

# Luxembourg

## Luxembourg: Pension system in 2012

The public pension scheme has two components: a flat-rate part depending on years of coverage and an earnings-related part. There is also a minimum pension.

## Key indicators

		Luxembourg	OECD
Average worker earnings (AW)	EUR	51 300	32 400
	USD	67 700	42 700
Public pension spending	% of GDP	7.7	7.8
Life expectancy	At birth	80.4	79.9
	At age 65	19.2	19.1
Population over age 65	% of working-age population	22.6	25.5

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## Qualifying conditions

An early pension is payable from age 57 with 40 years' (compulsory or voluntary) contributions. With 40 years' coverage of compulsory, voluntary or credited contributions, the pension can be paid from age 60. Since the modelling assumes a full career from age 20, it is assumed in the base case that workers retire at age 60. Otherwise, the normal pension age is 65 (subject to at least ten years' contributions).

## Benefit calculation

### Basic

This was worth EUR 436 per month in 2013, subject to 40 years' coverage. This is equivalent to around 10% of average earnings. For incomplete insurance, the benefit is reduced proportionally; formally, the basic pension is 23.613% of a reference amount, which was EUR 1 846 in 2013.

There is also an "end-of-year allowance", which adds EUR 59 per month to the pension for 40 years' contributions. This is proportionally reduced for insurance periods under 40 years, implying around EUR 1.48 per month for each year covered. The end-of-year allowance is indexed to nominal earnings (see below).

### Earnings-related

The accrual rate for the earnings-related pension is 1.844%. The earnings measure used in the formula is lifetime average pay re-valued in line with nominal earnings.

The accrual rate is higher for older workers and those with longer contribution periods. For each year beyond 93 (age + contribution years), the accrual rate is increased by 0.011 percentage points. The maximum accrual rate is 2.05% per year. Under the standard assumption of a full career starting at age 20, the accrual rate is 1.921%.

The maximum pension in 2013 was EUR 7 692 per month (formally specified as 4.17 times the reference amount). This is just under 180% of average earnings.

Benefits are automatically indexed to changes in the cost of living (if cumulative inflation is at least 2.5%). In addition, adjustments to increases in real wages must be considered every year. From 1 January 2013 adjustments of pensions to wages are only possible as long as annual income from contributions exceeds pension expenditure.

**Minimum**

The minimum is EUR 1 662 per month (defined as 90% of the reference amount), conditional on 40 years' coverage, equivalent to about 39% of average earnings. This is proportionally reduced for shorter periods subject to a minimum of 20 years of service periods (compulsory, voluntary or credited contributions).

**Social assistance**

The social-assistance safety-net level is EUR 1 315 per month for a single person.

**Variant careers****Early retirement**

It is possible to retire at 57 with 40 years' paid contributions and at 60 with 40 years' paid or credited contributions. Early retirees may work provided earnings and the premium benefit do not exceed the average of the five best yearly incomes of the career. There is no actuarial adjustment to benefits for early retirement.

In addition, there are a number of pre-retirement programmes. Relevant here are the pre-retirement solidarity and pre-retirement adaptation schemes. The first allows early retirement on the condition that the employer hires a job seeker assigned by the employment administration. The second allows early retirement for older workers losing their jobs due to restructuring or bankruptcy. Both schemes apply from age 57 up to age 60. The pre-retirement benefit is 85% of prior earnings in the first year, 80% in the second year, and 75% in the third. The earnings measure is pay in the preceding three months.

**Late retirement**

The pension has to be claimed at the retirement age of 65. After this age, it is possible to combine work and pension benefits without reductions in the pension benefit.

**Childcare**

"Baby years" (two years for one and four years for two children) are credited as insured time. Pensionable earnings are based on pay immediately before the baby years are claimed. The period counts as qualifying conditions and enters in the flat rate component of the pension formula.

