
| Australia | O (W)<br>* Equalising with the age for men (1) | 1997<br>Deferred Pension Bonus Plan | 1997<br>Pension rate now linked to community living standards | | | 1992<br>• Establishment of compulsory private pension (Superannuation Guarantee)<br>DC, full-funded, tax con cession. Voluntary schemes still remain, generally with higher benefits.<br>1996<br>• Improved supervision, regulation of private funds<br>1997<br>• Retirement Saving Accounts or other supplementary measures | | | |
| Austria | | Reduced access to early retirement option | | | | Harmonisation of scheme for public employees with system for other workers | | | |
| Belgium | O (W)<br>* Equalising with the age for men | 1997<br>↑ Required no. of working yrs for early retirement | 1996<br>↓ Revaluation coefficient for the benefit | | | | | | |
| Canada | | 1987<br>Flexible retirement age to 70 | 1997<br>Reduction of some benefits related to disability | | 1997<br>To 9.9% in 2003 and held steady (2) (3) | 1996<br>New basic pension with means test, by 2001 | 1997<br>funded portion ↑<br>(2 yrs → 5 yrs) | Tax concessions, available within limits | 1997<br>More aggressive investment policy with pension reserves to generate higher earnings |
| Czech Republic | O (M,W)<br>* Difference between men and women is shortened. | | Price indexa-tion of payments, capacity for adjustment in line with living standards | | Considering increase | Convergence of payment rates available through different schemes | System of voluntary supplementary pension provision, based on employer contribution, no tax relief. | | |
| Denmark | | | | | Yes (3) | Compulsory occupational pension (second-tier) is managed by DC schemes. Coverage rate of that program increased from about 1/3 (1987) to about 4/5 (1993). | | | 1994<br>Pensioners taxed in the same way as other taxpayers |

**Table 14: Directions of recent pension reforms in Member countries (continued)**

| | $\uparrow$ pensionable age | Promoting longer employment | Changed benefit rate | $\uparrow$ required contribution period | $\uparrow$ contribution rate | convergence of schemes | greater reliance on funded schemes | promoting private schemes | Others |
|---|---|---|---|---|---|---|---|---|---|
| Finland | Retirement age raised from 63 to 65 | 1997<br>Raising the lower age limit for early retirement benefit (from 55 to 58 yrs).<br>Lower level of early retirement benefit. | 1993-1996<br>Reduced benefit, changed indexation arrangements, basic pension means-tested. | | Gradual raise of the contribution rate until 2030s<br>(3) | | | Gradual implementation of private sector pension scheme | 1997<br>Financing and solvency reform to strengthen solvency of funds and allow new investment strategies |
| France | | | 1994<br>Base period for benefit calculation from 10 → 25 years (by 2008/2013) | 1994<br>37.5 yrs → 40 yrs by 2003 | | | | | |
| Germany | O (W)<br>* Equalising with the age for men<br>* Other excep-tions are also amended. | | 1992<br>Net-income indexation (4)<br>1997<br>↓target repla-cement rate (70% → 64% )<br>( in 30 yrs) | | (3) | | • Corporate schemes are promoted with legislation, dating back to 1974 and recent reforms.<br>• Wanting to further expand private schemes | | Attempted to share the burden of ageing equally between pensions and contributors |
| Greece | O (W)<br>* Equalising with the age for men | Benefits more proportional to contributions<br>(5) | 1992<br>Elimination of the special treatment on the bonus salary<br>* calculation rate: 80% →60% (5) | 1990<br>13.5 yrs → 15 years | • Major increase in 1992<br>• State contributions equal to 10% of earnings (5) | * Pensionable age of special schemes is eqalised with IKA (2001 (W) and 2007(M))<br>* Uniform contri-butions and replacement rates (5) | | | 1996<br>income-tested pension supplement<br>Farmers scheme to provide contri-bution-related benefits in place of current flat-rate non-contributoy pensions<br>(a) |

