Key results

Average funding ratios of defined-benefit pension plans varied greatly across countries at the end of 2011. For the countries that report such data to the OECD, funding levels improved in 2011 relative to 2010, with the exception of the Netherlands where they declined substantially, partly as a result of declining interest rates. Funding levels are calculated using national (regulatory) valuation methodologies and hence cannot be compared across countries.

About 60% of OECD pension assets are in defined-benefit and other plans which offer return or benefit guarantees. Funding levels reflect very different situations in a selection of OECD countries at the end of 2011. Pension funds in Portugal, Germany, Sweden, and Norway were overfunded that year, with an average funding ratio around 110%. In contrast, pension funds were underfunded at the end of 2011 in the Netherlands, Austria and Iceland. For Iceland, the very low funding ratio of 53% refers to pension funds for public sector workers. Since the start of the global financial crisis, the Icelandic government has not made additional contributions to these plans, while assets have declined sharply.

Funding levels remained stable between 2010 and 2011 in Norway, Spain, and Iceland. In Portugal and Germany, pension funds have improved their funding position, increasing the average funding ratio by 5 percentage points in Portugal (from 107% to 112%) and by 2 percentage points in Germany (from 110% to 112%). The opposite trend can be observed in the Netherlands, where pension funds saw their funding position worsen between 2010 and 2011 by as much as 9 percentage points (from 107% to 98%). The decline in funding ratio was driven to a large extent by the decline in interest rates.

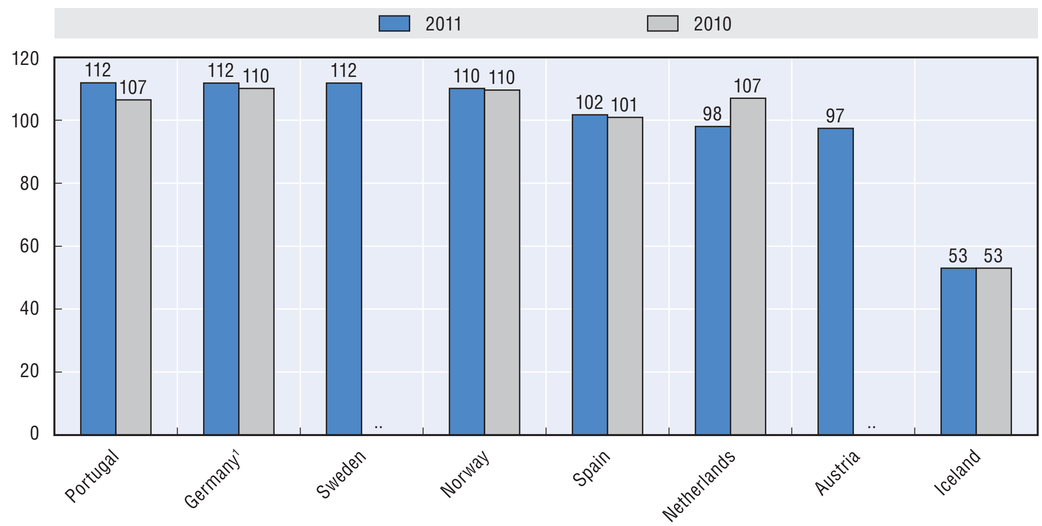
Funding levels are calculated using national (regulatory) valuation methodologies and hence cannot be compared across countries. Differences in methodology are substantial as some countries like Germany and Spain use fixed discount rates while others like the Netherlands and Sweden use market rates. Discount rates have a major impact on funding levels, a 1% decline in the discount rate causing a roughly 20% increase in a pension fund liabilities. Recently, the Netherlands and Sweden announced changes to the methodology for setting the discount rate. Pension funds in the Netherlands will be able to use an ultimate forward rate (UFR) for long maturities as the discount rate, based on long-term assumptions about growth and inflation. In Sweden, the regulator has a set a floor on discount rate.

Definition and measurement

The level of funding, that is, the ratio of pension plan assets to liabilities, is estimated using country-specific methodologies. Methodologies differ across countries with respect to the formula used, the discount rate (e.g. a market discount rate, or a fixed discount rate), or with the way future salaries are accounted for (e.g. liabilities can be based on current salaries or on salaries projected to the future date that participants are expected to retire). In addition, some countries calculate a funding ratio for each pension funds and calculate an average (simple or weighted) thereafter, while other countries only calculate an aggregate funding ratio for the whole pension fund industry.

8.13. Average funding ratio of DB pension plans in selected OECD countries, 2010-11

Percentage



Note: The average DB funding ratios are regulatory funding ratios directly provided by national pension authorities.
1. Data refer to *Pensionskassen* and *Pensionsfonds*.
Source: OECD, Global Pension Statistics.

StatLink http://dx.doi.org/10.1787/888932908269

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