Key results

Retirement-income systems are diverse and often involve a number of different programmes. Classifying pension systems and different retirement-income schemes is consequently difficult. The taxonomy of pensions used here consists of two mandatory "tiers": a redistributive part and a savings part. Voluntary provision, be it individual or employer-provided, makes up a third tier.

The framework, shown in the figure, is based on the role and objective of each part of the system. The redistributive, first tier comprises programmes designed to ensure pensioners achieve some absolute, minimum standard of living. The second-tier savings components are designed to achieve some target standard of living in retirement compared with that when working. Within these tiers, schemes are classified further by provider (public or private) and the way benefits are determined. *Pensions at a Glance* focuses mainly on mandatory and quasi-mandatory parts of the pension system, although much information is also provided on voluntary, private schemes.

Using this framework, the architecture of national schemes is shown in the table. Programmes aimed to prevent poverty in old age – first-tier, redistributive schemes – are provided by the public sector and are of three main types.

Resource-tested or ***targeted*** plans pay a higher benefit to poorer pensioners and reduced benefits to better-off retirees. In these plans, the value of benefits depends either on income from other sources or on both income and assets. All countries have general social safety-nets of this type, but in some cases they only cover a few older people who had many career interruptions. Rather than mark every country in the table, only 12 OECD countries are marked in this column. Full-career workers with low earnings (30% of the average) would be entitled to resource-tested benefits in these countries.

Basic schemes pay either flat rate benefits (the same amount to every retiree) or their value depends only on years of work, not on past earnings. Additional retirement income does not change the entitlement. Some 13 OECD countries have a basic pension scheme or other provisions with a similar effect.

Minimum pensions, which share many features with resource-tested plans, are found in 18 OECD countries. The value of entitlements takes account only of pension income: unlike resource-tested schemes, it is not affected by income from savings, etc. Minimum credits in earnings-related schemes, such as those in Belgium and the United Kingdom, have a similar effect: benefits for workers with very low earnings are calculated as if the worker had earned at a higher level.

Only Ireland and New Zealand of the OECD countries do not have mandatory, second-tier provision. In the other 32 countries, there are four kinds of scheme.

Defined-benefit (DB) plans are provided by the public sector in 18 OECD countries. Private (occupational) schemes are mandatory or quasi-mandatory in three OECD countries (Iceland, the Netherlands and Switzerland). Retirement income depends on the number of years of contributions and on individual earnings.

There are ***points*** schemes in four OECD countries: French occupational plans (operated by the public sector) and the Estonian, German and Slovak public schemes. Workers earn pension points based on their earnings each year. At retirement, the sum of pension points is multiplied by a pension-point value to convert them into a regular pension payment.

Defined-contribution (DC) plans are compulsory in 10 OECD countries. In these schemes, contributions flow into an individual account. The accumulation of contributions and investment returns is usually converted into a pension-income stream at retirement. In Denmark and Sweden, there are quasi-mandatory, occupational DC schemes in addition to compulsory plans.

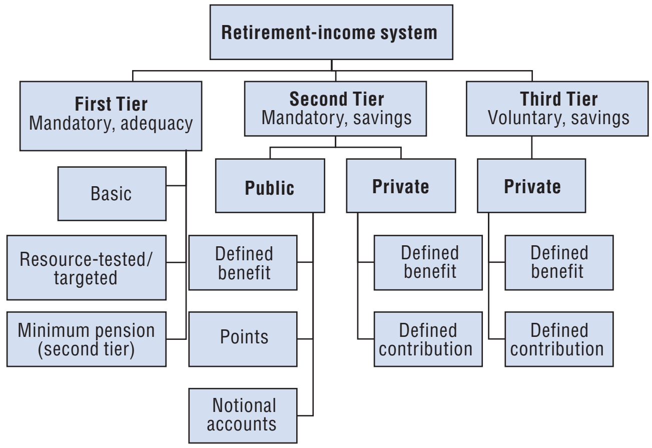
There are ***notional-accounts*** schemes in four OECD countries (Italy, Norway, Poland and Sweden). These record contributions in an individual account and apply a rate of return to the balances. The accounts are "notional" in that the balances exist only on the books of the managing institution. At retirement, the accumulated notional capital is converted into a stream of pension payments using a formula based on life expectancy. Since this is designed to mimic DC schemes, they are often called notional defined-contribution plans (NDC).

Further reading

OECD (2005a), *OECD Pensions at a Glance 2005: Public Policies across OECD Countries*, OECD Publishing, *http://dx.doi.org/10.1787/pension_glance-2005-en*.

OECD (2005b), *Private Pensions: OECD Classification and Glossary*, OECD Publishing, *http://dx.doi.org/10.1787/9789264017009-en-fr*.

3.1. Taxonomy: Different types of retirement-income provision



Note: See Chapter 1 of OECD (2005a) and OECD (2005b) for a more detailed discussion of classification issues.

StatLink http://dx.doi.org/10.1787/888932907034

3.2. Structure of retirement-income provision

	Public			Public	Private		Public			Public	Private
	Targeted	Basic	Minimum	Type	Type		Targeted	Basic	Minimum	Type	Type
OECD members						**OECD members** *(cont.)*					
Australia	✓				DC	New Zealand		✓			
Austria				DB		Norway			✓	NDC	DC
Belgium	✓		✓	DB		Poland			✓	NDC	DC
Canada	✓	✓		DB		Portugal			✓	DB	
Chile	✓		✓		DC	Slovak Republic			✓	Points	DC
Czech Republic		✓	✓	DB		Slovenia			✓	DB	
Denmark	✓	✓			DC	Spain			✓	DB	
Estonia		✓		Points	DC	Sweden			✓	NDC	DC
Finland			✓	DB		Switzerland	✓		✓	DB	DB
France			✓	DB + points		Turkey			✓	DB	
Germany	✓			Points		United Kingdom	✓	✓	✓	DB	
Greece			✓	DB		United States				DB	
Hungary				DB							
Iceland	✓	✓			DB	**Other major economies**					
Ireland		✓				Argentina		✓		DB	
Israel		✓			DC	Brazil				DB	
Italy	✓			NDC		China		✓		NDC/DC	
Japan		✓		DB		India				DB + DC	
Korea	✓	✓		DB		Indonesia				DC	
Luxembourg	✓	✓	✓	DB		Russian Federation		✓		NDC	DC
Mexico			✓		DC	Saudi Arabia			✓	DB	
Netherlands		✓			DB	South Africa	✓				

Note: In Iceland and Switzerland, the government sets contribution rates, minimum rates of return and the annuity rate at which the accumulation is converted into a pension for mandatory occupational plans. These schemes are therefore implicitly defined benefit.
DB = Defined benefit; DC = Defined contribution; NDC = Notional accounts.
Source: See "Country profiles" in Chapter 9 of this report.

StatLink http://dx.doi.org/10.1787/888932907053

From:

Pensions at a Glance 2013

OECD and G20 Indicators

Access the complete publication at:

https://doi.org/10.1787/pension_glance-2013-en

Please cite this chapter as:

OECD (2013), “Architecture of national pension systems”, in *Pensions at a Glance 2013: OECD and G20 Indicators*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/pension_glance-2013-6-en