## Table 14: Directions of recent pension reforms in Member countries (continued)

| | ↑ pensionable age | Promoting longer employment | Changed benefit rate | ↑ required contribution period | ↑ contribution rate | convergence of schemes | greater reliance on funded schemes | promoting private schemes | Others |
|---|---|---|---|---|---|---|---|---|---|
| Hungary | O(M,W)<br>* Equalising the ages of men and women | Raising the lower age limit and minimum no. of contribution yrs for early retirement<br>1997<br>Replace Labour Market Fund with less generous scheme | 1998<br>Higher benefits available to long contri-butors and high earners<br>2001<br>Less generous indexation arrangement<br>2013<br>Pensions calculated on the basis of gross earnings | | 1998<br>A new mixed public-private system.<br>3/4 of the system is based on traditional PAYG system, with 1/4 is based on the newly established funded portion managed by private sector.<br>Tax allowances encourage voluntary savings in supplementary pension funds.<br>The new system is mandatory for new labour market entrants; existing workforce can elect to switch to the new system. | | | | Want to keep PAYG scheme deficit to below 1% of GDP<br>1998<br>Pensions became taxable income. |
| Ireland | | | Pension rate increased to more than adjust for prices in periods of economic growth | | | Majority of National Pensions Board in Final Report (1993) recommended against second tier PAYG pensions. | | January 1991<br>New regulatory system for occupational pensions introduced to safeguard pension rights | |
| Italy | O (M,W)<br>* 5 yr difference remains between men and women<br>• New system →(6) | Yes (6) | Reduction of benefits | For seniority pension and old-age pension | Yes (3) | 1995<br>Greater equity for workers in different industries | 1995<br>Complementary funded scheme, DC scheme | Yes | Surviviors pension now means tested<br>1995<br>Harmonisation of regulations governing different pension systems |
| Japan | O (M,W)<br>* Partial pension is also introduced. | | 1994<br>Net-income indexation (4) | | 1994<br>Introduction of contribution imposed on bonuses (3) | Private pension is promoted, including discussion for introduction of DC schemes, etc. | | | (a) |

# Table 14: Directions of recent pension reforms in Member countries (continued)

| | ↑ pensionable age | Promoting longer employment | Changed benefit rate | ↑ required contribution period | ↑ contribution rate | convergence of schemes | greater reliance on funded schemes | promoting private schemes | Others |
|---|---|---|---|---|---|---|---|---|---|
| Korea | O (M,W) | | Replacement rate: 70% →55% on the basis of 40 yrs' contributions | 15 years to 10 years | Gradual raise by 2025<br>(3) | | | <u>1995</u><br>Individual private pension introduced<br><u>1998</u><br>Firms can have an option to take pension scheme or severance payment . | |
| Luxembourg | | | | | | Pursuing convergence between general scheme, special public sector scheme and railway scheme | | | |
| Mexico | | | | | | <u>1997</u><br>A new mandatory private pension system (DC, funded)<br>• The old (public) system still remains and the insured persons can enrol either of them.<br>• Voluntary deposits can be made to the individual account of the workers. | | | |
| Netherlands | | | | | (3) | * Promotion of private pension<br>• Wishes to raise the coverage rate of private schemes<br>• Transition from PAYG to funded schemes supported by government<br>• Making the scheme more affordable by changing final-salary pension to average salary pension | | | • Introduction of the OAP Savings Fund<br>• Wants to encourage the workers to voluntary contribute to building up the pension right during "care-leave" |
| New Zealand | O (M, W)<br>* To 65 | | <u>1990</u><br>Link to 80% average wage (for couple) was abolished. Relative value now below 70% | | | Promotion of private provision<br>(by public education. no tax concession introduced.)<br>Introduction of compulsory private pension was proposed, but denied in the referendum (Sept. 97) | | | |

## Table 14: Directions of recent pension reforms in Member countries (continued)

| | ↑ pensionable age | Promoting longer employment | Changed benefit rate | ↑ required contribution period | ↑ contribution rate | convergence of schemes | greater reliance on funded schemes | promoting private schemes | Others |
|---|---|---|---|---|---|---|---|---|---|
| Norway | | 1997<br>Reduced level of deduction from pension payable due to income from work (67-70) | 1992<br>Reduced benefit rate, reduced rate of accumula-tion of pension entitlements for each yr of work | | | Under discussion | | | * Increased public revenues from petroleum industry is allocated to the State Petroleum Fund. |
| Poland | O (W)<br>* Equalising with the age for men | Raising the lower age limit for early retirement (planned) | | | | 1999<br>1st pillar PAYG, DC (state subsidy for subsistence)<br>2nd pillar: funded, universal coverage<br>3rd pillar: private pension schemes | | | 1991<br>Method of calculation was changed to count in only half of the portion the period of temporary withdrawal from labour force for the purpose such as of parental leave, sick leave, etc. |
| Portugal | O (W)<br>* Equalising with the age for men | | 1994<br>Reduced pension accumulation rate by 10% | 1994<br>10→15yrs contribution to establish pension rights | (3) | | | Possible but not so prevalent now | |
| Slovak Republic | | | | | (3) | | | Related legislation was passed in 1996. | 1995<br>DB scheme introduced with new tax system |

