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Pensions: international comparisons

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Summary

This note looks at how UK pensions compare with those in other countries. It includes a comparison of the UK State Pension with similar systems in Europe and goes on to look more broadly at the structural differences in the sources of pensioner income across economically advanced countries.

The task of comparing pension provision in the UK with that of other countries is complicated by substantial differences in the structure of pension systems across the developed world. Countries differ not just in the reliance placed on state pension provision as a component of overall pensioner income but also in the structure, eligibility criteria and financing basis of the state pension system.

A comparison of state pension alone shows the UK providing a lower level of pension than most other advanced economies relative to average earnings, however, the relative position of pensioners converges if income from all sources is considered.

The UK devotes a smaller percentage of its GDP to state pensions and pensioner benefits than most other advanced economies. Income from occupational and personal pensions is a relatively important source of pensioner income in the UK, in contrast to many other countries where state provision (financed either through social insurance contributions or general taxation) is dominant.

1. How to compare pension systems

The UK State Pension has been compared unfavourably with similar publicly funded pensions in other European countries, both in terms of its absolute value and relative to average incomes.¹ While state pensions are an important source of retirement income in many advanced economies, there is great variation between countries both in terms of the detailed design of these programmes and how much structural reliance is placed on them relative to other income sources.

The diverse and complex features of different pension systems can be boiled down to a few broad categories to make comparisons easier. Pension systems are often described in terms of a retirement-income architecture supported by three 'pillars', as illustrated below:²

Retirement income pillars		
First pillar	Second pillar	Third pillar
State pensions and pensioner benefits	Occupational pensions	Personal pensions
Statutory programmes financed through taxation or social insurance contributions	Defined benefit or defined contribution workplace schemes	Voluntary saving by individuals

A three-pillar model was first proposed by the World Bank in 1994.³ Another international body, the Organization for Economic Co-operation and Development (OECD), prefers to group pension arrangements into the following three tiers depending on whether participation is mandatory or voluntary, or whether they are managed publicly or privately:

- 1 Mandatory public saving;
- 2 Mandatory private saving;
- 3 Voluntary private saving.⁴

¹ See for example: [OECD: UK has lowest state pension of any developed country](#), The Guardian, 5 December 2017; [Do pensioners in the rest of the EU get more cash than the elderly in the UK?](#) Full Fact, 23 August 2018

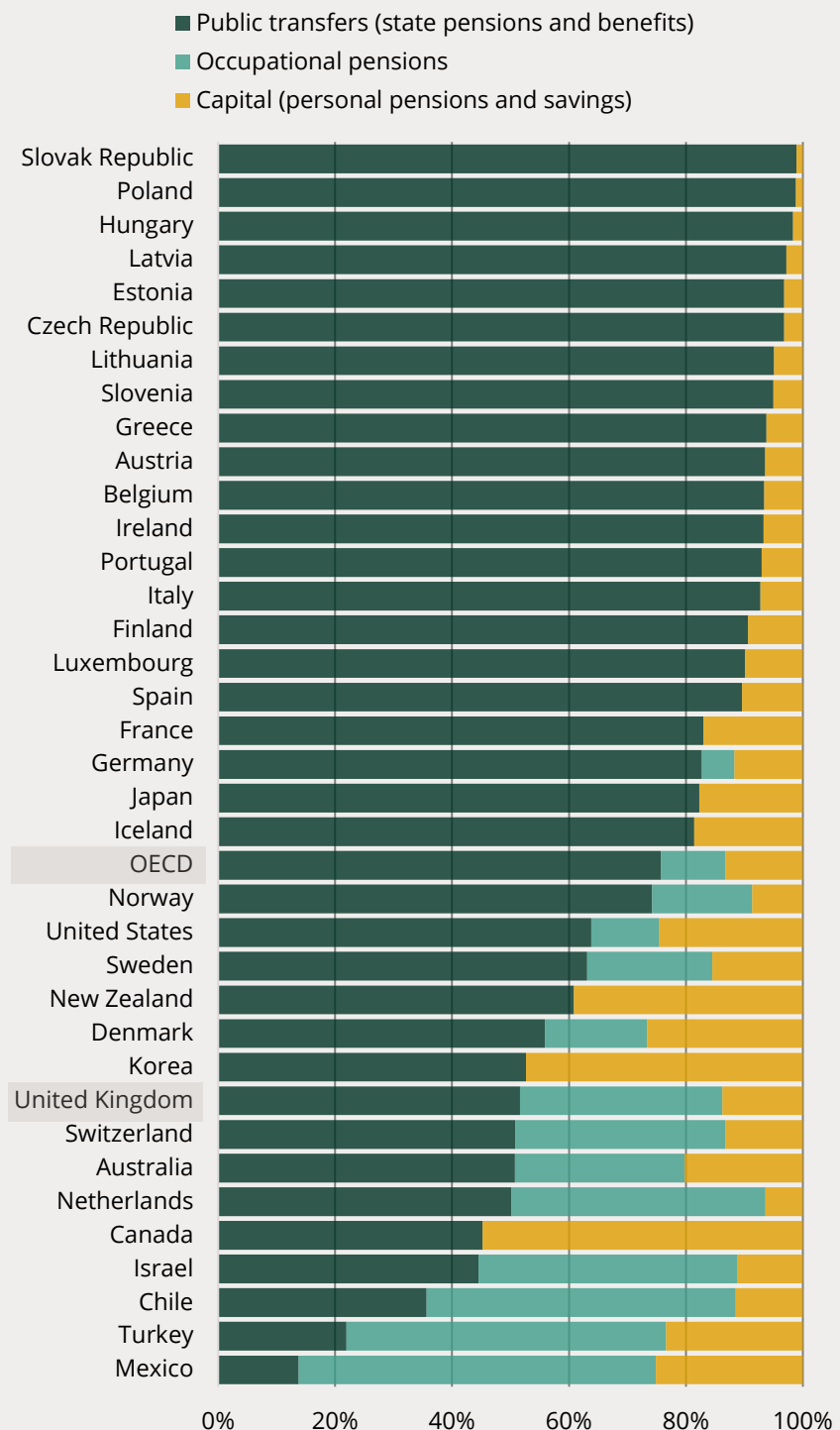
² Based on definitions used in Library of the European Parliament Briefing [Occupational pensions: 'Second pillar' provision in the EU policy context](#) 10 July 2013.

