

Key results

The gross replacement rate shows the level of pensions in retirement relative to earnings when working. For workers with average earnings, the gross replacement rate averages 62% in the 26 LAC countries. But there is significant cross-country variation. At the bottom of the range, the Dominican Republic, Haiti, Mexico and Suriname offer future replacement rates of less than 30% for people starting work today with average earnings throughout their career. Ecuador, Nicaragua, Paraguay and Venezuela, at the top of the range, offer replacement rates of more than 90%. Other countries with high projected replacement rates (between 75% and 80%) are Argentina, Costa Rica and Panama.

Many countries attempt to protect low-income workers from old-age poverty by providing higher replacement rates for them than for average earners. For example, workers earning only half the average receive replacement rates averaging more than 73%, compared with 62% for average earners. However, replacement rates in 12 countries are the same at average and half-average pay.

At the top of the range, there are four countries that provide low earners with pensions equal to or higher than their earnings when working: Colombia (replacement rate of 103%), Jamaica (101%), Paraguay (104%) and Venezuela (138%). At the other end of the scale, the Dominican Republic and Haiti offer replacement rates of 23% and 30%, respectively. Some countries, such as El Salvador and less so Mexico and Suriname, pay relatively small benefits to average earners, but are towards the middle of the range for low-income workers. As Suriname pays a flat benefit the proportion obviously decreases proportionally as earnings increase.

On average in the 26 LAC countries, the gross replacement rate at twice average earnings is 55%, somewhat below the 62% figure for average earners. For these earners, country variations are again wide. Replacement rates exceed 90% in two countries: Ecuador and Paraguay. At the other end of the spectrum, the Dominican Republic, El Salvador, Haiti, Mexico and Suriname offer replacement rates of less than 30%.

For the higher earners, namely those with earnings of three times the average, the picture is again similar. The overall average for the region has fallen to 51% with Ecuador and Paraguay continuing to have the highest replacement rates, as in both countries

there is no ceiling to contributions at this level. The Bahamas and Peru now join the Dominican Republic, El Salvador, Haiti, Mexico and Suriname as countries with replacement rates below 30%.

Gross pension replacement rates for women differ (due to a lower pension eligibility age for women than for men) in many countries. Differences between the sexes are substantial in Chile, with replacement rates around 10 to 13 percentage points lower for women than they are for men across the earnings range. In Argentina, Brazil, Colombia, El Salvador, Honduras, Panama and Venezuela, replacement rates for women are also lower than they are for men, but less so than in Chile. The value for women is also lower in Mexico, but this is due to a higher annuity rate rather than a difference in retirement age.


Definition and measurement

The gross replacement rate is defined as gross pension entitlement divided by gross pre-retirement earnings. Often, the replacement rate is expressed as the ratio of the pension to final earnings (just before retirement). Here, however, pension benefits are shown as a share of individual lifetime average earnings (revalued in line with economy-wide earnings growth). Under the baseline assumptions, workers earn the same percentage of economy-wide average earnings throughout their career. In this case, lifetime average revalued earnings and individual final earnings are identical. If people move up the earnings distribution as they get older, then their earnings just before retirement will be higher than they were on average over their lifetime and replacement rates calculated on individual final earnings would be lower.

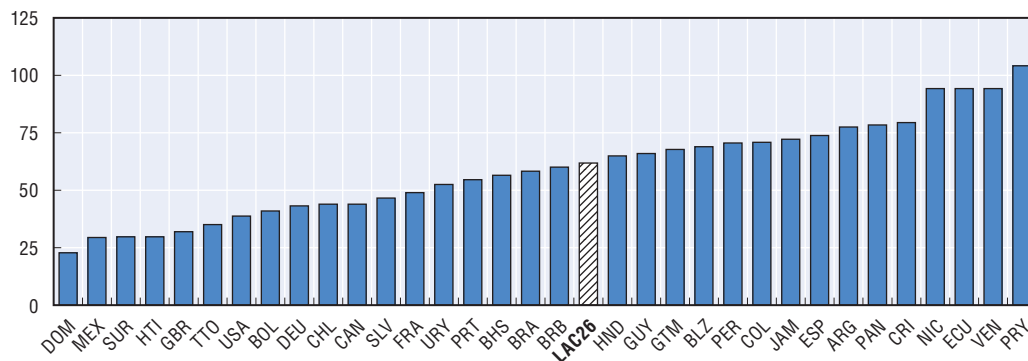
3.3. Gross pension replacement rates by earnings

