

CHAPTER 8

A BRIEF REVIEW OF EACH COUNTRY

This chapter provides a brief summary of the retirement income system of each country in this study, together with some suggestions that would — if adopted — raise the overall index value for that country. Of course, whether such developments are appropriate in the short term depend on that country's current social, political and economic situation. Where relevant, a brief comment is also made about the change in the country's overall index value from 2010 to 2011.



Australia

Australia's retirement income system comprises a means-tested age pension (paid from general government revenue); a mandatory employer contribution paid into private sector arrangements (mainly DC plans); and additional voluntary contributions from employers or employees paid into these private sector plans.

The overall index value for the Australian system could be increased by:

- raising the level of mandatory contributions to improve the level of benefits
- introducing a requirement that part of the retirement benefit must be taken as an income stream
- increasing the labour force participation rate amongst older workers
- introducing a mechanism to increase the pension age as life expectancy continues to increase
- reducing the costs of the system by encouraging greater efficiency

The Australian index value increased from 72.9 in 2010 to 75.0 in 2011 due primarily to a real increase in the age pension and a higher net household saving rate.



Brazil

Brazil's retirement income system comprises a pay-as-you-go social security system with higher replacement rates for lower income earners; and voluntary occupational corporate and individual pension plans which may be offered by insurance companies or employers.

The overall index value for the Brazilian system could be increased by:

- introducing a minimum access age so that the benefits are preserved for retirement purposes
- increasing the level of coverage of employees in occupational pension schemes thereby increasing the level of contributions and assets
- introducing a minimum level of mandatory contributions
- increasing the state pension age over time
- introducing arrangements to protect the pension interests of both parties in a divorce
- enabling individuals to retire gradually whilst receiving a part pension

The Brazilian index fell slightly from 59.8 in 2010 to 58.4 in 2011 due to a decline in the household saving rate and a small fall in the sustainability sub-index related to several indicators.



Canada

Canada's retirement income system comprises a universal flat-rate pension, supported by a means-tested income supplement; an earnings-related pension based on revalued lifetime earnings; voluntary occupational pension schemes (many of which are defined benefit schemes); and voluntary individual retirement savings plans.

The overall index value for the Canadian system could be increased by:

- increasing the coverage of employees in occupational pension schemes, possibly through a more efficient system
- introducing a mechanism to increase the state pension age as life expectancy continues to increase
- increasing the level of household savings
- maintaining the real value of accrued pension benefits from resignation until retirement

The Canadian index value fell slightly from 69.9 in 2010 to 69.1 in 2011 due to a small decline in every sub-index.



Chile

Chile's retirement income system comprises means-tested social assistance; a mandatory privately-managed defined contribution system based on employee contributions with individual accounts managed by a small number of Administradoras de Fondos de Pensiones (AFPs); and a framework for supplementary plans sponsored by employers (the APVC schemes).

The overall index value for the Chilean system could be increased by:

- raising the level of mandatory contributions to increase the net replacement
- introducing a minimum access age for the supplementary plans so that it is clear that these benefits are preserved for retirement purposes
- introducing a requirement that part of the retirement benefit must be taken as an income stream
- continuing to review the minimum pension for the poorest pensioners
- introducing arrangements to protect the interests of both parties in a divorce
- enabling individuals to retire gradually whilst receiving a part pension

The Chilean index value rose from 59.9 in 2010 to 64.9 in 2011 due primarily to a material increase in the sustainability sub-index arising from the new OECD data which showed a much higher coverage than was previously used.



China

China's retirement income system comprises a basic pension consisting of a pooled account (from employer contributions) and individual accounts (from employee contributions). Supplementary plans are also provided by some major employers.

The overall index value for the Chinese system could be increased by:

- broadening the coverage of the national pension system
- introducing taxation incentives for employee contributions to the supplementary plans
- introducing a requirement that part of the supplementary retirement benefit must be taken as an income stream
- increasing the state pension age over time
- enabling individuals to retire gradually whilst receiving a part pension
- improving the level of communication required from pension plans to members

The Chinese index value increased slightly from 40.3 in 2010 to 42.5 in 2011 due primarily to recent decrees which improved the regulatory framework.



