

Key results

Pension wealth measures the total value of the lifetime flow of retirement incomes. For average earners, pension wealth is 9.6 times annual earnings on average in OECD countries. The figure is higher for women – 11.1 times individual earnings – because of their longer life expectancy.

Replacement rates give an indication of the pension promise, but they are not comprehensive measures; they look only at benefit level at the point of retirement. For a full picture, life expectancy, retirement age and indexation of pensions must also be taken into account. Together, these determine for how long the pension benefit is paid, and how its value evolves over time. Pension wealth – a measure of the stock of future flows of pension benefits – takes account of these factors. It can be thought of as the lump sum needed to buy an annuity giving the same flow of pension payments as that promised by mandatory retirement-income schemes.

Gross pension wealth for men is highest in Luxembourg at each earnings level, followed by the Netherlands, Iceland and Greece. Pension wealth in these countries averages 17.5 times earnings for average earners, about 80% higher than the OECD34 figure of 9.6 times. Pension wealth for average earners is lowest in the United Kingdom, due to relatively low replacement rates and the long-term pension age of 68.

Higher replacement rates mean that pension wealth tends to be higher for low than for average earners. For men with half-average earnings, pension wealth is 12.2 times individual earnings on average, compared with 9.6 times for people with average earnings. Similarly, for women with low earnings, pension wealth of 14.1 compares with 11.1 times individual earnings for average earners. For men, in the four countries where pension wealth for low earners is highest (Denmark, Iceland, Luxembourg and the Netherlands), its value is more than 21.0 times individual earnings.

Impact of life expectancy

In countries with shorter life expectancies, such as Hungary, Mexico, Poland, the Slovak Republic and Turkey, the expected duration of retirement is shorter, and so, other things being equal, the pension promise becomes more affordable. The effect is the reverse in Switzerland and the Nordic countries, where life expectancies are high. Unlike measures of replacement rates, the link between affordability and life expectancy is captured by the pension-wealth indicator.

Similarly, since women's life expectancy is longer than men's, pension wealth for women is relatively higher in all countries. This is simply because pension benefits can be expected to be paid over a longer retirement period. Also, some countries still have lower retirement ages for women; this extends the payment period even further.

Pension wealth is also affected by pension ages. Denmark, Germany, Iceland, Norway, the United Kingdom and the United States, for example, all have or plan to have pension ages above age 65, which reduces pension wealth.

Impact of indexation

Pension wealth is also affected by indexation rules. Although most OECD countries now index pensions in payment to prices, there are exceptions: Luxembourg, for example links pensions to average earnings, while five countries, comprising the Czech Republic, Finland, Hungary, the Slovak Republic and Switzerland, index to a mix of price inflation and earnings growth. In normal times, at least, earnings tend to grow faster than prices, so that pension wealth is higher with these more generous indexation procedures than with price indexation.

Different indexation policies also affect the pension wealth of women relative to men. Women's longer life expectancy means that they tend to benefit more from more generous indexation procedures (above price inflation, for example).

For the non-OECD countries there is great variation with South Africa at only 1.4 times individual earnings for average earners and Brazil at 22.2 times. The low value for South Africa results from a combination of the low replacement rate and low life expectancy.


Definition and measurement

The calculation of pension wealth uses a uniform discount rate of 2%. Since the comparisons refer to prospective pension entitlements, the calculations use country-specific mortality rates by age and sex projected for the year 2050. Pension wealth is expressed as a multiple of gross annual individual earnings.