**Table 14: Directions of recent pension reforms in Member countries (continued)**

| | ↑ pensionable age | Promoting longer employment | Changed benefit rate | ↑ required contribution period | ↑ contribution rate | convergence of schemes | greater reliance on funded schemes | promoting private schemes | Others |
|---|---|---|---|---|---|---|---|---|---|
| Spain | Phasing out previous scheme with lower retirement age | | 1997<br>Automatic price indexation of benefits<br>Stronger linkage of benefit rates to contributory yrs. | | | | | | |
| Sweden | | 1999<br>Abolish upper limit for deferred retirement, actuarial pension increase | 1993<br>↓ benefit amount<br>Reduced indexation arrangements<br>1999<br>Transfer from a benefit-defined system to a contribution-defined system ("life-income' principle) | | 1990<br>Payroll tax for employers<br>1995<br>1% contribu-tion for employee<br>(3) | 1999<br>Introduction of DC scheme | 1999<br>2.5% out of 18,5% contri-bution will be allocated to funded system. | | 1990 phase-out survivors' pension<br><br>Individual financial funds in reformed scheme will grow as buffer fund declines.<br><br>(b) |
| Switzerland | O (W)<br>* Difference of the age between men and women is shortened. | | 1997<br>Abolish some special benefits | | | | | | 1997<br>• Those caring for children and close family relatives receive notional income at the time of calculating pensions.<br>* The rate of state subsidy has been adjusted in recent years. |
| Turkey | Raising the pensionable age | Raising the minimum no. of contribution yrs for early retirement (considered) | | Remove amnesty for unpaid contributions | Raising the contribution rate (considered)<br>State contributions | Considering universal scheme | | Considering encouraging greater private pensions | (a) |

## Table 14: Directions of recent pension reforms in Member countries (continued)

| | ↑ pensionable age | Promoting longer employment | Changed benefit rate | ↑ required contribution period | ↑ contribution rate | convergence of schemes | greater reliance on funded schemes | promoting private schemes | Others |
|---|---|---|---|---|---|---|---|---|---|
| United Kingdom | O (W)<br>* Equalising with the age for men (from 2010) | 1986<br>Flexible retirement age to 70 ("Personal Pension") | 1986<br>Reduction of value of public earnings-related scheme (calculation basis: 20 yrs → all the working yrs; replacement rate: 25% → 20%) | | | | * Permitting "contract-out" of state schemes with private schemes | • Tax concessions<br>• Introduction of Personal Pensions<br>• The 1995 Act also enhanced the regulation of private schemes | |
| United States | O (M,W)<br>* To 67 | | | | | Legislative requirement (ERISA) that all pension coverage should be non-discriminatory within a workplace where it is provided | DC scheme is tax-favoured for corporate pension | Tax concessions | Pension trust fund now in surplus, revenues lower than payments from 2011 and into debt in 2030. |

Source: Country responses for "Caring World" synthesis, and *Social Security Programs Throughout the World - 1997* (Social Security Administration, US).

* Year of the reform indicates that of the implementation unless otherwise indicated.

* Breakdown of "others" : (a) reform for more efficient management, such as introduction of "Basic Pension Number" in Japan (1997)
(b) closer linkage between work and benefit, such as introduction of wage indexation in Sweden (1999)

* "M": men, "W": women, "DC": defined-contribution, "PAYG": pay-as-you-go,

(1) Australia's recently established Superannuation Guarantee (compulsory private pension) also envisions increase of the age of eligibility from 55 to 60.

(2) The original plan was to increase to 14.2% by 2030.

(3) Some countries raised the contribution rate from 1995 to 1997.