³ World Bank (1994), *Averting the Old Age Crisis*, page 15

⁴ OECD (2019) [Pensions At A Glance 2019](#), chapter 4

In practice, countries vary greatly in terms of the reliance placed on each pillar or tier. As shown in the chart opposite (derived from the latest OECD data on the composition of pensioner incomes among member states) the UK is near the lower end of the scale in terms of the proportion of pensioner income (excluding earnings) coming from 'first-pillar' state pensions and benefits (around half). A substantial proportion (just over a third) comes from occupational pensions and the remainder from personal saving. In 16 OECD countries out of 36, public transfers provide over nine-tenths of pensioner income (excluding earnings).

Income sources of older people in OECD countries (excluding income from work) 2016 or latest available



Source: OECD Pensions At A Glance 2019 chart 7.1 and HoC Library calculations

2. Comparing state pensions

2.1 The UK State Pension and Pension Credit

The UK's 'first pillar' of pension provision consists of the **State Pension**, a contributory entitlement based on qualifying years of National Insurance contributions or credits, and **Pension Credit**, a means-tested benefit which tops up pensioner incomes to a minimum level intended to reduce the risk of poverty.

Since 6 April 2016 there are two State Pension systems in the UK:

- The **Old State Pension** (for people who reached State Pension age before 6 April 2016): a two-tier system consisting of a flat-rate **Basic State Pension** (worth up to **£137.60** per week for an individual in 2021/22) and an earnings-related **Additional State Pension** (either State Second Pension or SERPs).
- The **New State Pension** (for people who reach SPA from 6 April 2016): a single-tier flat-rate pension worth up to **£179.60** per person per week (2021/22 rate). Once fully phased-in, the full amount will be payable to people with **35 qualifying years** in their National Insurance (NI) contribution record between age 16 and the State Pension age. There are transitional arrangements for contribution records before April 2016.

Alongside the State Pension, **Pension Credit** is a means-tested benefit which tops up pensioners' incomes to a guaranteed minimum level just below the level of the full New State Pension: **£177.10** per week for a single person and **£270.30** per week for a couple (2021/22 rates).

2.2 Comparing the UK State Pension with similar systems abroad

Attempts to compare the UK's first pillar with those of other countries are complicated by the fundamental differences between their systems. In broad terms, there are three basic models of state pension provision:

- **Earnings-related:** (as in France, Germany, Italy and Sweden) where the level of the pension is determined by the earnings on which a pensioner paid social contributions. Earnings-related schemes generally have a ceiling (above which contributions cannot be made) to prevent excessive pension expenditure and a floor to protect low earners. In Sweden there is no upper limit to the state pension that can be accrued;⁵
- **Means-tested:** (such as Australia's *Age Pension*) where the state guarantees a minimum pension but takes into account a claimant's other income and assets in determining the amount payable;
- **Flat-rate:** (as in Ireland and the Netherlands) state pensions are paid at a flat rate and entitlement depends on either a pensioners' contribution record or their history of residence.

⁵ [Kan man "maxa" sin allmänna pension?](#) Swedish Pension Authority (Pensionsmyndigheten) website (in Swedish), 18 Sep 2020

The British State Pension system is primarily structured around a flat-rate amount (the Basic or new State Pension). On top of this however, the additional State Pension provided an earnings-related element in the old system and transitional arrangements mean that many new State Pensioners also receive a 'protected payment', reflecting rights built up before April 2016. Pension Credit provides a means-tested top-up in both the old and new systems.⁶

The first-pillar pension systems in the **Republic of Ireland**, the **Netherlands** and **Denmark** are arguably good comparators for the UK State Pension system, in that they also provide a flat-rate state pension based on the number of qualifying years (of contribution or residence) that individuals amass during their working-age lifetimes.

Even in countries that do pay flat-rate state pensions there are key structural differences that complicate comparisons with the UK system:

Selected state pension systems in Northern Europe – snapshot as of April 2021

£ sterling values calculated at market exchanges rates as of 6 April 2021



Ireland

State Pension (Contributory)

The State Pension (Contributory) is a non-means-tested flat-rate pension paid to people from the age of 66 who have enough Irish social insurance contributions.

The full personal rate for somebody with 48 or more qualifying years is **€ 248.30** per week in 2021,⁷ equivalent to **£212** per week at April 2021 exchange rates.



Netherlands

Algemene Ouderdomswet (AOW) pensioen

The AOW pension is a basic state pension linked to the Dutch minimum wage. A single person gets an amount worth up to 70% of the net minimum wage, while a pensioner couple gets the equivalent of 100% of the net minimum wage (50% each).⁸ The AOW amounts are revised each January and July along with the minimum wage itself.

Entitlement is residence-based: an individual accrues 2% of the full amount for each year he/she is resident in the Netherlands between age 15 and the AOW pension age, up to a maximum of 50 years.

For January-June 2021, the full AOW amounts are:

- € 1,292.50 per month (**£254** per week at April 2021 exchange rates) for a single person, and
- € 883.67 per month (**£174** per week) for each member of a pensioner couple.

Continued overleaf →

⁶ For more detail, see Library Briefing Paper CBP 7414 [The new State Pension – transitional issues](#) (Feb 2019), section 3.2

⁷ Irish Department of Social Protection [Rates of Payment SW19](#)

⁸ Sociale Verzekeringsbank, [AOW pension rates depending on living situation](#) (in English, accessed April 2021)

← Continued from previous page

Denmark

Folkepension

The Folkepension consists of:

- a basic amount ('grundbeløb') payable to each individual, plus
- a pension supplement ('pensionstillæg') which is different depending on whether the recipient lives alone or in a couple.⁹

The basic amount is only reduced from its flat-rate amount if the pensioner has earnings from work above a certain threshold.¹⁰ 96% of Folkepension recipients receive the full basic amount and 4% receive a reduced amount.¹¹

The pension supplement is subject to a more comprehensive means-test which takes account of income from all sources other than the Folkepension. 57% of Folkepension recipients receive the full supplement, 32% receive a reduced supplement and 11% receive no supplement.¹²

Entitlement to the Folkepension is residence-based: a full basic amount is payable to those who had 40 years of residence in Denmark between age 15 and the state pension age (which reaches 67 in 2022).¹³

The basic amount in 2021 is DKK 6,518 per month – around **£172** per week at April 2021 exchange rates. Once the pension supplement is added on, this amount rises (subject to means-testing) to:

- DKK 13,853 per month (**£366** per week) for a single pensioner
- DKK 10,225 per month (**£270** per week) for each member of a pensioner couple.

