Key results

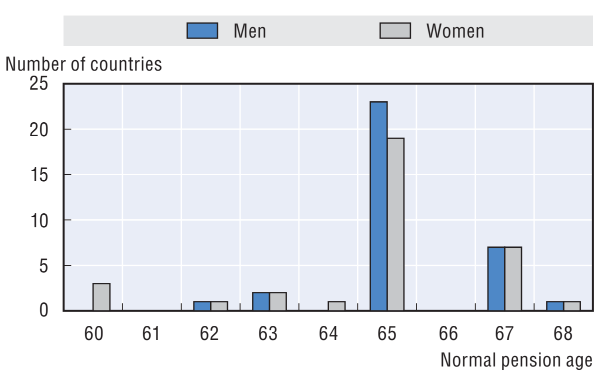
The rules for eligibility to retire and draw a pension are very complex, often reflecting conflicting government objectives. On the one hand, encouraging people to work longer as the population ages has been a major feature of many pension reforms. On the other hand, government have often been concerned to protect workers perceived as vulnerable and unable to continue their jobs to an older age.

The table opposite shows the rules for normal, early and late retirement under the long-term parameters of the pension system, including changes that have been legislated but are not yet in effect. These parameters underpin the modelling of pension entitlements in Part II.2 of this report and also the detailed analysis of "Pension incentives to retire", the special chapter in Part I.3. In 15 of the 34 countries, different rules apply to different components of the overall retirement-income package and so these are shown separately.

Normal pension age

Two-thirds of OECD countries already have a normal pension age of 65 or plan to reach that level in the future. In four of these, normal pension age for women will be lower: 60 in Chile, Italy and Poland and 64 in Switzerland. Only three countries plan to have men's pension ages below 65: Estonia, the Slovak Republic and Slovenia.

Normal pension ages by sex: Long-term rules



Source: Country profiles in Part III.

StatLink http://dx.doi.org/10.1787/888932370816

Eight countries will have normal pension ages for men and women above age 65. Only Iceland and Norway are currently at 67, but Australia, Denmark, Germany and the United States plan to reach that level in the future, with the United Kingdom going further to 68.

Early retirement

Seven countries will not allow early retirement in any mandatory part of the pension system: Denmark, Ireland, Netherlands, New Zealand, Poland, Turkey and the United Kingdom. In other cases, early retirement is restricted to certain schemes: in Australia, Chile and Iceland to mandatory private pensions; and in Canada and Sweden, there is no early retirement under basic or targeted programmes.

Benefits for early retirees are usually cut to reflect the longer period over which the pension is paid. In only three cases is there no reduction in benefits for early retirees (provided that certain qualifying conditions are met). In a further three, early retirement without reduction is possible.

In most defined-benefit and points schemes, the adjustment is simply a parameter of the pension system: the benefit is permanently reduced by *x*% for each year of early retirement. The adjustment for early and late retirement in the notional-accounts schemes of Italy and Sweden is not directly observed. (Poland does not allow early retirement.) However, it can be calculated from the different annuity rates or factors used to convert accumulated notional capital, which in turn are based on projections of mortality rates at different ages and the discount rates employed in the annuity calculation.

The size of the adjustments varies significantly. The largest standard decrements are in Canada – which is increasing the rate from 6.0 to 7.2% – and Finland. However, larger adjustments are possible in the Czech Republic (for people who retire at the earliest possible ages) and in Spain (for people with a smaller number of contribution years). In some cases – Belgium, France, Germany, Greece and Luxembourg – there is no benefit reduction provided a certain number of years of contributions were paid. The average decrement is 4.4% for each year of early retirement (averaging national figures, where appropriate, over different circumstances).

Late retirement

It is possible to defer claiming a pension until after the normal age in nearly all countries. Typically, an increase in accrued benefits is provided, at an average of 4.8% per year of deferral. However, the ability to combine work and pension receipt after normal pension age is common and so the size of the increment will have little influence on people's financial incentives to remain in work.