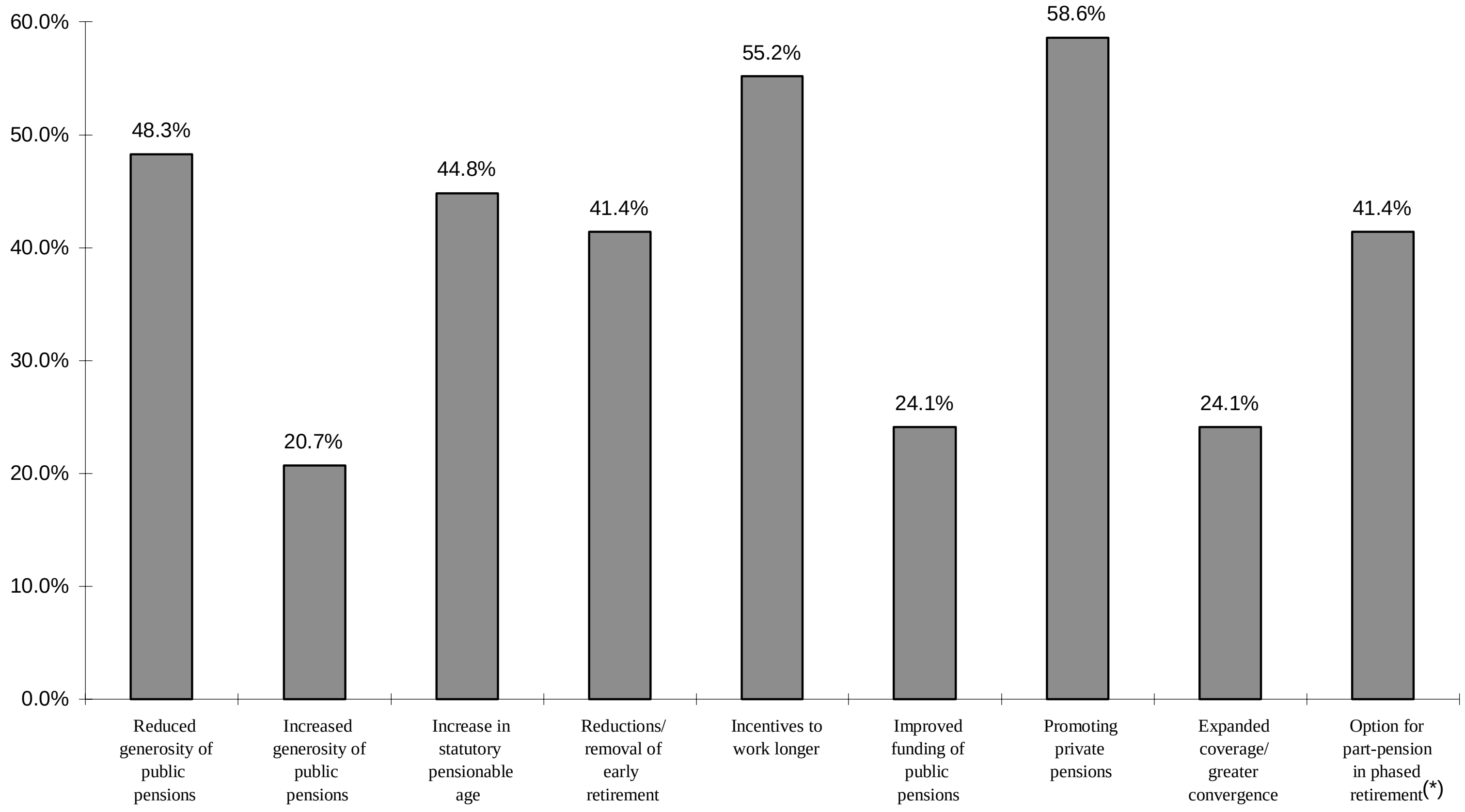
(4) Germany and Japan have introduced a scheme of "net-income indexation." The base of this adjustment is a disposable income, the remain after subtracting taxes and social security contributions from gross income.

(5) Those measures are only applied to those workers entering the labour market after 1993.

(6) A new system in Italy (introduced in 1995) has a flexible retirement age (57-65) and does not have an early-retirement arrangement. For more details on pensionable age, see Table 6.10.

AWP 3.4

**Chart: Countries taking policy action in retirement incomes, as a proportion of countries surveyed**




Note: Excludes policies "still under consideration"

(*) Includes Italy which is moving to restrict this policy and Sweden which has plans to remove it.

## Table 15: Pensionable age and early/deferred retirement

| | Pensionable age (1) | Changes to Pensionable age | Provision on early retirement (2) | Changes to early retirement provisions | Provision on deferred retirement (2) | Changes to deferred retirement provisions | Effective retirement age | Note |
|---|---|---|---|---|---|---|---|---|
| Australia | 65 (M)<br>61 (W) | 61 → 65 (W)<br>(1997) (2013) | (c): Mature Age Allowance (MAA, introduced in 1994)<br>60 - 64 (M)<br>60 (W) | • MAA now provides lower benefit entitlements rather than pension entitlements.<br>• Phased increase in age at which makes possible an access to tax-assisted private pensions, from current age 55 up to age 60 by 2025. | | • Deferred Pension Bonus Plan (lump-sum) ... (proposed)<br>65-70 (M)<br>61-66 (W)<br>• Can continue contributing to private pensions up to age 70 if employed at least 10 hours a week | | Eligibility for Service Pension (for veterans) is 5 years earlier than Age Pension. |
| Austria | 65 (M)<br>60 (W) | | (a): 60 -64 (M)<br>55 - 59 (W)<br>Needs 35 years insurance, meet means test | | (a) | | | |
| Belgium | 65 (M)<br>61 (W) | <u>1997</u><br>61 → 65 (W)<br>(1997) (2009) | (a): 60 -64 (M)<br>60 (W)<br>Needs 20 working years | <u>1997</u><br>No. of working yrs will be↑ from 20 (1997) to 35 years (2005) | Pension system allows continued employment with earnings limits | | | General principle that people should stop work at retirement age |
| Canada | 65 | | (a): 60-64<br>(for earnings-related pension, introduced in 1987)<br>Needs substantially ceased employment<br>Introduction of partial pension is being considered. | | (a): 65-70<br>(for earnings-related scheme, introduced in 1987) | | 62<br>(median, 1995. from about 65 in 1976) | Pensioable age for Spouses Allowance Benefit is 60.<br>Change of pensionable age (65→67) was proposed but not supported in 1997. |