The table below sets out how the main state pension rates in Ireland, the Netherlands and Denmark compare with the UK New State Pension, both in cash terms (at April 2021 exchange rates) and as a percentage of each country's average wage.

In cash terms, the basic amount of the Danish Folkepension is similar to the UK new State Pension, as is the Dutch AOW pension payable to a member of a pensioner couple.

The Irish contributory State Pension for an individual on their own contributions, and the Dutch AOW pension for a single pensioner, both exceed the UK new State Pension in cash terms and as a percentage of average national wages.

⁹ An annual 'elder cheque' ('ældrecheck') is also payable to the very poorest recipients of the Folkepension (28% of the total caseload).

¹⁰ In 2021, the earnings threshold for tapering of the Folkepension basic amount is DKK 344,600 per year (£39,574 at April 2021 exchange rate). An amount equivalent to 30% of earnings above this threshold is deducted from the basic amount. Source: 'Værd at vide: Beregning af folkepension' on Ældre Sagen website (in Danish), accessed April 2021.

¹¹ Ældre i Tal 2020: Folkepension 2020, Ældre Sagen, Aug 2020, PDF fig.2 (in Danish)

¹² Ældre i Tal 2020: Folkepension 2020, Ældre Sagen, Aug 2020, PDF fig.2 (in Danish)

¹³ Folkepension on borger.dk website, and Betingelser for folkepension on the Danish Agency for Labour Market and Recruitment website (both in Danish), accessed April 2021

Selected flat-rate state pensions in Northern Europe: comparison of full entitlement for individuals

	April 2021 in national currency per week	in GBP, April 2021 exch. rate (a) per week	As percentage of:	
			UK New State Pension	National average wage (2019)
United Kingdom: New State Pension				
Individual	£179.60	£179.60	100%	24%
Ireland: State Pension (contributory)				
Individual	€ 248.30	£212.08	118%	26%
Netherlands: AOW pensioen				
Single pensioner	€ 297.47	£254.07	141%	30%
Each member of pensioner couple	€ 203.38	£173.71	97%	21%
Denmark: Folkepension				
Basic amount Individual	1,500 kr.	£172.27	96%	17%
Basic amount plus full means-tested pension supplement				
Single pensioner	3,188 kr.	£366.14	204%	36%
Each member of pensioner couple	2,353 kr.	£270.25	150%	26%

Notes (a) Currency conversion rates as at 6 April 2021 - the day the new UK State Pension rate came into effect (£1 to €1.17 and DKK 8.71) - sourced from Financial Times (ft.com), not adjusted for purchasing power parity. (b) Average wage percentages are based on 2019 pension amounts for each country.

Sources

HoC Library calculations based on pension rates sourced from websites of respective ministries / agencies. Average wages from OECD iLibrary average annual wages dataset via stats.oecd.org.

When making such comparisons, it should be borne in mind that Denmark (40 years), Ireland (48 years) and the Netherlands (50 years) all require a longer record of qualifying years for the full amount than the UK does (35 years in the New State Pension system). In each country, a reduction is applied to the full flat-rate amount if an individual hasn't amassed the full number of qualifying years. For example, in Ireland someone with between 30 and 39 qualifying years receives around nine-tenths of the full rate.¹⁴ And, as discussed in section 3, they should also be considered in the context of the pension system as a whole.

2.3 Public expenditure on pensions

Amounts received in retirement should be viewed in the context of how much people are called upon to contribute financially into the system. In the UK, Ireland and the Netherlands, state pensions are underpinned by a social insurance arrangement funded on a 'pay-as-you-go' basis by contributions from workers and employers. In Denmark the *Folkepension* is fully financed out of general taxation. Where state pension arrangements are accompanied by means-tested social

¹⁴ €223.20 instead of the full €248.30 in 2021 for people qualifying after September 2012. Source: Irish Department of Social Protection [Rates of Payment SW19](#)

assistance, such as the UK's Pension Credit, this tends to be financed from general taxation.

The simplest way to quantify how much each country contributes in aggregate to first-pillar pension provision is to look at overall expenditure as a percentage of gross domestic product (GDP). The **OECD** collects standardised data on each member country's social expenditure on state pensions and pensioner benefits. In six countries, social expenditure on old-age pensions in 2017 accounted for over 10 per cent of GDP. In the UK the figure is 4.7 per cent.