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Pension ages and treatment of early and late retirees, long-term rules, all mandatory and quasi mandatory schemes, by type of scheme

	Scheme	Early age	Reduction (%)	Normal age	Increase (%)
Australia	T	n.a.		67	0.6-3.6[1]
	DC	60	–	67	–
Austria	DB	62M/60F	4.2	65	4.2
Belgium	DB	60[2]	0.0	65	0.0
Canada	Basic/T	n.a.		65	
	DB	60	7.2	65	8.4
Chile	Basic/T	n.a.		65	
	DC	Any age[3]	–	65/60	–
Czech Republic	DB	60M/59-60F[4]	5.3/8.9[5]	65M/62-65F[4]	8.9[5]
Denmark	Basic/T	n.a.		67	5.6[6]
	DC	n.a.		67	–
Estonia	Points	60[7]	4.8	63	10.8
	DC	60	–	63	–
Finland	T	62	4.8	65	7.2
	DB	62	7.2/0.0[7]	65	0.0/4.8[8]
France	DB	56-60[9]	0.0/5.0	65	5.0
	DB (Occ)	55	4.0-7.0[10]	60	0.0
Germany	P	63	3.6/0.0[11]	67	6.0
Greece	DB	Any age/55/60[12]	0.0/6.0[13]	65	0.0[13]
Hungary	DB	63	3.6/4.8[14]	65	6.0
	DC	63	–	65	–
Iceland	Basic/T	n.a.		67	
	DB (Occ)	62	7.0[15]	67	6.0[15]
Ireland	Basic/T	n.a.		66/65	n.a.
Israel	Basic/T	62[16]		67	
	DC			67	–
Italy	NDC	Any age/61[17]	2.3-2.9[18]	65M/60F	0.0/2.6-2.9[18]
Japan	Basic/DB	60	6.0	65	8.4
Korea	DB	60	6.0	65	6.0
Luxembourg	DB	57/60[19]	0.0	65	n.a.
Mexico	Min	60[20]	0.0	65	0.0
	DC	Any age/60[20]	–	65	–
Netherlands	Basic	n.a.		65	n.a.
New Zealand	Basic	n.a.		65	n.a.
Norway	DB	62	3.8-4.7[21]	67	4.9-5.4[21]
	DC	n.a.[22]		67	–
Poland	NDC	n.a.		65M/60F	4.3-4.8M/3.7-4.2F[23]
	DC	n.a.		65M/60F	–
Portugal	DB	55	4.0-6.0[24]	65	4.0-12.0[25]
Slovak Republic	P	60[26]	6.5	62	6.5
	DC	60	–	62	–
Slovenia	DB	58[27, 29]	1.2-3.6	63[28]	0.0[29]
Spain	DB	61	6.0-7.5[30]	65	2.0/3.0[31]
Sweden	T	n.a.		65	
	NDC	61	4.1-4.7[32]	65	4.9-6.1[32]
	DC	55/61[33]	–	65	–
Switzerland	DB	63M/62F	4.5[34]	65M/64F	5.2-6.5
	DB (Occ)	60M/59F[35]	2.9[36]	65/64	2.9[36]
Turkey	DB	n.a.		65	0.0
United Kingdom	Basic/DB	n.a.		68	10.4[37]
United States	DB	62	5.0/6.7[38]	67	8.0

Pension ages and treatment of early and late retirees, long-term rules, all mandatory and quasi mandatory schemes, by type of scheme *(cont.)*

Note: Data rounded to one decimal place. Calculations for late retirement assume a maximum retirement age of 70.
DB = Defined benefit; DC = Defined contribution; n.a. = Early retirement or deferral of pension is not available; Occ = Occupational; T = Targeted. Where pension ages for men and women differ they are shown as M/F. – = Benefits automatically adjusted for early and late retirement in DC schemes.