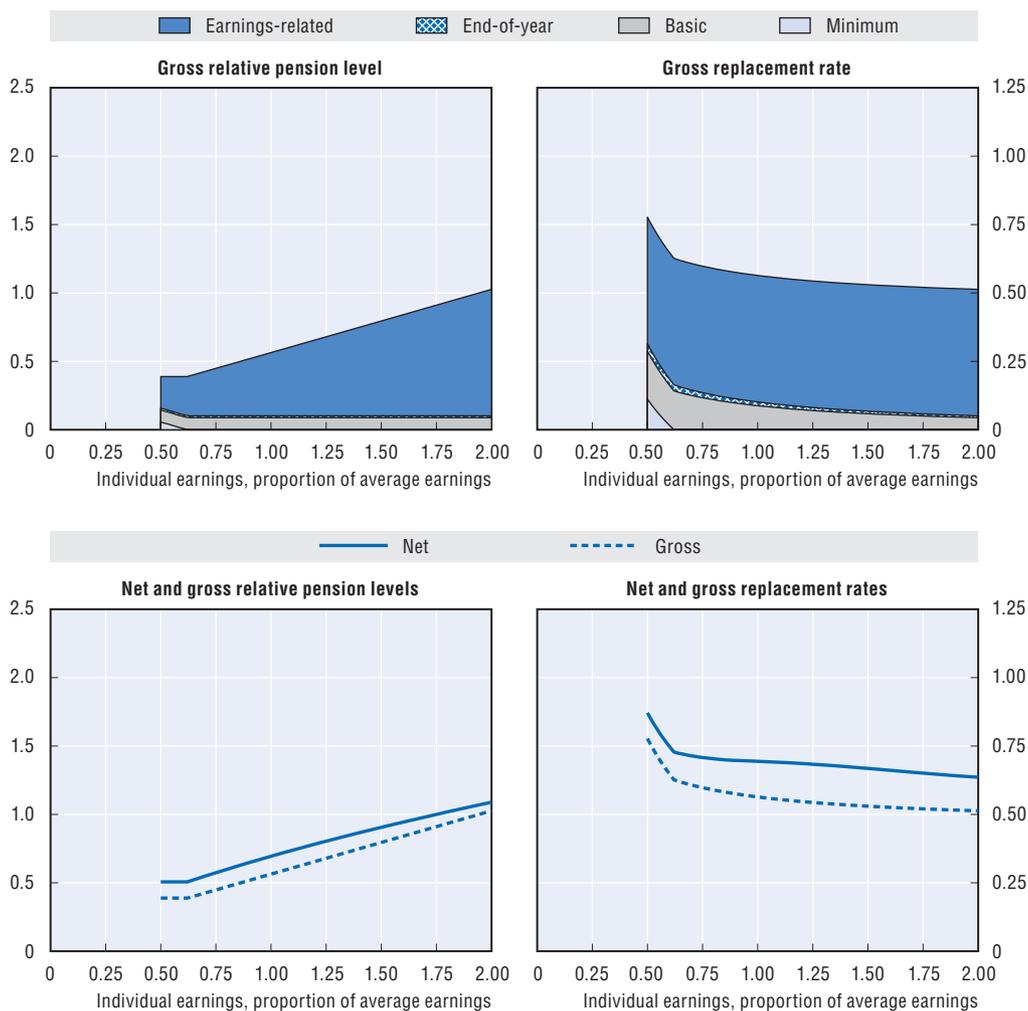
Employees who could not claim baby-years due to an insufficient contribution period have the right to a special monthly allowance in retirement of EUR 106 per child.

Non-contributory periods bringing up children under age six count towards the qualifying conditions.

**Unemployment**

Periods of receiving unemployment benefits are credited: pension contributions from the benefits are paid by state (two-thirds) and beneficiary (one-third). The period unemployed counts towards the qualifying conditions and enters in the earnings-related component of the pension formula. For this period, unemployment benefit is used as a base for pension calculation.

### Pension modelling results: Luxembourg



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	46.2	38.9	44.8	56.4	79.5	102.6
Net relative pension level (% net average earnings)	58.8	50.7	57.3	69.4	90.7	108.9
Gross replacement rate (% individual gross earnings)	59.3	77.7	59.8	56.4	53.0	51.3
Net replacement rate (% individual net earnings)	70.5	87.1	70.8	69.4	66.8	63.6
Gross pension wealth (multiple of individual gross earnings)	15.0	19.7	15.2	14.3	13.5	13.0
Net pension wealth (multiple of individual gross earnings)	13.8	17.3	22.7	17.5	16.5	15.0
Net pension wealth (multiple of individual net earnings)	13.8	18.6	21.4	14.0	12.7	11.1
Net pension wealth (multiple of individual gross earnings)	15.9	21.4	16.1	14.6	12.7	11.5

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