Public social expenditure on old-age pensions in OECD member states

First-pillar state pensions and benefits as % of gross domestic product

	2010	2011	2012	2013	2014	2015	2016	2017
Greece	11.1	12.5	13.7	12.9	13.3	13.7	13.7	13.0
France	11.3	11.5	11.7	12.0	12.0	12.0	12.0	11.9
Italy	10.0	10.2	10.8	11.3	11.6	11.7	11.6	11.5
Finland	8.1	8.3	8.9	9.5	9.9	10.1	10.4	10.5
Portugal	9.6	10.2	10.6	11.4	11.4	10.8	10.6	10.4
Austria	9.5	9.3	9.6	9.9	10.2	10.3	10.2	10.2
Belgium	7.6	7.8	7.8	8.1	8.2	8.4	8.3	8.4
Japan	8.2	8.3	8.4	8.4	8.2	8.1	8.2	8.2
Germany	8.2	7.8	7.8	7.8	7.8	7.9	8.0	8.0
Denmark	7.1	7.4	7.6	7.8	7.9	8.0	7.9	8.0
Poland	6.9	6.9	7.4	7.9	7.9	7.9	7.9	7.7
Spain	6.1	6.4	6.9	7.5	7.7	7.7	7.7	7.7
Slovenia	6.1	6.2	6.4	6.6	6.7	6.7	6.8	7.7
Czech Republic	6.7	7.0	7.2	7.3	7.2	6.9	6.8	6.7
Sweden	6.5	6.2	6.6	6.9	6.7	6.5	6.6	6.6
Hungary	6.8	7.1	7.5	7.7	7.3	7.0	6.9	6.6
OECD - Total	6.0	6.1	6.3	6.4	6.5	6.5	6.5	6.5
United States	5.8	6.0	6.0	6.2	6.3	6.3	6.5	6.4
Latvia	8.7	7.4	7.1	7.1	6.8	6.6	6.6	6.4
Norway	4.7	4.9	5.1	5.4	5.7	6.1	6.5	6.4
Slovak Republic	5.5	5.5	5.7	5.9	6.2	6.1	6.1	6.1
Switzerland	5.5	5.6	5.7	5.8	5.8	5.9	5.9	6.0
Colombia	5.5	5.5	5.4	5.5	5.8	5.9	6.0	5.9
Turkey	6.0	5.6	5.7	5.6	5.6	5.5	6.0	5.7
Lithuania	6.5	5.9	5.9	5.7	5.5	5.4	5.4	5.3
Netherlands	4.7	4.8	5.0	5.2	5.3	5.2	5.3	5.1
Luxembourg	4.2	3.9	4.5	4.6	4.6	4.9	4.9	5.1
New Zealand	4.4	4.6	4.8	4.8	5.0	4.9	4.9	4.8
United Kingdom	4.9	5.0	5.2	5.2	5.2	5.1	4.8	4.7
Estonia	6.4	4.9	4.8	4.7	4.7	4.9	4.9	4.6
Costa Rica	..	4.2	4.2	4.4	4.5	4.5	4.5	4.6
Canada	3.9	3.9	4.1	4.1	4.2	4.4	4.5	4.5
Australia	3.6	3.7	3.7	3.9	4.1	4.2	4.1	3.9
Ireland	4.3	4.4	4.5	4.4	4.1	3.2	3.6	3.4
Iceland	1.5	2.0	1.9	1.9	2.1	2.0	2.1	2.6
Mexico	1.4	1.4	1.6	1.8	1.9	2.0	2.1	2.4
Korea	1.5	1.5	1.7	1.7	1.9	2.1	2.2	2.2
Chile	2.6	2.5	2.4	2.3	2.3	2.3	2.2	2.2
Israel	2.0	2.0	2.1	2.1	2.1	2.1	2.0	2.0

Source [OECD.stat Social Expenditure Aggregated Data \(SOCX\): cash benefits: old-age pension](#)

3. Pension replacement rates

As state pensions are only one component of the retirement income architecture, comparing these in isolation is of limited value in gauging the income delivered to pensioners in retirement. The UK State Pension system, for example, is intended to work together with the workplace pension system and its evolution reflects this.¹⁵

An alternative basis for comparison is **pension replacement rates**, which express a person's pension income as a percentage of previous earnings from work. This illustrates the effectiveness of each country's pension system at sustaining workers' living standards as they enter retirement.

The **OECD's** biennial [Pensions at a Glance report](#) presents modelled pension replacement rates for each member country, based on what a typical pensioner would receive after earning a given percentage of average earnings over their working lifetimes. The resultant figures show the hypothetical level of pension which people would receive if they work for a full career and if today's pension rules remain unchanged. They provide a comparison of the projected long-term outcomes of today's pension policies, which is not necessarily the same as the pensions received by today's pensioners.¹⁶

To facilitate comparison the OECD analysis groups sources of pension income into three main categories or tiers:

- 1 **Mandatory public:** first-pillar public provision financed through taxes or statutory social insurance contributions;
- 2 **Mandatory private:** occupational schemes for which enrolment is effectively mandatory. This is a particularly important category in Denmark and the Netherlands, where almost all the workforce is covered by quasi-mandatory pension arrangements established by agreement among the 'social partners' (employers and unions);
- 3 **Voluntary private:** occupational schemes for which enrolment is not deemed mandatory, plus personal savings.

The analysis is based on an individual entering the labour market at age 22 in 2018 and working as a private-sector employee until his/her normal pension age, earning either the national average wage, half this amount or 1.5 times this amount. The individual's hypothetical pension is modelled using the national rules in place in 2018 plus future reforms that had been legislated by that date. Consistent economic assumptions are used for all countries to focus the comparison on systemic factors.

The analysis shows that the **UK** has an overall net replacement rate of **28.4%** from mandatory pensions for an average earner, well below the OECD average of 58.6% and the EU average of 63.5%. When voluntary provision (mainly workplace pensions) is included as well, the UK's net

¹⁵ See, for example, Library Briefing Paper CBP 7202 [Pensions 2015](#) (May 2015), sections 2.3 and 3.1

¹⁶ OECD *Pensions at a Glance 2015*

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replacement rate rises to **61.0%**, still below the OECD average of 65.4% and the EU average of 67.0% (see table and chart below).

