Key results

The change in gross pension shows the level of the pension promise from remaining in employment for an additional year. In half of the OECD countries lower or average earners have a lower incentive to remain in work than higher earners. In contrast there are only eight OECD countries where it is more advantageous for low or middle earners to stay in employment.

At the left-hand side of the table are 25 OECD countries where there is significant variation in retirement incentives with individual earnings. In the nine countries on the right-hand side, retirement incentives are constant for different workers in three of them, and broadly constant in the other six.

In the strictly-constant group, Hungary has a pension system with a strong link between individual earnings and pension benefits. In New Zealand, the universal basic pension scheme means that the change in pension wealth is zero for everyone.

The six countries in the broadly-constant group mainly have progressive pension systems, in contrast to retirement-income provision in most of the strictly-constant group. The incentive to remain in work is a little better, the lower are individual earnings, in Canada, Denmark, Italy, Japan and the United Kingdom. The reverse – work incentives are slightly stronger for higher earners – in the United States.

The countries where the link between individual earnings and retirement incentives are strongest (left-hand side of the table) also divide into two groups. Progressivity of pension benefits is the main reason why the eight countries in the upper part of the table have stronger work incentives for lower or middle earners. The progressivity results from quite different features of the national scheme: the basic pension in Ireland, minimum credits for low earners in the Slovak Republic and progressive benefit formulae for earnings-related pensions in the Czech Republic and Korea.

Incentives to retire are stronger for low earners than middle or high earners in the 17 countries in the lower-left part of the table. In nearly all cases, this is driven by safety-net provisions in the retirement-income system. In Belgium, Luxembourg and Portugal, for example, progressivity accentuates the negative rather than the positive. In Finland, Germany, Norway and Sweden, low-income workers who will be entitled to minimum pensions or resource-tested benefits have incentives to retire early that are not shared by average and high earners. In Mexico, the minimum pension means that incentives to retire early are especially strong for low earners.

The role of taxes

Pensions in payment are taxable in virtually all OECD countries' personal income tax systems. In 15 OECD countries, pensions are subject to social security contributions (usually for health or long-term care), albeit at a lower rate than levied on earnings. Taking account of these taxes and contributions – set out in the indicator of the "Tax treatment of pensions and pensioners" – gives the net change in pension wealth from working longer.

As shown in Figure 4.18 changes in gross and net pension wealth are equal in a number of countries. Firstly there are two countries – the Slovak Republic and Turkey – where pensions are not taxed and there are a number of countries where an average earner's pension entitlement would be below the level at which income tax starts to be paid. This latter group comprises Australia, Canada, the Czech Republic, Ireland, Mexico and Slovenia.

Definition and measurement

The change in pension wealth is a measure of the incentive to remain in the workforce for an additional period. The calculations are prospective and aim to evaluate the current pension policy stance as it affects workers retiring in the future. The calculation is the annual average increase in pension wealth when working from age 60 to 65.

Further reading

OECD (2011), *Pensions at a Glance 2011: Retirement-income Systems in OECD Countries and G20 Countries*, OECD Publishing, *http://dx.doi.org/10.1787/pension_glance-2011-en*.

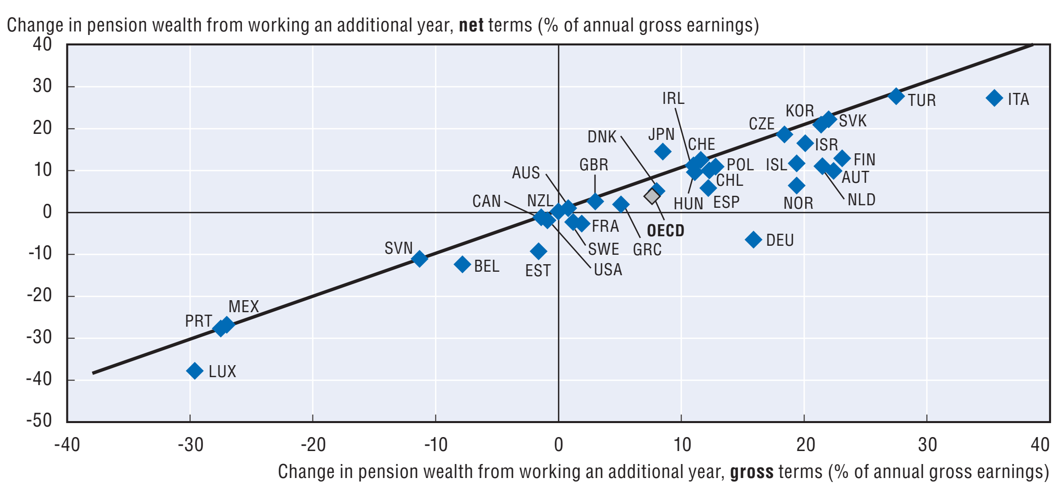
4.17. Annual five year average change in gross pension wealth for working between age 60 and 65, men at different earnings levels

	Individual earnings (% of average)				Individual earnings (% of average)		
	Low (50%)	Average (100%)	High (200%)		Low (50%)	Average (100%)	High (200%)
Better incentives for lower or middle earners to stay in work				**Retirement incentives strictly constant with earnings**			
Austria	22.4	22.4	16.2	Australia	0.8	0.8	0.8
Czech Republic	27.7	18.4	13.7	Hungary	11.1	11.1	11.1
France	18.2	1.9	-7.2	New Zealand	0.0	0.0	0.0
Ireland	21.9	11.0	5.5				
Israel	23.3	20.1	10.0				
Korea	31.9	21.4	11.8				
Slovak Republic	46.8	22.0	13.9				
Switzerland	13.3	11.6	5.8				
Worse incentives for lower or middle earners to stay in work				**Retirement incentives broadly constant with earnings**			
Belgium	-8.8	-7.8	-4.4	Canada	-1.4	-1.4	-2.1
Chile	12.3	12.3	17.3	Denmark	8.8	8.0	7.6
Estonia	-4.1	-1.6	-0.3	Italy	35.5	35.5	34.5
Finland	8.1	23.1	23.1	Japan	8.8	8.5	8.2
Germany	-15.1	15.9	12.0	United Kingdom	3.6	3.0	1.5
Greece	1.5	5.1	7.0	United States	-0.1	-0.9	0.3
Iceland	10.0	19.4	19.4				
Luxembourg	-99.7	-29.6	-23.8				
Mexico	-59.0	-27.0	0.6				
Netherlands	12.4	21.5	26.1				
Norway	-28.4	19.4	11.5				
Poland	-0.2	12.8	12.8				
Portugal	-67.4	-27.5	-27.7				
Slovenia	-57.3	-11.3	-8.1				
Spain	5.2	12.2	9.4				
Sweden	-12.3	1.2	3.6				
Turkey	0.0	27.5	27.5				

Source: OECD pension models.

StatLink http://dx.doi.org/10.1787/888932907528

4.18. Changes in gross pension wealth for working age 60-65, men with average earnings



Source: OECD pension models.

StatLink http://dx.doi.org/10.1787/888932907547

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