France

France's retirement income system comprises an earnings-related public pension with a minimum pension level; two mandatory occupational pension plans for blue and white collar workers respectively; and voluntary occupational plans.

The overall index value for the French system could be increased by:

- increasing the level of funded contributions thereby increasing the level of assets over time
- increasing the state pension age over time
- increasing the labour force participation rate amongst older workers
- improving the regulatory requirements for the private pension system

The French index decreased very slightly from 54.6 in 2010 to 54.4 in 2011, primarily due to a reduction in the net replacement rate which was partly offset by an increase in the net household saving rate.



Germany

Germany's retirement income system comprises an earnings-related pay-as-you-go system based on the number of pension points earned during an individual's career; a means-tested safety net for low-income pensioners; and supplementary pension plans which are common amongst major employers. These plans typically either adopt a book reserving approach, with or without segregated assets, or an insured pensions approach.

The overall index value for the German system could be increased by:

- raising the minimum pension for low-income pensioners
- increasing the requirement that part of the retirement benefit must be taken as an income stream
- increasing the labour force participation rate amongst older workers
- increasing the level of assets available to support retired workers
- improving the level of communication from pension arrangements to members

The German index value rose very slightly from 54.0 in 2010 to 54.2 in 2011. However this overall stability masked a decline in the sustainability sub-index (arising from a reduced score in three of the indicators) which was offset by an improvement in the integrity sub-index which allowed for the important role of the PSVaG, the German pension insolvency fund.



India

India's retirement income system comprises an earnings-related employee pension scheme, a defined contribution employee provident fund and voluntary employer managed funds.

The overall index value for the Indian system could be increased by:

- introducing a minimum level of support for the poorest aged individuals
- introducing a minimum access age so that it is clear that benefits are preserved for retirement purposes
- improving the regulatory requirements for the private pension system
- improving the level of communication from pension arrangements to members
- increasing the pension age as life expectancy continues to increase
- increasing the level of contributions in statutory pension schemes



Japan

Japan's retirement income system comprises a flat-rate basic pension; an earnings-related pension; and voluntary supplementary pension plans.

The overall index value for the Japanese system could be increased by:

- raising the minimum pension for low-income pensioners
- increasing the level of pension provision and hence the expected net replacement rate for all income earners
- introducing a requirement that part of the retirement benefit must be taken as an income stream
- introducing taxation incentives for employee contributions to the supplementary plans and other forms of retirement saving
- announcing a further increase in the state pension age as life expectancy continues to increase

The Japanese index value rose slightly from 42.9 in 2010 to 43.9 in 2011 due to small increases in both the adequacy and sustainability sub-indices.



The Netherlands

The Netherlands' retirement income system comprises a flat-rate public pension and a quasi-mandatory earnings-related occupational pension linked to industrial agreements. Most employees belong to these occupational schemes which are industry-wide defined benefit plans with the earnings measure based on lifetime average earnings.

The overall index value for the Dutch system could be increased by:

- introducing a minimum access age so that it is clear that benefits are preserved for retirement purposes
- raising the level of household saving
- increasing the labour force participation rate amongst older workers
- providing greater protection of members' accrued benefits in the case of fraud, mismanagement or employer insolvency

The Dutch index value fell very slightly from 78.3 in 2010 to 77.9 in 2011 due to small falls in both the adequacy and sustainability sub-indices.



Poland

Poland's retirement income system was reformed in 1999. The new system, which applies to people born after 1968, comprises a minimum pension and an earnings-related system with notional accounts. The overall system is in transition from a pay-as-you-go system to a funded approach. There are also voluntary employer sponsored pension plans.

The overall index value for the Polish system could be increased by:

- raising the minimum level of support available to the poorest pensioners
- raising the level of household saving
- introducing a requirement that part of the retirement benefit from private pension arrangements must be taken as an income stream
- increasing the level of funded contributions thereby increasing the level of assets over time
- increasing the labour force participation rate



Singapore

Singapore's retirement income system is based on the Central Provident Fund which covers all workers, including most public servants. Some benefits are available to be withdrawn at any time for specified housing and medical expenses with other benefits preserved for retirement. A prescribed minimum amount is required to be drawn down at retirement age to buy a lifetime income stream.