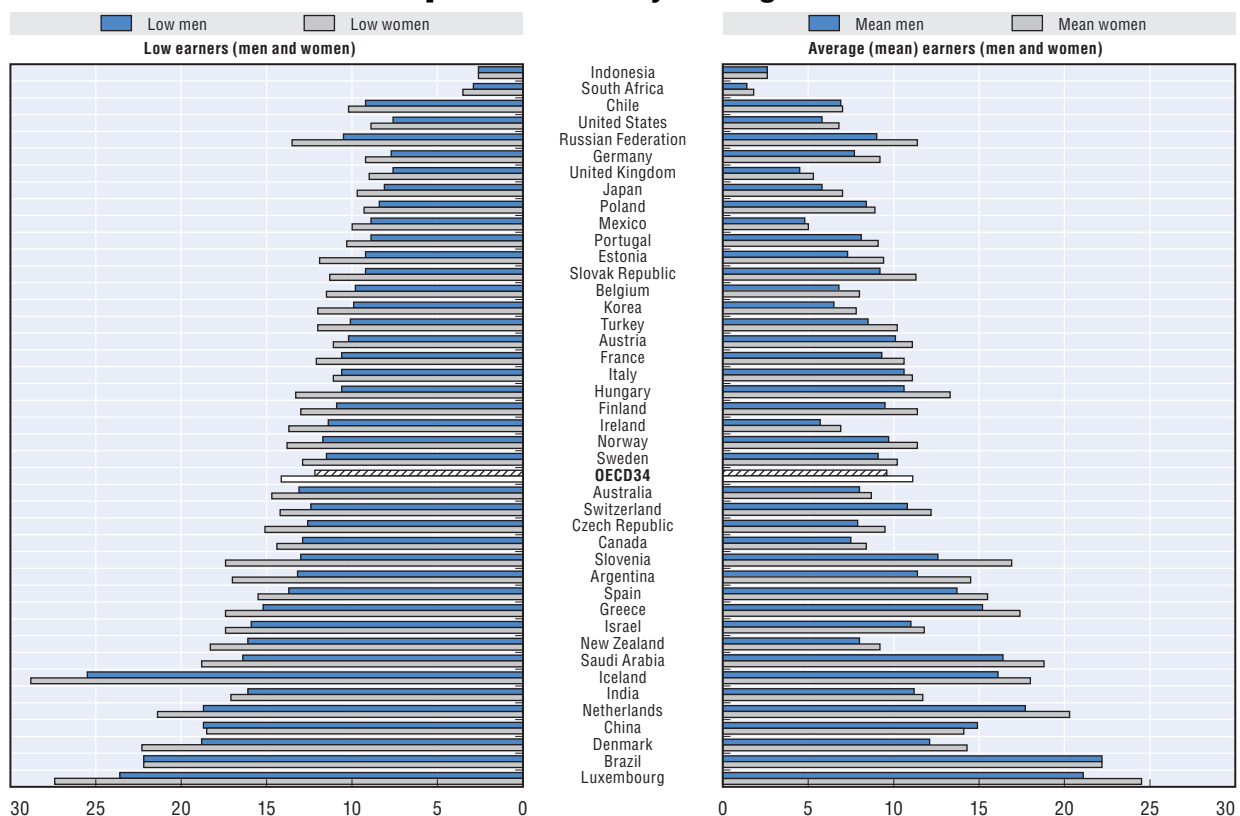
Gross pension wealth by earnings

	Individual earnings, multiple of mean						Individual earnings, multiple of mean													
	0.5			1.0			1.5			0.5			1.0			1.5				
	Men			Women			Men			Women										
OECD members													OECD members (cont.)							
Australia	13.1	8.0	6.3	14.7	8.7	6.8	Norway	11.7	9.7	7.6	13.8	11.4	8.9	Norway	11.7	9.7	7.6	13.8	11.4	8.9
Austria	10.2	10.1	9.5	11.1	11.1	10.4	Poland	8.4	8.4	8.4	9.3	8.9	8.9	Poland	8.4	8.4	8.4	9.3	8.9	8.9
Belgium	9.8	6.8	5.3	11.5	8.0	6.2	Portugal	8.9	8.1	8.0	10.3	9.1	8.9	Portugal	8.9	8.1	8.0	10.3	9.1	8.9
Canada	12.9	7.5	5.0	14.4	8.4	5.6	Slovak Republic	9.2	9.2	9.2	11.3	11.3	11.3	Slovak Republic	9.2	9.2	9.2	11.3	11.3	11.3
Chile	9.2	6.9	6.4	10.2	7.0	6.0	Slovenia	13.0	12.6	12.6	17.4	16.9	16.9	Slovenia	13.0	12.6	12.6	17.4	16.9	16.9
Czech Republic	12.6	7.9	5.9	15.1	9.5	7.0	Spain	13.7	13.7	13.7	15.5	15.5	15.5	Spain	13.7	13.7	13.7	15.5	15.5	15.5
Denmark	18.8	12.1	9.8	22.3	14.3	11.6	Sweden	11.5	9.1	11.5	12.9	10.2	12.9	Sweden	11.5	9.1	11.5	12.9	10.2	12.9
Estonia	9.2	7.3	6.7	11.9	9.4	8.5	Switzerland	12.4	10.8	7.6	14.2	12.2	8.6	Switzerland	12.4	10.8	7.6	14.2	12.2	8.6
Finland	10.9	9.5	9.5	13.0	11.4	11.4	Turkey	10.1	8.5	8.5	12.0	10.2	10.2	Turkey	10.1	8.5	8.5	12.0	10.2	10.2
France	10.6	9.3	7.9	12.1	10.6	8.9	United Kingdom	7.6	4.5	3.2	9.0	5.3	3.8	United Kingdom	7.6	4.5	3.2	9.0	5.3	3.8
Germany	7.7	7.7	7.7	9.2	9.2	9.2	United States	7.6	5.8	5.2	8.9	6.8	6.0	United States	7.6	5.8	5.2	8.9	6.8	6.0