## Table 15: Pensionable age and early/deferred retirement (continued)

| | Pensionable age (1) | Changes to Pensionable age | Provision on early retirement (2) | Changes to early retirement provisions | Provision on deferred retirement (2) | Changes to deferred retirement provisions | Effective retirement age | Note |
|---|---|---|---|---|---|---|---|---|
| Czech Republic | 60 (M)<br>53-57(W) | 1996<br>60 →62 (M)<br>53-57→57-61(W)<br>(1996) (2007) | (a): from 3 years before pensionable age with 25 yrs insurance<br>(c): within 2 yrs of retirement with 25 yrs insurance and 180 days unemployment, temporary benefit reduction until age 60 | 1996<br>4 years before(2001)<br>→ 5 years before (2006) | (a) | | | |
| Denmark | 67 | | (b): 60-66<br>Needs contribution of over 10 yrs in last 20 yrs<br>Needs to continue working as part-time | From July 1998:<br>Local authorities required to first try rehabilitation training, and other reintegration measures which prove unsuccessful before an early retirement pension is granted | | | 61.5<br>(Sep.1997, from about 65 in 1977) | |
| Finland | 65 | | (a): 60-64<br>(Early-retirement pension)<br>(b): 58-64<br>(Part-time pension)<br>(c): 53-60<br>(unemployment daily allowance)<br>(c): 60-64<br>(unemployment pension) | 1997<br>Lower age limit for unemployment daily allowance became from 53 to 55 | (c): 65- (no upper limit)<br><br>1% pension bonus for each month deferred after age 65 for public sector workers | | | |
| France | 60 | | | | | | | Under certain conditions, part-time work is permitted after the pensionable age (since 1988) |

## Table 15: Pensionable age and early/deferred retirement (continued)

| | Pensionable age (1) | Changes to Pensionable age | Provision on early retirement (2) | Changes to early retirement provisions | Provision on deferred retirement (2) | Changes to deferred retirement provisions | Effective retirement age | Note |
|---|---|---|---|---|---|---|---|---|
| Germany | 65 (M)<br>60 (W) | 1992 and 1996<br>60 → 65 (W)<br>(2000)(2004) | (a):<br>Needs partial cessation of employment | From 2012:<br>Lower limit: 62 years<br>Needs 35 years insurance | (c):<br>0.5% bonus for each month working beyond age 65 | | | There are some exceptions for pensionable age, 63 for long-term insured and 60 for severely handicapped. They are also gradually increased to 65 and 63 respectively. |
| Greece | 65 (M)<br>60 (W) | 60-65 (W)<br>for those entering the labour market after 1993 | (a): 60-64 (M)<br>55-59 (W)<br>Needs 4500 days of insurance<br>* Full seniority pension is granted at age of 58 for those with 35 years of contributions. | | | | | There are many exceptions of pensionable age.<br>(3) |
| Hungary | 60 (M)<br>56 (W) | 1997<br>60 → 62 (M)<br>(1997) (2001)<br>56 → 62 (W)<br>(1997) (2009) | • Employer-based scheme available within five yrs of retirement (employers bear the full cost)<br>• Labour Market Fund for those exhausted UB and within 3 yrs of retirement<br>• Those with 40 yrs service get full pension | • Access to early retirement now from age 60 (M) , 55(W)<br>• Value of Labour Market Fund payment reduced (by around 20%) to flat-rate benefit | (c):<br>3.6% annual bonus for working beyond age 62 | | | 1997<br>With employer-based early retirement scheme, employers will be required to provide full advance funding rather than current instalment payment. |
| Iceland | 67 | | (a): 65-66<br>(for corporate pension) | | | | | |
| Ireland | 65<br>(retirement)<br>66<br>(old-age) | | (c): 55-64 or -65<br>Needs to be unemployed for 15 or more months, means-tested, payment equal to long-term rate of UA | Special one-off early retirement scheme for civil servants introduced in late 1980s no longer available | | | | |

