The pension earnings link, showing the link between pension entitlements and individual earnings, varies widely between economies. Levels in Indonesia, Hong Kong, China and particularly New Zealand show that there is virtually no link, whereas Viet Nam, China and Pakistan display a strong link between pension entitlements and individual earnings. The relative pension levels are used here to illustrate the link between individual pre-retirement earnings and pension benefits in each economy. They are shown for individual earnings from 0.5 to 2 times average earnings levels.

The strength of the link between pension entitlements and individual earnings is measured using the relative pension level, that is, the gross individual pension divided by average earnings (rather than by average earnings as in the replacement rate results). It is best seen as an indicator of pension adequacy, since it shows the benefit level that a pensioner will receive in relation to average earnings in the respective economy. Individual replacement rates may be quite high, but the pensioner may still receive only a small fraction of economy-wide average earnings. If, for example, a low-income worker has a replacement rate of 100%, the benefit will only amount to 50% of economy-wide average earnings. For an average earner, the replacement rate and the relative pension level will be the same.

The charts show relative pension levels in the economies on the vertical axis and individual pre-retirement earnings on the horizontal. Economies have been grouped by region and by membership of the OECD. As there are eight economies in East Asia/Pacific they have been divided into two groups on the basis of results.

In the first set of economies (Panel A), there is little or no link between pension entitlements and pre-retirement earnings for any of the four economies listed. The ranges are small for all of the economies in the chart, particularly for the Philippines, Singapore and Thailand. This is in contrast to the findings for the other four economies in the region (Panel B) which show a much stronger link between pension entitlements and pre-retirement earnings. In Viet Nam for example the range is 37% to 150% compared to only 19% to 37% for Thailand. For Viet Nam there is also no ceiling to pensionable earnings as it is paid in a lump sum which has been converted to an annual entitlement. Thailand has a different system in that the maximum contribution level applies for earnings not much below the average, which explains why the graph levels at just under 100% of average earnings.

Panel C covers the economies in South Asia, all of which indicate a link between pension entitlements and pre-retirement earnings, but to different degrees. In both India and Sri Lanka there is a clearly linear relationship between earnings and pension entitlement, whereas the ceiling in Pakistan levels the values at just over average earnings.

The remaining two charts, Panel D and Panel E, are for the OECD countries, with the first covering the Asia/Pacific economies and the second the other OECD countries. In Panel D it is clear that there is virtually no link between pension entitlement and pre-retirement earnings in Australia, Japan and New Zealand. In fact in New Zealand there is absolutely no link as the pension is paid at a flat rate based on residency and is not dependent on earnings at all.

For the other OECD countries there is very little link in Germany, and particularly in the United Kingdom. In France there is a slightly greater link as the range is 30% to 104%, but the country with the greatest link is Italy (In Italy as with other economies mentioned previously the ceiling on pensionable earnings is set above three times the average economy-wide earnings).

With some economies applying limits to pension incomes, and others to the levels of contributions, the link between pension entitlements and individual earnings will be broken at some earnings level, even though it evidently existed prior this level.
Figure 2.5. The link between pre-retirement earnings and pension entitlements

Gross pension entitlement as a proportion of economy-wide average earnings

Source: OECD pension models.

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