	Individual earnings, multiple of mean for men (women where different)								
	0.5	1.0	2.0	3.0	0.5	1	2	3	
Argentina	89.5 (82.2)	77.5 (70.3)	71.5 (64.3)	69.5 (62.3)	Nicaragua	94.2	94.2	75.3	75.3
Bahamas	56.5	56.5	33.6	22.4	Panama	78.4 (72.8)	78.4 (72.8)	78.4 (72.8)	78.4 (72.8)
Barbados	60.0	60.0	50.5	33.7	Paraguay	104.1	104.1	104.1	104.1
Belize	69.0	69.0	57.7	38.5	Peru (DB)	76.8	70.6	35.3	23.5
Bolivia	37.5	41.0	33.9	31.6	Suriname	59.3	29.7	14.8	9.9
Brazil	56.2 (51.2)	58.3 (53.2)	62.6 (57.1)	52.5 (47.9)	Trinidad and Tobago	66.3	35.1	36.6	36.6
Chile	60.2 (50.7)	43.9 (34.4)	39.2 (26.2)	39.2 (25.6)	Uruguay	52.5	52.5	63.3	73.8
Colombia (DB)	102.6	70.8 (64.1)	70.8 (64.1)	70.8 (64.1)	Venezuela	137.6 (132.9)	94.2 (89.5)	72.5 (67.8)	65.3 (60.6)
Costa Rica	87.7	79.4	79.4	79.4	LAC26	72.6 (71.2)	61.9 (60.2)	55.4 (53.2)	51.4 (49.2)
Dominican Republic	22.8	22.8	22.8	22.8	OECD countries				
Ecuador	94.2	94.2	94.2	94.2	Canada	77.3	44.0	22.0	14.7
El Salvador	93.1	46.6	29.2 (23.3)	29.2 (21.9)	France	55.1	49.0	37.1	32.9
Guatemala	67.8	67.8	67.8	67.8	Germany	43.2	43.2	33.6	22.4
Guyana	68.2	66.0	66.0	52.0	Portugal	61.2	54.6	53.6	52.6
Haiti	29.8	29.8	29.8	29.8	Spain	73.9	73.9	57.2	38.1
Honduras	64.9 (60.9)	64.9 (60.9)	64.9 (60.9)	64.9 (60.9)	United Kingdom	56.6	31.9	16.8	11.2
Jamaica	101.3	72.2	57.7	43.2	United States	50.3	38.7	28.8	20.6
Mexico	57.3	29.5 (28.6)	27.4 (24.9)	26.7 (24.3)					


Source: OECD pension models.

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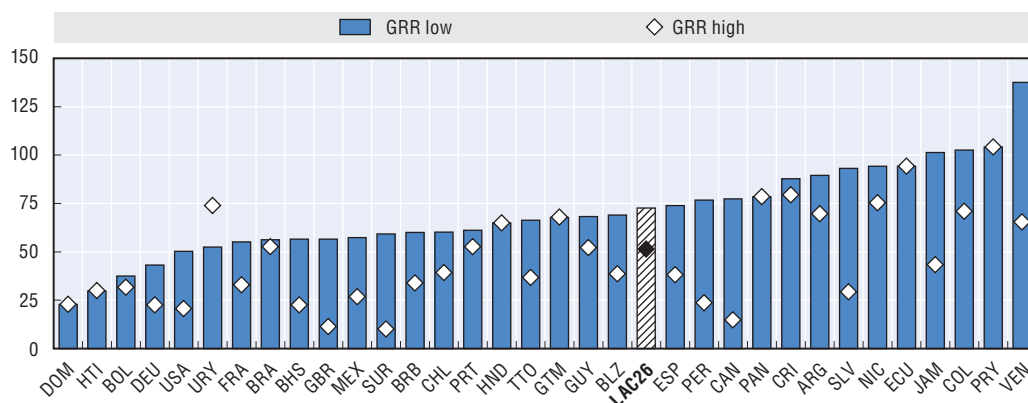
3.4. Gross pension replacement rates: Average earners




Source: OECD pension models.

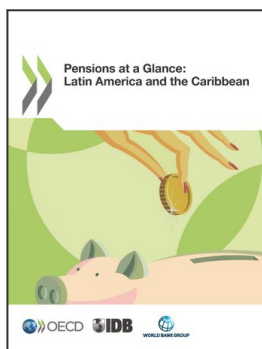
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3.5. Gross pension replacement rates: Low and high earners



Source: OECD pension models.

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From:
Pensions at a Glance
Latin America and the Caribbean

Access the complete publication at:
https://doi.org/10.1787/pension_glance-2014-en

Please cite this chapter as:

OECD/Inter-American Development Bank/The World Bank (2014), "Gross pension replacement rates", in *Pensions at a Glance: Latin America and the Caribbean*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264224964-11-en>

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