1. Pension bonus is a single lump sum of 9.4% of age-pension entitlement multiplied by number of years' deferral squared. For comparison with other countries, it is expressed as a percentage of the age-pension benefit stream. Values shown are annualised for one and five years' deferral respectively. Recent reforms replaced this with a "work bonus" making it easier for people to combine work and pension receipt.
2. Early retirement with no actuarial reduction is possible once 35 years contributions have been made.
3. Requires a DC benefit of at least 80% of the maximum targeted benefit and a replacement rate of at least 70%.
4. Pension age for women varies with number of children they have had.
5. A 3.6% reduction in total accrual total accrual factor for first 2 years' early retirement and 6% thereafter. Increment of 6% in total accrual factor per year of late retirement. Figures shown calculated for a full-career worker, who would have a total accrual factor of 67.5% at age 65.
6. The adjustment is based on the reciprocal of life expectancy at the age at which the pension is drawn. Projected life expectancy at age 68 for 2040 is 17.9 years.
7. The public pension can be claimed up to three years before the standard age (*i.e.* from age 60 in the long term) provided that people retire and meet the 15-year qualification requirement.
8. Adjustment applies from age 62 to 63. Instead of adjustments, there is accelerated accrual in the earnings-related scheme of 4.5% of earnings per year of contributions between ages 63 and 68 compared with 1.5% at most ages. For late retirement, the adjustment shown applies from age 68 onwards.
9. Full pension will require 41 years' contributions. Retirement from age 60 without benefit reduction is subject to this contribution condition. Retirement before age 60 without reduction for long careers ranges from retirement at 56 for people with 42 years' contributions and labour-market entry before age 16 to retirement at 59 with 40 years' contributions and labour-market entry before age 17.
10. Full benefit requires 40 years' contributions. Benefit reduced by 4% for first three missing years and 5% for next two. Benefit reductions for retirement before age 60 subject depend on years of contributions.
11. Retirement from 63 requires 35 years' contributions subject to 3.6% reduction. Early retirement at age 65 (rather than 67) without actuarial reduction with 45 years' contributions.
12. Retirement at 60 with 15 years' contribution and 55 with 35 years' contributions subject to 6% reduction per year earlier than 65. Retirement with no reduction at any age requires 37 years' contributions. The recently announced reform will restrict early retirement to age 60.
13. Accelerated accrual (3.3% per year compared with 2% at younger ages) during deferral but no increment to accrued benefits.
14. Early retirement requires 37 years' contributions.
15. Adjustment varies between schemes: typical rates shown.
16. Early retirement pension up to five years before the normal rage if the number of years' contributions exceeds the minimum qualifying period by at least ten years. A partial early pension is payable from up to five years before the normal retirement age if the number of years' contributions exceeds the requirement for a full pension by less than ten years.
17. Retirement at any age is possible with 40 years' contributions and from age 61 with 36 years' contributions.
18. Adjustment for early retirement calculated from government-provided transformation coefficients projected for 2048. After age 65, the transformation coefficient is constant and so benefits do not increase for men retiring late.
19. Retirement at age 57 requires 40 years' actual (compulsory or voluntary) contributions. With 40 years' actual or credited contribution years, early retirement is possible at age 60.
20. Early retirement at age 60 conditional on 1 250 weekly contributions (approximately 25 years). DC pension available at any age if pension is at least 30% above the minimum.
21. Calculated from government-provided figures for life-expectancy divisors. This calculation results in higher increments after age 70.
22. A debate is underway as to whether access should be allowed from age 62.
23. Calculated from projected (unisex) life expectancy at ages 66-70 for men and 60-65 for women.
24. Adjustment for early retirement is 6% per year, but with more than 30 years' contributions, the number of years over which the pension is adjusted is cut by one year for each complete three years' contributions beyond 30 years. The 4% rate is an average over three years for a person with at least 30 years' contributions.
25. Increment depends on number of contributions years, ranging from 4% with 15-24 years' and 12% with more than 40 years' contributions.
26. Early retirement is also conditional on pension entitlement exceeding 1.2 times the subsistence minimum.
27. The age for early retirement is 58 years conditional on having contributed for at least 40 years. For retirement before the full pension age, reductions are of 3.6% (a year) at age 58, 3% at 59, 2.4% at 60, 1.8% at age 61 and 1.2% at 62.
28. Men with at least at least 20 years' contributions can retire at 63. With 15 years' contributions, the pension age is 65. For women, the full pension age will be 61 in 2023 conditional on 20 years' contributions.
29. Additional years of contributions up to and after the full pension age attract a higher accrual rate. From the early to normal pension age, the annual accrual rate is 3% in the first year, 2.6% the second, 2.2% in the third, 1.8% in the fourth year and 1.5% thereafter. For deferring retirement after the full pension age the accrual rate is 3.6% for the first year, 2.4% in the second and 1.2% in the third.
30. The size of the reduction depends on the number of years of contributions made: 7.5% (30-34 years), 7% (35-37 years), 6.5% (38-39 years), and 6% (more than 40 years).
31. Increment depends on the number of years of contributions: 2% for fewer than 40 years and 3% with 40 years or more contributions.
32. The implicit adjustments are calculated from the annuity calculations using projected mortality rates for 2040, the 1.6% discount rate specified in legislation and indexation of pensions in payment to wage growth minus 1.6%. They also take account of the distribution of the account balances of people who die before claiming the pension using the same mortality rates.
33. Early retirement at 61 under the mandatory DC scheme (premium pension) and from 55 under quasi-mandatory DC occupational plans.
34. A full pension requires 44 years' contributions for men and 43 years' for women. For a full-career worker, approximately 2.3 percentage points of the 6.8% reduction for early retirement reflects a missing contribution year; the actuarial adjustment is the residual.
35. Early-retirement provisions vary between schemes: these are the legal minimum.
36. Individuals' accumulated rights are converted into an annuity at the time of retirement. The annuity rate at age 65 will fall to 6.8%. Each year of early retirement results in a reduction in the annuity rate of 0.2 percentage points. For late retirement, schemes are free to set their own rules but the government's guidance is to have the same 0.2 percentage point change in benefits for each year of late retirement.
37. A lump-sum payment of deferred pension plus interest can now also be claimed instead of a pension increment.
38. The reduction is 6.67% for the first 3 years of early retirement and 5% thereafter.