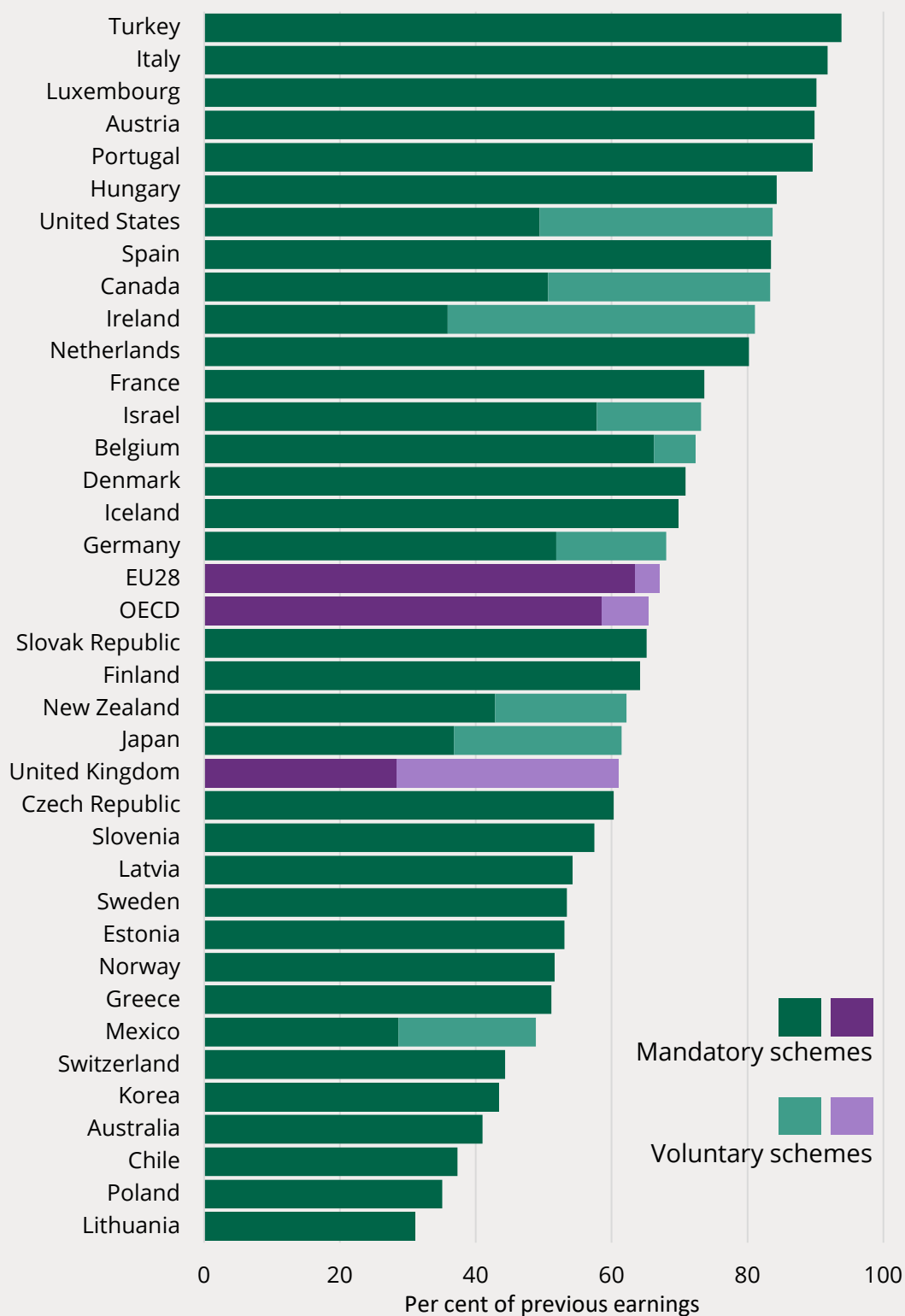
The data reflects the structural diversity of pension systems. In some countries (such as Australia and Iceland) public provision contributes very little to pension replacement rates for an average earner – in other countries (such as France and Italy) it accounts for the whole amount.

Modelled pension replacement rates from public and private schemes in OECD countries															
Percentage of worker's earnings at retirement that is replaced by pension income, 2018-based															
	Gross									Net					
	Mandatory Public			Total mandatory (public & private)			Total with voluntary			Total mandatory (public & private)			Total with voluntary		
	0.5	1.0	1.5	0.5	1.0	1.5	0.5	1.0	1.5	0.5	1.0	1.5	0.5	1.0	1.5
Australia	34.0	0.0	0.0	64.9	30.9	30.9	64.9	30.9	30.9	75.5	41.0	43.8	75.5	41.0	43.8
Austria	76.5	76.5	76.5	76.5	76.5	76.5	76.5	76.5	76.5	89.7	89.9	89.6	89.7	89.9	89.6
Belgium	57.3	46.8	33.7	57.3	46.8	33.7	71.6	61.0	44.1	70.7	66.2	48.3	87.9	72.4	57.8
Canada	50.9	39.0	29.8	50.9	39.0	29.8	71.9	64.1	54.9	58.3	50.7	39.7	82.4	83.3	73.4
Chile	5.1	0.0	0.0	36.2	31.2	31.2	36.2	31.2	31.2	44.6	37.3	37.9	44.6	37.3	37.9
Czech Republic	75.0	45.9	36.2	75.0	45.9	36.2	75.0	45.9	36.2	91.6	60.3	47.9	91.6	60.3	47.9
Denmark	63.1	23.7	13.3	113.8	74.4	64.0	113.8	74.4	64.0	104.5	70.9	63.3	104.5	70.9	63.3
Estonia	33.8	19.4	14.6	61.4	47.1	42.3	61.4	47.1	42.3	65.6	53.1	49.0	65.6	53.1	49.0
Finland	56.5	56.5	56.5	56.5	56.5	56.5	56.5	56.5	56.5	65.1	64.2	64.9	65.1	64.2	64.9
France	60.2	60.1	54.0	60.2	60.1	54.0	60.2	60.1	54.0	71.4	73.6	69.0	71.4	73.6	69.0
Germany	38.7	38.7	38.7	38.7	38.7	38.7	52.2	52.2	52.2	56.1	51.9	51.4	68.6	68.0	67.5
Greece	63.1	49.9	45.5	63.1	49.9	45.5	63.1	49.9	45.5	57.6	51.1	50.3	57.6	51.1	50.3
Hungary	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	84.3	84.3	84.3	84.3	84.3	84.3
Iceland	12.3	3.1	2.1	75.3	66.1	65.1	75.3	66.1	65.1	80.5	69.8	69.8	80.5	69.8	69.8
Ireland	54.1	27.0	18.0	54.1	27.0	18.0	89.9	62.9	53.8	60.5	35.9	26.7	105.6	81.1	75.5
Israel	36.1	18.0	12.0	77.4	50.1	33.4	97.2	65.5	43.7	81.1	57.8	42.4	98.9	73.2	53.7
Italy	79.5	79.5	79.5	79.5	79.5	79.5	79.5	79.5	79.5	92.0	91.8	94.4	92.0	91.8	94.4
Japan	42.5	32.0	28.5	42.5	32.0	28.5	66.2	55.8	52.3	45.9	36.8	33.3	74.0	61.5	59.5
Korea	55.6	37.3	27.0	55.6	37.3	27.0	55.6	37.3	27.0	60.8	43.4	32.6	60.8	43.4	32.6
Latvia	44.6	44.6	44.6	44.6	44.6	44.6	44.6	44.6	44.6	55.2	54.3	52.2	55.2	54.3	52.2
Lithuania	36.8	23.6	19.2	36.8	23.6	19.2	36.8	23.6	19.2	48.4	31.0	25.3	48.4	31.0	25.3
Luxembourg	91.5	78.8	74.5	91.5	78.8	74.5	91.5	78.8	74.5	99.0	90.1	85.9	99.0	90.1	85.9
Mexico	12.6	3.2	2.0	35.1	25.7	24.6	48.2	43.0	41.9	35.6	28.6	28.6	48.8	48.9	49.4
Netherlands	57.9	29.0	19.3	73.5	70.9	70.1	73.5	70.9	70.1	78.0	80.2	78.5	78.0	80.2	78.5
New Zealand	79.3	39.7	26.4	79.3	39.7	26.4	97.1	57.4	44.2	79.8	42.8	30.3	98.8	62.2	50.4
Norway	45.7	39.6	30.1	50.4	45.4	36.3	50.4	45.4	36.3	57.0	51.6	43.0	57.0	51.6	43.0
Poland	29.4	29.4	29.4	29.4	29.4	29.4	29.4	29.4	29.4	35.9	35.1	34.7	35.9	35.1	34.7
Portugal	75.8	74.4	73.1	75.8	74.4	73.1	75.8	74.4	73.1	88.0	89.6	89.0	88.0	89.6	89.0
Slovak Republic	59.5	49.6	47.0	59.5	49.6	47.0	59.5	49.6	47.0	71.7	65.1	63.3	71.7	65.1	63.3
Slovenia	47.8	38.8	36.0	47.8	38.8	36.0	47.8	38.8	36.0	62.8	57.5	53.7	62.8	57.5	53.7
Spain	72.3	72.3	72.3	72.3	72.3	72.3	72.3	72.3	72.3	78.6	83.4	82.8	78.6	83.4	82.8
Sweden	41.6	41.6	30.8	54.1	54.1	65.3	54.1	54.1	65.3	60.7	53.4	68.9	60.7	53.4	68.9
Switzerland	32.4	21.4	15.2	53.0	42.4	29.2	53.0	42.4	29.2	54.3	44.3	31.7	54.3	44.3	31.7
Turkey	67.4	67.4	67.4	67.4	67.4	67.4	67.4	67.4	67.4	86.2	93.8	98.7	86.2	93.8	98.7
United Kingdom	43.5	21.7	14.5	43.5	21.7	14.5	72.6	50.9	37.4	51.0	28.4	20.2	82.3	61.0	47.4
United States	50.1	39.4	33.1	50.1	39.4	33.1	81.0	70.3	64.0	61.2	49.4	42.7	94.1	83.7	79.0
OECD	51.1	39.6	34.9	60.0	49.0	44.7	66.1	55.2	50.5	68.3	58.6	54.7	75.0	65.4	61.6
EU28	54.7	45.5	41.2	60.3	52.0	48.8	63.6	55.4	51.8	69.8	63.5	60.4	73.6	67.0	64.0

