

### Key results

The base case at the beginning of this chapter concentrates on showing full-career replacement rates where there has been no period of absence from the labour market. This future gross replacement rate shows the level of pension benefits in retirement from mandatory pension schemes relative to earnings when working. However, many individuals will have an interrupted career because of unemployment and delaying entry into the labour market. This indicator shows how this affects future pension entitlements. Workers with average earnings and taking five years out of the labour market due to unemployment will have a pension equal to 94% of that of a full-career worker on average across the 36 OECD countries with substantial cross-country variation. At the top of the range, Greece, Luxembourg and Portugal offer higher benefits due to higher retirement ages, whilst at the bottom of the range Australia, Chile, Estonia, Korea, Mexico, the Slovak Republic and Turkey have a future benefit at 87%-88% of the full-career worker.

Most OECD countries aim to protect at least the initial periods of absence from the labour market due to unemployment. On average five years of unemployment will result in a pension of 94% of that of a full-career worker for the average-wage case. With 10 years of unemployment after a five year delay to beginning the career this falls to 76%, with both scenarios leading to a higher retirement age in a few countries. For low earners, the impact of these two career breaks on their pension benefits is lower, with a relative pension of 96% and 82%, respectively, compared with the full-career case.

For the average-wage worker, pension shortfalls relative to someone with a full, unbroken career varies widely across countries. They are generally larger for longer duration of career absence and for high-earners. In Chile, Korea, Latvia and Mexico, the pension loss after a five-year unemployment break is around 13% as there is no instrument to cushion the impact of the employment shock on pension. On the other hand, in some countries, pension rules can offset the fallout from spells of unemployment. This applies for example in Ireland, Spain, the United Kingdom and the United States. In Spain and the United States, this is because total accrual rates and the reference wage used to compute benefits are not affected – for example, pension entitlements stop accruing in Spain and the United States after 38.5 and 35 years, respectively. In Ireland and the United Kingdom, this is because such a break does not affect the basic pension level. In New Zealand as well periods of unemployment do not affect the basic pension as it is entirely residence based. The Netherlands' residence-based basic pension affords some protection against unemployment, while the occupational pension is sharply reduced by unemployment breaks.

In Greece, Luxembourg and Portugal the benefit upon retirement will be higher but the individual needs to work five, three or one year longer, respectively, to get a full pension (i.e. without penalty). For both Greece and Portugal this is also because the indexation of benefits in payment to the full-career worker is below wage growth. In Luxembourg contributions at later ages result in a slightly higher accrual

with a long career. Average-wage workers have to retire later to benefit from a full pension after experiencing the five-year unemployment break in France and Slovenia as well due the required contribution rules.

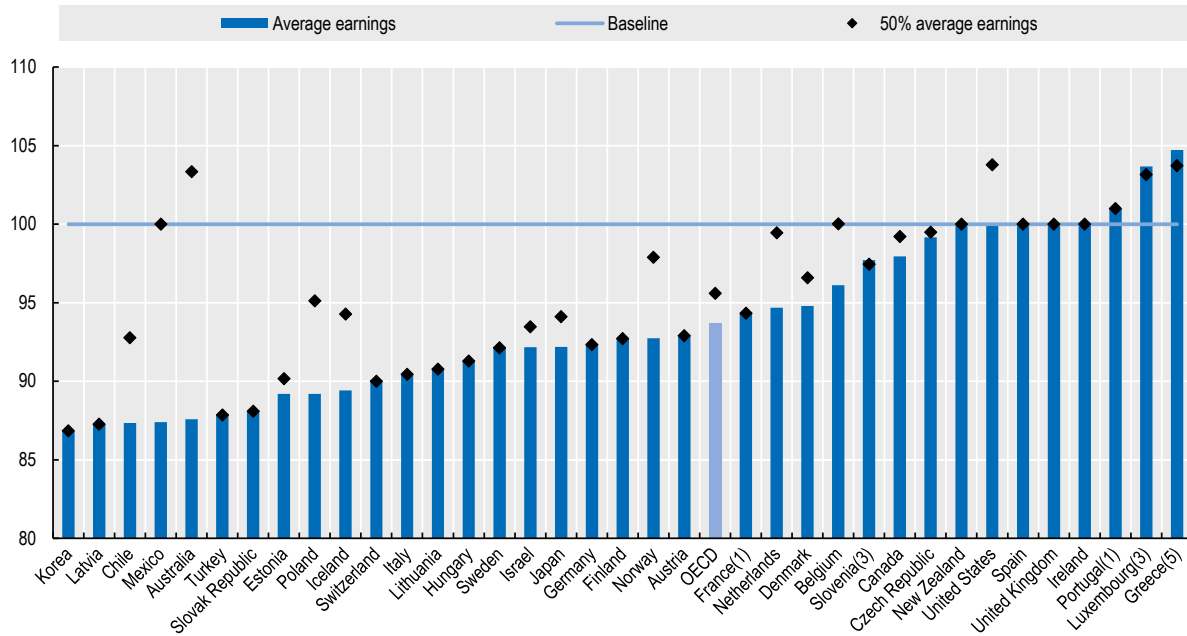
There are countries which afford the low-paid better protection against long-term unemployment than average earners, because minimum pensions and resource-tested schemes play a crucial role in some of them – Australia, Belgium, Canada, Chile, Iceland, Mexico, Norway and Poland. Where there is no pension credit provision – in Chile, Estonia, Israel, Korea, Mexico and Turkey, for example – pension losses are more substantial for average-wage earners with effects felt most keenly in countries whose compulsory pension programmes link pensions and earnings closely – e.g. Chile and Mexico – and at higher earnings levels. The longer period of unemployment under study here also implies retiring later in Spain. In Korea long absences have a more marked impact as contributions are not possible from age 60, giving a 23-year career in comparison to a 38-year career for the base case.