Source: Country profiles in Part III of this report.

StatLink http://dx.doi.org/10.1787/888932370816

Pensions at a Glance 2011
Retirement-income Systems in OECD and G20 Countries

PART II

Chapter 2

Pension Entitlements

Pension entitlements are calculated using the OECD pension models. The calculations are based on national parameters and rules applying in 2008. They relate to workers entering the labour market in that year, and so include the full impact of pension reforms that have already been legislated but are currently being phased in. A note on methodology and assumptions precedes the indicators. This report includes five new indicators of pension entitlements in addition to the nine presented in the last edition of Pensions at a Glance.

The indicators begin with the familiar replacement rate: the ratio of pension to individual earnings. The first looks at gross (before tax) replacement rates from all mandatory sources, including compulsory private pensions, for a single person. The second shows public and private schemes separately, including data on voluntary private pensions where these have broad coverage. There follows an analysis of the tax treatment of pensions and pensioners. The fourth and fifth indicators are replacement rates in net terms, taking account of taxes and contributions paid on earnings and pensions. The next indicator, new to this edition, shows benefits for married couples in both gross and net terms. The final element in this group is an exploration of investment risk, showing how different rates of return on private pension investments affect overall retirement incomes. Again, this indicator is new to this edition.

There follows two indicators of "pension wealth": the lifetime value of the flow of retirement benefits. This is a more comprehensive measure than replacement rates because it takes account of pension ages, indexation of pensions to changes in wages or prices and life expectancy.

The balance between two policy goals – providing adequate old-age incomes and replacing a target share of earnings – is explored in the next pair of indicators. They summarise the progressivity of pension benefit formulae and the link between pensions and earnings.

The final two indicators of entitlements average across individuals with different earnings levels, showing pension levels, pension wealth and the role of each part of the retirement-income system.

Pensions at a Glance 2011

Retirement-income Systems in OECD and G20 Countries

Please cite this chapter as:

OECD (2011), “Normal, Early and Late Retirement”, in *Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/pension_glance-2011-13-en