**Table 15: Pensionable age and early/deferred retirement (continued)**

| | Pensionable age (1) | Changes to Pensionable age | Provision on early retirement (2) | Changes to early retirement provisions | Provision on deferred retirement (2) | Changes to deferred retirement provisions | Effective retirement age | Note |
|---|---|---|---|---|---|---|---|---|
| Italy | (Old system)<br>63 (men)<br>58(women)<br><br>(New system)<br>57-65<br>(3) | (Old system)<br>63 →65 (M)<br>58 →60 (W)<br>(1997)(2000)<br>(3) | "Seniority pension"(within the old system; used to be provided with 35 years of contribution and with no age requirements) is provided with 35 years of contributions and age requirement of 52 (1997). | Required contribution period for "seniority pension" becomes 40 years in 2008, which is the same as that of the new system when age requirement is exempted.<br>(3) | (a): 64-65 (M)<br>59-65 (W) | | | Want to abolish public subsidies for early retirement |
| Japan | 60 (M)<br>59 (W) | <u>1994</u><br>60 → 65<br>(2001)(2013) (M)<br>(2006)(2018) (W) | (a): 60-64 (basic pension)<br><br>* Earnings-related pension: (4) | | (a): 65-70 | | | Pensionable age for Basic Pension is 65 years old.<br>As to earnings-related pension, pensionable age for seamen and miners is 56. |
| Korea | 60 | 60→65 (by 2033) | (a): 55-59<br>Needs 20 working years<br>Lose 5% benefits for each yr below age 60 | | When retirement is deferred to 65, basic pension is provided with reduced amount of 50% at 60, with 10% increases for a year more. | | | |
| Luxembourg | 65 | | 57 -.<br>Needs 40 yrs contributions; or age 60 if 40 yrs effective coverage | --- | (a): 65-68 | Not a policy priority | | Pensionable age for non-contributory plan is 60. |
| Mexico | 65 | | (a): 60-64<br>The early retirement benefit was intended for unemployment situations. | | | | | |
| Netherlands | 65 | | Only private pension has those arrangements based on collective agreements | | Not a policy priority | | | |

## Table 15: Pensionable age and early/deferred retirement (continued)

| | Pensionable age (1) | Changes to Pensionable age | Provision on early retirement (2) | Changes to early retirement provisions | Provision on deferred retirement (2) | Changes to deferred retirement provisions | Effective retirement age | Note |
|---|---|---|---|---|---|---|---|---|
| New Zealand | 62 | 62 → 65 (1997)(2001) | No. Only transitional measures for those close to new increased retirement age expires in 2003. Relaxed work test for unemployment beneficiaries aged 55 and are unemployed for at least 6 months | | | | | Mandatory retirement is illegal. |
| Norway | 67 | | (a): 64-66 | Lower limit becomes 62 in Mar. 1998. | (a): 67-70 | 1997 * Those working between these ages can also retain more of their pension, up to set earnings limits. | About 60 (Aug.1997) | Easier access to early retirement contrary to Government objectives |
| Poland | 65 (M) 60 (W) | It is planned to increase pensionable age for women to 65. | Early retirement generally available 5 yrs before retirement age. No actuarial reduction of benefit. | It is planned to make the lower limit of early retirement at 62. | | | 59 (M) 55 (W) (1996) | |
| Portugal | 65 (M) 64(W) | 62 → 65 (1993)(1999) | Early retirement at age 60 if involuntary unemployed over age 55. Pension payable at 60 if UB depleted. | | | | | Pensionable age for miners (50), seamen, fishermen (55). |
| Slovak Republic | 60 (M) 53-57 (W) | | 2 year before the pensionable age (* without actuarial reduction if retirement due to retrenchment) | A scheme of allowing early retirement 3 years before pensionable age, with actuarial reduction of the benefit, is being considered. | (c): Legal regulations allow later retirement. 1% bonus for extra 3 months work | | | Pensionable age for workers in unhealthy or arduous work is 55 - 58. |