In Mexico and Poland low earners even with long-career breaks meet the criteria to receive the minimum pension, as is the case for full-career low earners, and thus their pension entitlement is not affected by the career break.

### Definition and measurement

For the unemployment career case, men are assumed to embark on their careers as full-time employees at 22 or 27 for the late entry case, and to stop working during a break of up to ten years from age 35 due to unemployment; they are then assumed to resume full-time work until normal retirement age, which may increase because of the career break. Any increase in retirement age is shown in brackets after the country name on the charts, with the corresponding benefits for the full career worker indexed until this age. The simulations are based on parameters and rules set out in the online “Country Profiles” available at <http://oe.cd/pag>.

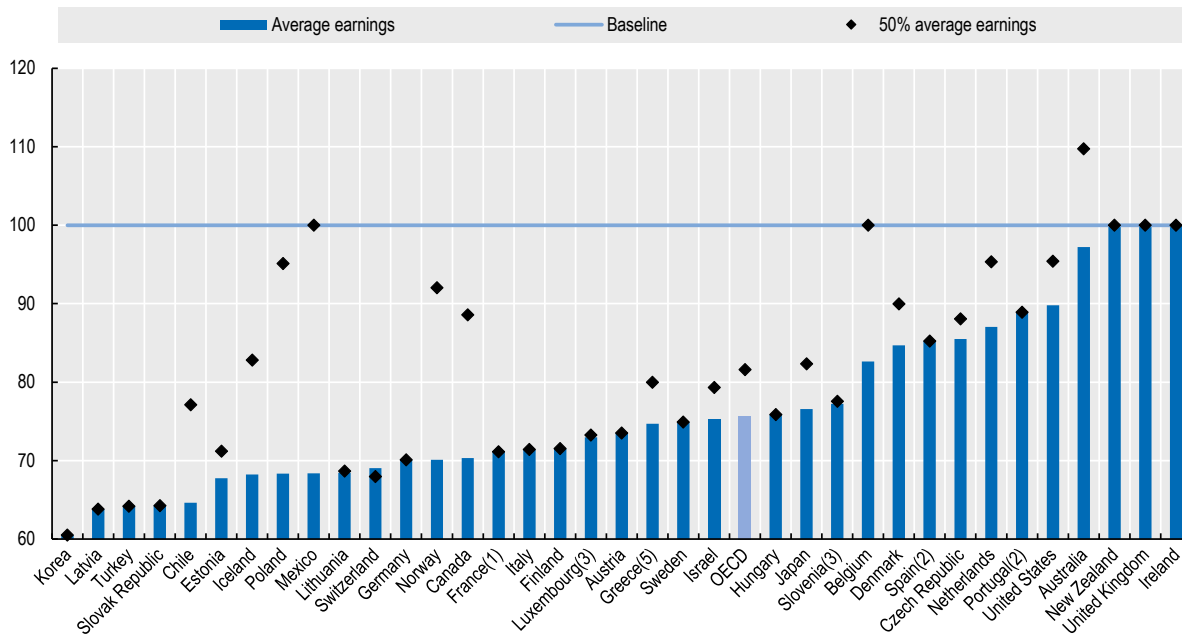
Figure 5.12. **Gross pension entitlements of low and average earners with a 5-year unemployment break versus worker with a full career**



Note: Figure in brackets refers to increase in retirement age due to the career break. Individuals enter the labour market at age 22 in 2018. The unemployment break starts in 2031. Source: OECD pension models.

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Figure 5.13. **Gross pension entitlements of low and average earners with a 10-year unemployment break after entering the labour market 5 years later**



Note: Figure in brackets refers to increase in retirement age due to the career break. Individuals enter the labour market at age 27 in 2023. The unemployment break starts in 2031. Source: OECD pension models.

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