Source: OECD [Pensions at a Glance 2019](#), [table 5.3](#) and [table 5.6](#).

Net pension replacement rates from mandatory (public and private) and voluntary pension schemes in OECD countries

Pension income as a percentage of previous earnings, modelled for a retired private-sector employee who earned the average national wage, 2018-based



Source [OECD Pensions at a Glance 2019, table 5.6](#)

4. Other comparisons

4.1 Benchmarking of pension systems

The **Mercer CFA Institute Global Pension Index** (formerly the Melbourne Mercer Global Pension Index) is an annual cross-country comparison of pension systems produced in collaboration with the [Monash Centre for Financial Studies](#). The [2020 report](#) scores and ranks the pension systems of 39 countries, based on more than 50 indicators under the sub-indices of **adequacy**, **sustainability** and **integrity**.

Mercer CFA Institute Global Pension index rankings, 2009 to 2020

Formerly Melbourne Mercer Global Pension index (to 2019)

	overall score												grade
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020
Netherlands	76.1	78.3	77.9	78.9	78.3	79.2	80.5	80.1	78.8	80.3	81.0	82.6	A
Denmark				82.9	80.2	82.4	81.7	80.5	78.9	80.2	80.3	81.4	A
Israel												74.7	B
Australia	74.0	72.9	75.0	75.7	77.8	79.9	79.6	77.9	77.1	72.6	75.3	74.2	B
Finland						74.3	73.0	72.9	72.3	74.5	73.6	72.9	B
Sweden	73.5	74.5	73.4	73.4	72.6	73.4	74.2	71.4	72.0	72.5	72.3	71.2	B
Norway									74.7	71.5	71.2	71.2	B
Singapore	57.0	59.6	56.7	54.8	66.5	65.9	64.7	67.0	69.4	70.4	70.8	71.2	B
Canada	73.2	69.9	69.1	69.2	67.9	69.1	70.0	66.4	66.8	68.0	69.2	69.3	B
New Zealand									67.9	68.5	70.1	68.3	B
Germany	48.2	54.0	54.2	55.3	58.5	62.2	62.0	59.0	63.5	66.8	66.1	67.3	B
Chile	59.6	59.9	54.9	63.3	66.4	68.2	69.1	66.4	67.3	69.3	68.7	67.0	B
Switzerland		75.3	72.7	73.3	73.9	73.9	74.2	68.6	67.6	67.6	66.7	67.0	B
Ireland						62.2	63.1	62.0	65.8	66.8	67.3	65.0	B
United Kingdom	63.9	63.7	66.0	64.8	65.4	67.6	65.0	60.1	61.4	62.5	64.4	64.9	C+
Belgium												63.4	C+
Hong Kong SAR										56.0	61.9	61.1	C+
USA	59.8	57.3	58.1	59.0	58.2	57.9	56.3	56.4	57.8	58.8	60.6	60.3	C+
Malaysia								55.7	57.7	58.5	60.6	60.1	C+
France		54.6	54.4	54.7	53.5	57.7	57.4	56.4	59.6	60.7	60.2	60.0	C+
Colombia									61.7	62.6	58.4	58.5	C
Spain										54.4	54.7	57.7	C
Saudi Arabia										58.9	57.1	57.5	C
Peru										62.4	58.5	57.2	C
Poland			58.6	58.2	57.9	56.4	56.2	54.4	55.1	54.3	57.4	54.7	C
Brazil		59.8	58.4	56.7	52.8	52.4	53.2	55.1	54.8	56.5	55.9	54.5	C
South Africa						54.0	53.4	48.6	48.9	52.7	52.6	53.2	C
Austria						52.8	52.2	51.7	53.1	54.0	53.9	52.1	C
Italy						49.6	50.9	49.5	50.8	52.8	52.2	51.9	C
Indonesia					42.0	45.3	48.2	48.3	49.9	53.1	52.2	51.4	C
Korea				44.7	43.8	43.6	43.8	46.0	47.1	47.3	49.8	50.5	C
Japan	41.5	42.9	43.9	44.4	44.4	44.4	44.1	43.2	43.5	48.2	48.3	48.5	D
China	48.0	40.3	42.5	45.4	47.1	49.0	48.0	45.2	46.5	46.2	48.7	47.3	D
India			43.4	24.4	43.3	43.5	40.3	43.4	44.9	44.6	45.8	45.7	D
Mexico					50.1	49.4	52.1	44.3	45.1	45.3	45.3	44.7	D
Philippines											43.7	43.0	D
Turkey											42.2	42.7	D
Argentina								37.7	38.8	39.2	39.5	42.5	D
Thailand											39.4	40.8	D

