Key results

There are 18 countries with a mandatory pension scheme giving a replacement rate below the average for the 34 OECD countries. This "pension gap" is over 28% of pay for an average earner in Ireland and for women in Mexico. It also exceeds 25% in the United Kingdom and for men in Mexico.

Pension contributions required to fill the pension gap and bring the overall replacement rate up to the OECD average can be up to 7.5% of earnings if contributions are made for the full career. However, most workers do not start paying into a voluntary private pension until well into their careers. As a result, contribution rates of 10-15% would be required in six countries for workers with 20 years missing from their contribution records.

The calculations include all *mandatory* programmes for providing retirement income, which can include compulsory private pensions and broad social-assistance schemes. This group of 18 countries includes all six of the mainly English speaking members of the OECD: Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States. It also includes the two East Asian OECD members – Japan and Korea – and a selection of continental European countries, including Belgium and Germany.

In the United Kingdom, private pension schemes would need to deliver a replacement rate of 25.4% to bring the overall pension of an average earner up to the level of the OECD average. Sweden and Portugal have the smallest pension gap of the 18 countries analyzed at 3.5% and 3.4% of earnings, respectively. For the 18 countries as a whole, the replacement rate from mandatory pensions is 43.1% for (men) average earners. This implies a pension gap of 14.3% on average. For Mexico, the results for men and women are different because annuities are calculated on a sex-specific basis and so women must spread their accumulation over a longer retirement period.

The countries in the filling the pension gap chart are listed in the same order as the first chart for comparative purposes. The results are affected by differences between countries in pension ages: a lower pension age (as in Estonia and France, for example), meaning a shorter contribution period and a longer retirement duration. In Germany, the United Kingdom and the United States, contribution rates are lower than they would otherwise be, because normal pension ages are increasing to 67 and 68 in the long term.

Differences in life expectancy also have an effect. In Mexico, for example, 65-year-olds are projected to live an extra 20.3 years, while this figure is 25.3 years in Japan. Longer life expectancy, of course, increases the required contribution rate because the pension that it finances must be paid for a longer period.

With a full contribution history, the proportion of earnings that would need to be paid into retirement savings plans to fill the pension gap is not generally large: around 6% in Japan and the United Kingdom and over 7% in Ireland. In many other countries – Australia, Belgium, Canada, Germany, Korea and the United States – the required contribution rate is 2.5%-4.1%.

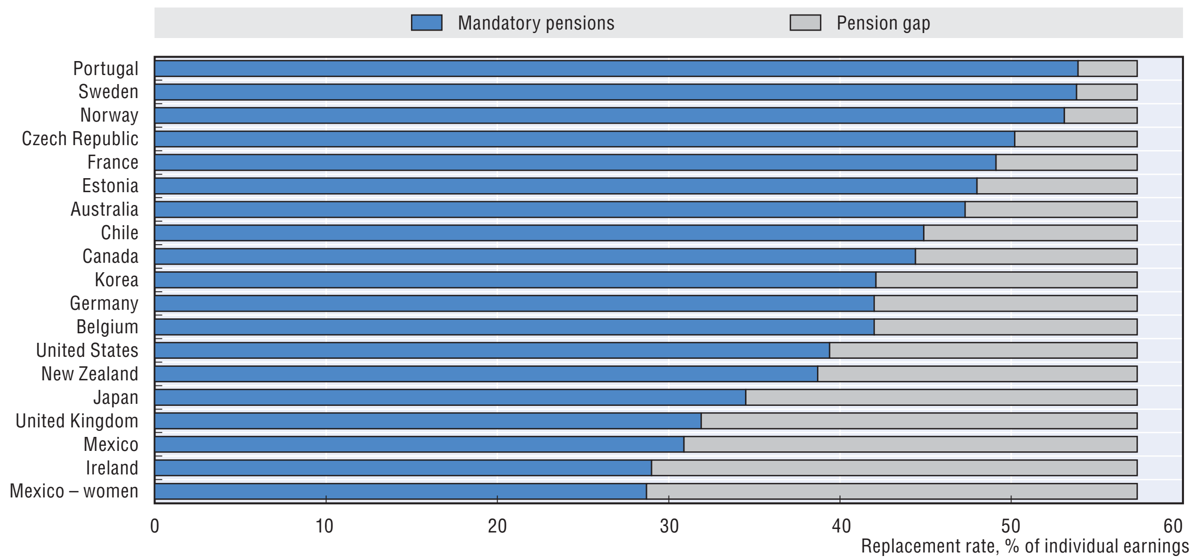
However workers are not always going to have a full career and could have several years where contributions are not being made. The examples here are for individuals delaying the start of their career by 10 and 20 years. For the countries shown, the average of the required contribution rate increases from 3.8% with a full career to 5.3% with ten missing years and to 8.0% with 20 years missing. With 20 years missing the required contribution level would be 15.6% in Ireland and 13.4% in Japan, more than double the level required for a full career.

