

United Kingdom

Defined-benefit occupational pension schemes provide a pension usually related to years of membership of the scheme and some measure of final salary when covered by the plan. Most public-sector schemes pay $\frac{1}{80}$ th of earnings per year of membership, plus $\frac{3}{80}$ ths as a lump sum. So the benefit after a full, 40-year career would be half of final salary as an annuity plus $1\frac{1}{2}$ times final salary as a lump sum. Private-sector schemes are more diverse. Around 60% pay $\frac{1}{60}$ th of final salary. But taking a lump sum (known as commutation) reduces the annuity value. Around a fifth of plans are more generous than this, while around 7% pay less than $\frac{1}{60}$ ths or $\frac{1}{80}$ ths plus a lump sum.

More than a quarter of private occupational schemes are “integrated” with the state scheme, reducing benefits to take account of state pensions received. Most cut the pension by the value of the basic state pension or the lower earnings limit (which are broadly similar by law). Other methods of adjustment are more complicated. For someone on average earnings in a $\frac{1}{60}$ ths scheme, integration will typically reduce a full-career pension by around a fifth.

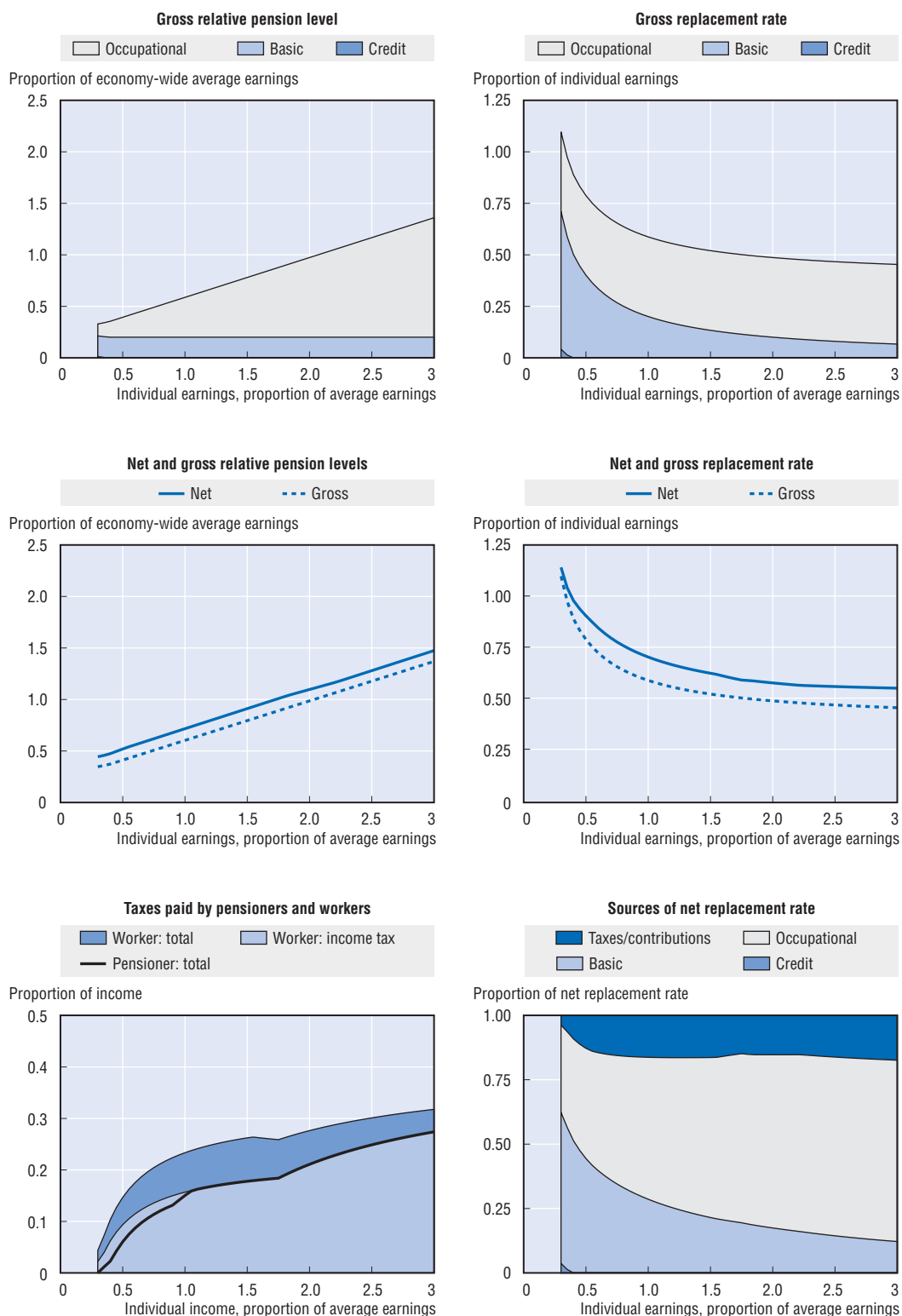
The example defined-benefit pension that has been modelled pays an accrual rate of $\frac{1}{80}$ th – the minimum required to contract out of the state second pension – but it is not integrated with the state scheme.

Benefits after retirement must be “limited price indexed”, that is to a ceiling of 5%. However, all public-sector, and many private-sector plans are fully price indexed.

Pension modelling results: United Kingdom, with voluntary occupational plans

Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	2.5
Women (where different)						
Gross pension level (% of average earnings)	39.4	49.1	58.7	78.0	97.4	116.7
Net pension level (% of average net earnings)	50.3	60.3	70.1	89.8	108.5	127.0
Gross replacement rate (% of individual earnings)	78.8	65.4	58.7	52.0	48.7	46.7
Net replacement rate (% of individual net earnings)	90.3	77.5	70.1	62.2	57.5	55.7
Gross pension wealth (multiple of average earnings)	5.9	7.3	8.8	11.7	14.6	17.5
Net pension wealth (multiple of average net earnings)	6.7	8.4	10.1	13.4	16.7	20.0
Net pension wealth (multiple of average net earnings)	7.5	9.0	10.5	13.4	16.2	19.0
	8.6	10.3	12.0	15.4	18.6	21.8

Pension modelling results with voluntary schemes: United Kingdom



Source: OECD, based on information provided by the countries.

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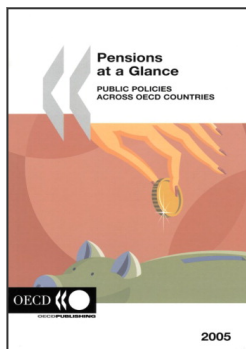
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