See next page for notes

Grade descriptions:

A	A first-class robust retirement income system that delivers good benefits, is sustainable and has high integrity.
B+	A system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system.
B	
C+	A system that has some good features, but also has major risks and/or shortcomings that should be addressed.
C	
D	A system that has some desirable features but also major weaknesses and/or omissions that need to be addressed.
E	A poor system that may be in the early stages of development or non-existent.

Source Mercer CFA Institute / Melbourne Mercer Global Pension Index, [2020 edition](#) and previous

The UK system has achieved a 'C+' grade in each of the last five editions. This denotes *"a system that has some good features, but also has major risks and/or shortcomings that should be addressed. Without these improvements, its efficacy and/or long-term sustainability can be questioned."*

The report indicates that the UK's overall score is mainly affected by its below-average performance in the 'adequacy' sub-index. The report's authors recommend a range of measures to boost the UK's score, for example supporting pension adequacy through:

- Restoring the requirement to take part of retirement savings as an income stream
- Raising the minimum pension for low-income pensioners
- Further increasing the coverage of employees and the self-employed in pension schemes, and the level of contributions.

The UK ranks relatively highly in terms of integrity (relating to issues of regulation and governance).¹⁷

Denmark and the Netherlands have consistently been at or near the top of the Melbourne Mercer index, and have taken first and second in the last six editions (2015 to 2020). Both countries scored an 'A' grade in 2020, meaning a *"first class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity."*

Denmark and the Netherlands also scored highly in a separate study, taking third and seventh place respectively in the [2020 Allianz Pension Index](#), which used three sub-indicators (financial and demographic starting point, sustainability, and adequacy) to rank 70 national pension systems. Sweden came top, with the United Kingdom coming 16th.¹⁸

4.2 Pensioner poverty

The OECD uses a common set of statistical conventions to measure incomes consistently across countries to determine the proportion of the pensioner population in each country living in relative income poverty (defined as having incomes less than 50% of the median).

As shown in the table below, the proportion of people aged 66 and over living in relative income poverty varies widely. In the **UK** it was

¹⁷ [Mercer CFA Institute Global Pension Index 2020](#) page 45.

¹⁸ Allianz (May 2020) [Allianz Global Pension Report 2020: The Silver Swan](#).

14.9% in 2018, the 13th highest out of the 33 OECD countries for which data is available for 2016-2018. The highest rate was in South Korea (43.4%), followed by the Baltic states of Latvia (39.0%), Estonia (37.6%) and Lithuania (25.2%). Rates were lowest in Denmark (3.0%), Iceland and the Netherlands (both 3.1%) and France (4.1%).

Income poverty rates in OECD countries by age group

Percentage with incomes less than 50% of median household disposable income after taxes and transfers - latest available year in range 2016-2018

	Year	Aged 66 and over	Of whom:		Whole population
			66 to 75	76 +	
1 Korea	2018	43.4%	34.6%	55.1%	16.7%
2 Latvia	2018	39.0%	33.4%	44.7%	17.5%
3 Estonia	2018	37.6%	28.8%	47.5%	16.3%
4 Lithuania	2018	25.2%	23.3%	27.1%	15.5%
5 Mexico	2016	24.7%	22.5%	28.2%	16.6%
6 Australia	2018	23.7%	21.6%	27.1%	12.4%
7 United States	2017	23.1%	19.7%	28.3%	17.8%
8 Israel	2018	20.6%	16.8%	26.4%	16.9%
9 Chile	2017	17.6%	17.7%	17.4%	16.5%
10 Switzerland	2017	16.5%	14.0%	19.6%	9.2%
11 United Kingdom	2018	14.9%	12.9%	17.8%	11.7%
12 Poland	2018	12.8%	13.4%	11.9%	9.8%
13 Slovenia	2018	12.1%	9.6%	15.9%	7.5%
14 Canada	2018	11.9%	10.7%	13.9%	11.8%
15 Ireland	2017	11.4%	10.5%	12.8%	9.0%
16 Sweden	2018	10.9%	7.9%	15.3%	8.9%
17 Czech Republic	2018	10.4%	9.4%	12.2%	6.1%
18 Germany	2017	10.2%	8.9%	10.9%	10.4%
19 Spain	2018	10.2%	9.2%	11.3%	14.2%
20 Austria	2018	10.0%	10.6%	9.2%	9.4%
21 Italy	2017	9.7%	9.7%	9.8%	13.9%
22 Portugal	2018	9.0%	8.0%	10.2%	10.4%
23 Belgium	2018	8.5%	7.1%	10.3%	8.2%
24 Greece	2018	7.5%	7.2%	7.7%	12.1%
25 Finland	2018	7.2%	4.3%	11.3%	6.5%
26 Luxembourg	2018	7.1%	6.7%	7.9%	11.4%
27 Slovak Republic	2018	5.0%	4.5%	6.0%	7.7%
28 Hungary	2017	4.9%	5.3%	4.2%	8.0%
29 Norway	2018	4.3%	2.5%	7.2%	8.4%
30 France	2018	4.1%	3.9%	4.5%	8.5%
31 Iceland	2017	3.1%	4.0%	1.1%	4.9%
32 Netherlands	2016	3.1%	2.0%	4.9%	8.3%
33 Denmark	2017	3.0%	2.0%	4.5%	6.1%

Note: The OECD's figures are based on a common set of statistical conventions for all countries to enable comparability and differ from the DWP's Households Below Average Income (HBAI) publication for the UK. Japan, New Zealand and Turkey are excluded from the table due to lack of timeliness of data (comparable data not available post 2015).