The overall index value for the Singaporean system could be increased by:

- raising the minimum level of support available to the poorest pensioners
- continuing to increase the prescribed minimum that must be set aside for retirement purposes
- increasing the percentage of contributions required to be saved for retirement
- reducing the barriers to establishing tax-approved group corporate retirement plans
- increasing the labour force participation rate amongst older workers
- investing a portion of the Central Provident Fund in growth assets

The Singaporean index value fell from 59.6 in 2010 to 56.7 in 2011 due to a reduction in each of the three sub-indices. The reasons included a lower net household saving rate, reduced pension coverage as it is now based on population and the effect of some new investment rules.



Sweden

Sweden's retirement income system was reformed in 1999. The new system, which applies to people born after 1953, is an earnings-related system with notional accounts. The overall system is in transition from a pay-as-you-go system to a funded approach. There is also an income-tested top-up benefit which provides a minimum guaranteed pension.

The overall index value for the Swedish system could be increased by:

- announcing an increase in the state pension age to reflect increasing life expectancy
- encouraging employee contributions into employer sponsored plans, as well as private savings
- improving tax incentives for employee contributions
- requiring annual information about the pension plan as a whole to be provided to plan members
- introducing arrangements to protect all the pension interests of both parties in a divorce

The Swedish index value fell from 74.5 in 2010 to 72.6 in 2011. The main reason is the significant reduction in the net replacement rate as calculated by the OECD.



Switzerland

Switzerland's retirement income system comprises an earnings-related public pension with a minimum pension; a mandatory occupational pension system where the contribution rates increase with age; and voluntary pension plans which are offered by insurance companies and authorised banking foundations.

The overall index value for the Swiss system could be increased by:

- introducing a requirement that part of the retirement benefit must be taken as an income stream
- increasing the state pension age over time
- introducing a universal requirement to permit individuals to retire gradually whilst receiving a part pension, if recent law changes are not sufficient to achieve this goal

The Swiss index fell from 75.3 in 2010 to 72.7 in 2011 due to a reduction in both the adequacy and sustainability sub-indices. The main reasons are the reduced net replacement rate as calculated by the OECD and a decline in each of the first three sustainability indicators.



The United Kingdom

The United Kingdom's retirement income system comprises a flat-rate basic pension supported by an income-tested pension credit; an earnings-related pension based on revalued average lifetime salary; and voluntary private pensions, which may be occupational or personal. Most of the larger voluntary occupational pensions are currently contracted-out of the earnings-related social security benefit.

The overall index value for the British system could be increased by:

- raising the minimum pension for low-income pensioners
- introducing a level of mandatory funded contributions
- increasing the coverage of employees in occupational pension schemes
- raising the level of household saving

The British index value rose from 63.7 in 2010 to 66.0 in 2011 due to an increase in both the adequacy and sustainability sub-indices. The main reasons are an increase in the net replacement rate, a higher household saving rate and an increase in the pension coverage indicator.



United States of America

The United States' retirement income system comprises a social security system with a progressive benefit formula based on lifetime earnings, adjusted to a current dollar basis, together with a means-tested top-up benefit; and voluntary private pensions, which may be occupational or personal.

The overall index value for the American system could be increased by:

- raising the minimum pension for low-income pensioners
- adjusting the level of mandatory contributions to increase the net replacement for median-income earners
- improving the vesting of benefits for all plan members and maintaining the real value of retained benefits through to retirement
- reducing pre-retirement leakage by further limiting the access to funds before retirement
- introducing a requirement that part of the retirement benefit must be taken as an income stream

The American index value increased slightly from 57.3 in 2010 to 58.1 in 2011 due to an increase in the adequacy sub-index which was partly offset by a decline in the sustainability sub-index due to a fall in asset values and a rise in government debt.