**Table 15: Pensionable Age and Early/Deferred Retirement (continued)**

| | Pensionable age (1) | Changes to Pensionable age | Provision on early retirement (2) | Changes to early retirement provisions | Provision on deferred retirement (2) | Changes to deferred retirement provisions | Effective retirement age | Note |
|---|---|---|---|---|---|---|---|---|
| Spain | 65 | Previous pension system which had retirement age of 60 being phased our (no new entrants after 1967) | (a):<br>60 - 64<br>• Full benefit when the age is 64 or more and there is a replacing worker who has been unemployed.<br>• Phased retirement at 62-64 with part-time work and new recruitment of part-time worker | | (a) | | 63.1<br><br>(Aug.1997) | Can retire earlier if work in harsh, dangerous jobs<br>Little incentive to work more than 35 yrs as already get 100% pension |
| Sweden | 65 | | (a): 60-64<br>(b): 61-64 (with reduced working hours)<br>Reduction of 0.5% of benefits for every month prior to 65 | <u>1999</u><br>Pensions available from age 61 with actuarial adjustment | (c): 65-70<br>Employer's consent is required.<br>Bonus of 0.7% for each month deferred | A measure to ensure the right to work until 67 is being considered.<br><u>1999</u><br>Plan to remove upper age limit from pension bonus and to introduce actuarial adjustment | | |
| Switzerland | 65 (M)<br>62 (W) | 62 → 64 (W)<br>(1997) (2005) | (a): Up to 2 yrs before the pensionable age (first-tier pension)<br>* As to the second-tier compulsory private pension, the rules and regulations of the insurance company determine whether there can be early or late retirement and on what conditions (but the federal authorities will not accept this when it is more than five years under or over the legal retirement age). | Early retirement linked to increase of retirement age (1st pillar) | (a): 65-70 (M)<br>62-67 (W)<br><br>In case of the private compulsory scheme (2nd pillar) , pensioners may also remain in employment in order to accumulate maximum pension | | | There is another early retirement scheme within unemployment insurance: it provides supporting benefit to the employers if they fill the job of the pre-pensioner with someone unemployed for at lease 6 months. |

## Table 15: Pensionable Age and Early/Deferred Retirement (continued)

| | Pensionable age (1) | Changes to Pensionable age | Provision on early retirement (2) | Changes to early retirement provisions | Provision on deferred retirement (2) | Changes to deferred retirement provisions | Effective retirement age | Note |
|---|---|---|---|---|---|---|---|---|
| Turkey | 55(M)<br>50(W) | | (a): The benefit is provided from the age of 38(W) or 43 (M) only if the requirements of 20 (W) or 25 (M) working years and 5000 days of contribution are fulfilled. | Limiting of early retirement by increasing working years is being considered. | | | | Pensionable age varies according to the schemes, e.g. age 50 for underground miners |
| United Kingdom | 65 (M)<br>60 (W) | 1988<br>60 → 65 (W)<br>(2010)(2020) | (a): 50-64 (M); 50-59 (W)<br><br>("Personal Pension" introduced in the 1986 Act, also available up to age 75) | | (a): 65-70 (M); 61-70 (W) (state schemes)<br><br>* From 2010 can defer indefinitely | | | |
| United States | 65 | 1983<br>65 → 67<br>(2002) (2027) | (a): 62 -64<br>Reduction of benefits 5/9 of 1% every month prior to age 65 | | | | | • Mandatory retirement is illegal.<br>• Funds withdrawn prior to age 59 and 1/2 are subject to a tax penalty. |

Source: Implementing the OECD Jobs Strategy: Member countries' experience (OECD, 1997), Social Security Programs Throughout the World - 1997 (Social Security Administration, US) and country responses for "Caring World" synthesis questionnaire.

* (M): men, (W): women, "UB": unemployment benefit,

* Subsequent changes of the ages of eligibility in case of early/deferred retirement, corresponding to the change of pensionable age, are not explicitly indicated in the column.

* As to the early retirement arrangement, the benefit in the form of usual disability pension is not included in the column, though in come countries it serves as *de facto* early retirement pension.

* In some countries, workers in certain industries (miner, seamen, etc.) or mothers of young children have earlier retirement age or special option for early retirement.

(1) Standard pensionable age is as of July 1997.

(2) In the column for provisions on early/deferred retirement, (a) is for actuarial adjustment of benefit, (b) for partial pension, and (c) for other schemes such as unemployment benefits.(3) Lower pensionable age of special schemes is to be gradually equalised to that of IKA: 65 (M) from 2007, 60 (W) from 2001. In addition, in 1990, a minimum pensionable age was introduced in the public sector (for those hired from 1983).

(3) A new system in Italy (introduced in 1995) has a flexible retirement age (57-65). This system does not have an early-retirement arrangement.

(4) Pensionable age for Japanese system needs more elaboration. Although pensionable age for the basic pension is 65 years old, the earnings-related pension has provided both basic and earnings-related portions of the benefit to the elderly of age between 60 and 64, on the conditions of retirement or reduction of income to a certain extent. In the 1994 Reform, it was decided that this "special provision" by earnings-related pension from 60 would be abolished. This means standard pensionable age would increase to 65. Instead, a partial pension benefit is decided to be introduced which covers only earnings-related portion of the benefit and payable from 60. The replacement of the "special provision" by the partial pension takes place gradually during the period of 2001-2013 (M) and 2006-2018 (W). The basic pension benefit is still payable from 60 with actuarial reduction, on top of the partial pension benefit.