Source: [OECD Income Distribution Database, accessed April 2021](#)

The OECD's figures for the UK differ from the DWP's own measure of households in relative low income, published in the annual [Households below average income \(HBAI\)](#) publication.

According to HBAI, the percentage of pensioners in the UK living in households with income below 50% of the median equivalised net household income was 9.8% in 2018/19 and 11.1% in 2019/20.

Discussions of relative low income in the UK usually focus on the proportion of people living below 60% of the median income after housing costs – 15.9% of pensioners were living below this benchmark in 2018/19 and 18.1% in 2019/20.¹⁹

Pensioners with relative low income, UK		
Percentage of pensioners living in households below relative low income thresholds		
	2018/19	2019/20
Below 50% of median net household income:		
before housing costs (BHC)	9.8%	11.1%
after housing costs (AHC)	9.5%	9.8%
Below 60% of median net household income:		
before housing costs (BHC)	17.8%	19.2%
after housing costs (AHC)	15.9%	18.1%

Source

DWP Households Below Average Income dataset, accessed via [Stat-xplore](#)

¹⁹ DWP [Households below average income: for financial years ending 1995 to 2020](#)

5. Pension ages

In the UK the female state pension age was equalised with the male age of 65 in November 2018. The state pension age for both women and men then rose to 66 by September 2020. It will increase to 67 between 2026 and 2028.

A further increase from 67 to 68 is currently legislated to take place between 2044 and 2046, although the Government announced plans in 2017 to bring this timetable forward to 2037-2039, subject to review.²⁰

As shown in the table below, the UK is one of many European countries that have equalised and increased their statutory pensionable ages:

Pension ages in EU Member States											
		2009		2013		2017		2021		Outlook	
		Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
BE	Belgium	65		65		65		65		67	in 2030
BG	Bulgaria	63	60	63y8m	60y8m	64	61	66y8m		67	in 2023
CZ	Czech Republic	62	56y8m-60y8m (a)	62y6m	57y8m-61y8m (a)	63	58y4m-62y4m (a)	63y10m		65	by 2036
DK	Denmark	65		65		65		67		67	in 2022
DE	Germany	65		65y2m		63y4m-65y6m (b)		65y9m		67	in 2031
EE	Estonia	63	61	63	61	63		64		65	in 2026
IE	Ireland	65		66		66		66		66	
EL	Greece	65	60	67	62	67		67		67+	in 2021
ES	Spain	65		65-65y1m (b)		65-65y4m (b)		66		67	in 2027
FR	France	60-65		61y2m		62-65y4m (b)		66y7m		67	in 2023
HR	Croatia	65	60	65	60y9m	60-65	60-61y6m	65	62y9m	67	in 2033
IT	Italy	65y4m	60y4m	66y3m	63y9m	66y7m	65y7m-66y7m	67		67+	in 2022
CY	Cyprus	65		65		65		65		65+	in 2023
LV	Latvia	62		62		63		64		65	in 2025
LT	Lithuania	62y6m	60	62y10m	60y8m	63y4m	61y8m	64y2m	63y4m	65	in 2026
LU	Luxembourg	65		65		65		65		65	
HU	Hungary	62		62		63y5m		65		65	
MT	Malta	61	60	62		62		63		65	in 2027
NL	Netherlands	65		65y1m		65y9m		66y4m		67+	in 2025
AT	Austria	65	60	65	60	65	60	65	60	65	in 2033
PL	Poland	65	60	65y1m	60y1m	66y1m	61y1m	65	60	65	60
PT	Portugal	65		65		65-66y3m (b)		66y6m		+LE	
RO	Romania	63y4m	58y4m	64y8m	59y8m	65	60y6m	65	61y6-9m	65	63
SI	Slovenia	63	61	65	63y6m	60-65 (b)		60-65 (b)		60-65 (b)	
SK	Slovakia	62	55y3m-59y3m (a)	62	57y6m-61y6m (a)	62y76d	59-62y76d (a)	62y8-10m		64	in 2030
FI	Finland	63-68 (c)		63-68 (c)		63-68 (c)		63y9m-68y (c)		65+	in 2027
SE	Sweden	61-67 (c)		61-67 (c)		61-67 (c)		62-68 (c)		63-69 (c)	in 2023
UK	United Kingdom	65	60	65	61y4m	65	63y6m	66		68	in 2046

Sources

2009-13: [Review of recent social policy reforms - 2015 Report of the EU Social Protection Committee](#) (2 Feb 2016)

2017: [Pension adequacy report 2018 – Current and future income adequacy in old age in the EU](#) (EC, Apr 2018)

2021 onwards: [Finnish Centre for Pensions \(Eläketurvakeskus\) - Retirement ages](#)

Notes

- +LE subject to adjustment in light of life expectancy gains. (a) depending on the number of children raised.
- (b) depending on contribution period and/or sector of employment.
- (c) flexible retirement age linked to benefit level.

The EEC adopted a directive in 1978 requiring “the progressive implementation of the principle of equal treatment for men and women

²⁰ [DWP, Proposed new timetable for State Pension age increases](#), Gov.uk 19 July 2017

in matters of social security.” It allowed for differences in the statutory pension age, although this must be periodically reviewed and the Commission informed of the reasons for maintaining existing provisions.

Since then, different approaches have been taken to equalisation across the EU. The European Commission noted in 2018 that “almost all Member States are in the process of further increasing the pensionable age”, although they are doing this “from different starting points, with different ambitions and different gender emphasis.”²¹

Alongside the drive for equalisation, state pension ages are rising for both women and men in response to actual and projected increases in pensioner longevity. According to OECD analysis of UN demographic projections, the average additional life expectancy at age 65 in OECD countries is set to increase by 3.9 years for women (from 21.3 years to 25.2 years) and 4.5 years for men (from 18.1 years to 22.5 years) between 2015-2020 and 2060-2065.²²

²¹ [Pension adequacy report 2018 – Current and future income adequacy in old age in the EU \(Volume 1\)](#), European Commission Directorate-General for Employment, Social Affairs and Inclusion, 26 April 2018, p126; See also OECD, *Pensions at a Glance 2017*.

²² OECD [Pensions at a Glance 2019](#), charts 6.3 and 6.4, pages 172-3

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