Definition and measurement

The pension gap measures how much people would have to contribute to voluntary, private pensions to lift overall replacement rates from the national, mandatory level to the average for OECD countries. For simplicity and comparability, the calculations assume that people with voluntary pensions have a defined-contribution plan, where the value of the benefit depends on contributions and investment returns. The modelling makes the same general assumptions as with the calculations for the other indicators. In particular it assumes an annual real return of 3.5% on pension savings, net of administrative charges.

The pension gap

Gross replacement rate for an average earner from mandatory pension schemes and difference from OECD average replacement rate

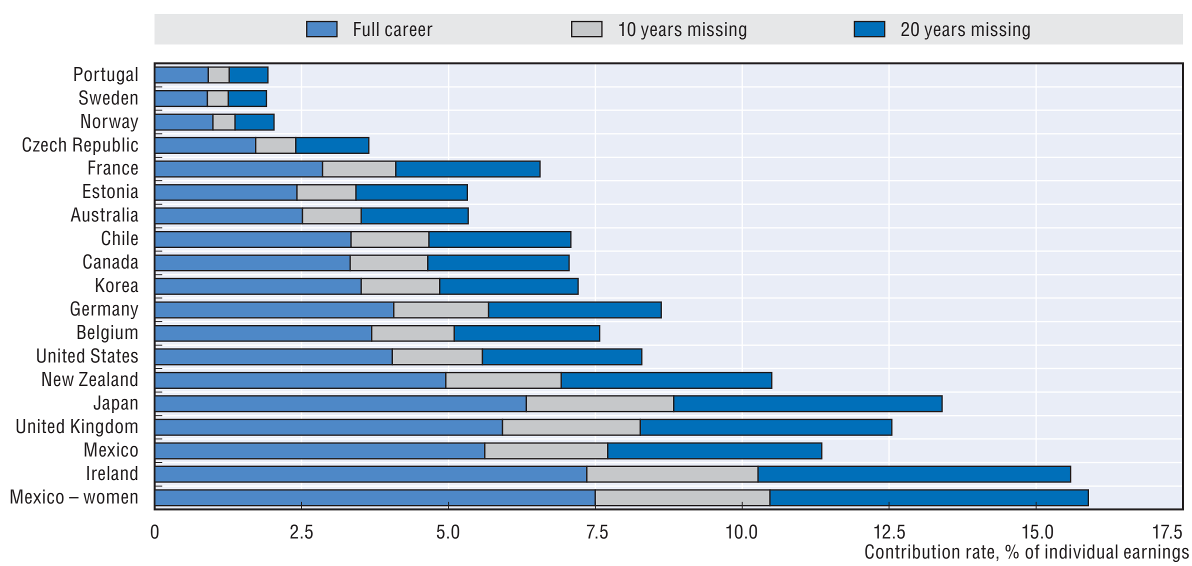


Source: OECD pension models; *OECD Earnings Distribution Database*.

StatLink http://dx.doi.org/10.1787/888932371196

Filling the pension gap

Contribution rate required for average earner to reach OECD average gross replacement rate



Source: *OECD Earnings Distribution Database*.

StatLink http://dx.doi.org/10.1787/888932371196

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