**Table 16: Pensions and employment: linkage in selected countries**

*** Before standard pensionable age**

| | |
|---|---|
| Denmark | • Part-pension available to employees and self-employed aged between 60 to 66 (Introduced in January 1987). Pension provides a supplement to pay, if meet conditions regarding current and prior labour market attachment as well as a reduction in working hours. |
| Germany | • Some reforms in August 1996 which improved the opportunity for gradual transition from work to retirement. The reforms encouraged part-time work by older people over the age of 55 years who cut their contractual hours by half. An employer who tops up earnings from part-time work by 20% and pays contributions to pension insurance on the basis of 90% of the full time wage has. These additional costs reimbursed if the employer recruits someone else to fill the job vacated. |
| Italy | • Rules for concurrently drawing a pension and working although it is moving to limit this opportunity. |
| Japan | • Reduced pension to those aged 60-64 who are phasing down their work attachment, in the same type of job or with a different job. |
| Luxembourg | • Permits half salary and half pension to be received. |
| Portugal | • No restriction on employment activity for those in receipt of a pension. |
| Slovak Republic | • Draft legislation which proposes that people not be able to work while drawing an old-age pension. |
| Sweden | • Possibility for early retirement from 61 years. This implies life-long reduction of pension by 0.5% per month of retirement age below 65 years. |

*** After standard pensionable age**

| | |
|---|---|
| Belgium | • Allows retirees to take jobs while still drawing pensions as long as earnings are below set national limits (with the limits adjusted according to the presence of family dependants). |
| France | • Graduated pension scheme since 1988, available to wage earners, craftsman, industrialists and traders who are at least 60 years of age, qualified for a full pension on basis of contributions and hold a part-time job. They can combine a fraction of their pension with income from part-time work. |
| Greece | • Pension reduced in proportion to earnings if they exceed a limit. Current arrangements under review. |
| Poland | • Allows a person granted a retirement pension to continue working but there may be partial or total suspension of benefits depending on the level of earnings. |
| Sweden | • Postponed retirement possible until the age of 70. This implies life-long increase of pension by 0.7% per month of retiring age over 65 years. |
| Turkey | • Once pensioners start working, retirement pensions are not provided and they have to continue paying contributions. However, the benefits are maintained if they request for it and pay the contributions to support social security (rate: 24%) (for the scheme for employees) or if they enroll in other schemes (for the scheme for national civil servants). |
| United States | • Liberalised the earnings test in 1996 to encourage pensioners to work more. Those aged 62-64 can earn US$8,460 (in 1997) before they face 50% pension taper, those aged 65-69 can earn US$13,500 before they face a 33 1/3 % pension taper and those aged 70+ have no limit on earnings. |

Examples of international social security agreements for pension totalisation

(1) Bilateral Agreements

Items usually included:

a) Elimination of dual coverage

-- To exempt foreign workers (temporarily "detached" from their home country) from paying contributions to the country of current residence (maximum period of the "detachment" is specified in the agreement, for example, five years in the majority of agreements where the US is involved)

b) "Totalisation" of the benefit

--- To allow people who do not fall under the above a) to count the coverage year in one country in claiming for the benefit in the other. Partial benefit can be paid when the combined year of coverage meets the requirements. This also means that (a part of) the accrued pension benefit in one country can be portable to the other.

Example in some countries:

Australia: Austria, Canada, Cyprus, Ireland, Italy, Malta, New Zealand, the Netherlands, Portugal, Spain and the UK

Canada: Antigua and Barbuda, Australia, Austria, Barbados, Belgium, Cyprus, Denmark, Dominica, Finland, France, Germany, Greece, Guernsey, Iceland, Ireland, Italy, Jamaica, Jersey, Luxembourg, Malta, the Netherlands, New Zealand, Norway, the Philippines, Portugal, St.Kitts and Nevis, St.Lucia, Spain, Sweden, Switzerland and the US.

The US : Italy, Germany, Switzerland, Belgium, Norway, Canada, the UK, Sweden, Spain, France, Portugal, the Netherlands, Austria, Finland, Ireland, Luxembourg, Greece

* Agreements between Australia and New Zealand/the UK are different from others: they have "host-country" agreements, which means that the country of residence takes a charge of the social security for the foreign labour. Significantly, those style of agreements provides very limited portability of the benefits, which has been improved by recent measures such as unilateral action of allowing their portability.

(2) Multilateral Agreements

a) EC Regulation 1408/71(substantive) and 574/72 (procedure), backed up by Article 51 of the EC Treaty. Aggregation of (the period of) contributions is enabled in the regulations.

* This agreement is enforced in the European Economic Area (EEA), which includes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Liechtenstein, Luxembourg, the Netherlands, Norway, Portugal, Ireland, Spain, Sweden, the UK
* Significantly, this agreement is only applied to European Union citizens, not to people with other countries citizenship.