Key results

Retirement-income regimes 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": an adequacy part and an earnings-related 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 first tier comprises programmes designed to ensure pensioners achieve some absolute, minimum standard of living. The second-tier, earnings-related 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 these mandatory components although information is also provided on some 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 schemes – are provided by the public sector and are of three main types.

Basic pensions can take two different forms: a benefit paid to everyone irrespective of any contributions made, although beneficiaries might have to meet some residence criteria. In some countries residence-based benefits are potentially offset against other pension income; or a benefit paid solely on the basis of the number of years of contributions, i.e. independently of earnings. Some 18 OECD countries have a basic pension scheme or other provisions with a similar effect.

Minimum pensions can refer to either the minimum of a specific contributory scheme or of all schemes combined. They are found in 13 OECD countries. The value of entitlements takes account only of pension income: unlike means-tested schemes, it is not affected by income from savings, etc. Minimum pension credits in earnings-related second-tier schemes, such as those in Belgium and France, also have a redistributive effect and benefits workers with very low earnings since the pension credits are calculated as if the worker had earned pension credits at a higher level.

Social assistance 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. Rather than having every country marked in the table, only seven 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.

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

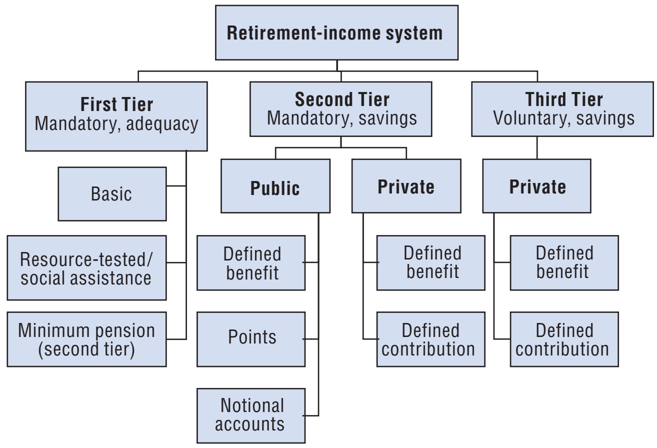
Defined benefit (DB) plans are provided by the public sector in 18 OECD countries. Private (occupational) schemes are mandatory or quasi-mandatory in three OECD countries (Iceland, the Netherlands and Switzerland). Retirement income depends on the number of years of contributions and individual earnings

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 nine 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 smaller 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).

5.1. Taxonomy: Different types of retirement-income provision



5.2. Structure of retirement-income provision

	Basic	Minimum	Social assistance	Public	Private		Basic	Minimum	Social assistance	Public	Private
				Type	Type					Type	Type
OECD members						**OECD members** *(cont.)*					
Australia	✓				DC	New Zealand	✓				
Austria				DB		Norway	✓			NDC	DC
Belgium		✓	✓	DB		Poland		✓		NDC	
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: DB = Defined benefit; DC = Defined contribution; NDC = Notional accounts. 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.
Source: See "Country profiles" in Chapter 11 of this report.

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