Greece	15.2	15.2	15.2	17.4	17.4	17.4	OECD34	12.2	9.6	8.7	14.1	11.1	10.0	OECD34	12.2	9.6	8.7	14.1	11.1	10.0
Hungary	10.6	10.6	10.6	13.3	13.3	13.3	Other major economies							Other major economies						
Iceland	25.5	16.1	14.1	28.8	18.0	15.8	Argentina	13.2	11.4	10.8	17.0	14.5	13.6	Argentina	13.2	11.4	10.8	17.0	14.5	13.6
Ireland	11.4	5.7	3.8	13.7	6.9	4.6	Brazil	22.2	22.2	22.2	22.2	22.2	22.2	Brazil	22.2	22.2	22.2	22.2	22.2	22.2
Israel	15.9	11.0	7.4	17.4	11.8	7.9	China	18.7	14.9	13.6	18.5	14.1	12.7	China	18.7	14.9	13.6	18.5	14.1	12.7
Italy	10.6	10.6	10.6	11.1	11.1	11.1	India	16.1	11.2	9.5	17.1	11.7	9.8	India	16.1	11.2	9.5	17.1	11.7	9.8
Japan	8.1	5.8	5.1	9.7	7.0	6.1	Indonesia	2.6	2.6	2.6	2.6	2.6	2.6	Indonesia	2.6	2.6	2.6	2.6	2.6	2.6
Korea	9.9	6.5	4.9	12.0	7.8	6.0	Russian Federation	10.5	9.0	8.5	13.5	11.4	10.7	Russian Federation	10.5	9.0	8.5	13.5	11.4	10.7
Luxembourg	23.6	21.1	20.2	27.4	24.5	23.5	Saudi Arabia	16.4	16.4	16.4	18.8	18.8	18.8	Saudi Arabia	16.4	16.4	16.4	18.8	18.8	18.8
Mexico	8.9	4.8	4.6	10.0	5.0	4.6	South Africa	2.9	1.4	1.0	3.5	1.8	1.2	South Africa	2.9	1.4	1.0	3.5	1.8	1.2
Netherlands	18.7	17.7	17.4	21.4	20.3	19.9	EU27	11.7	10.2	9.6	13.9	12.2	11.4	EU27	11.7	10.2	9.6	13.9	12.2	11.4
New Zealand	16.1	8.0	5.4	18.3	9.2	6.1														

Source: OECD pension models.


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Gross pension wealth by earnings and sex



Note: Countries are ranked in order of gross pension replacement rates (GRR) of average earners, i.e. mean GRR in the chart.

Source: OECD pension models.

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