SUMMARY OF COVERAGE STATISTICS FOR VARIOUS COUNTRIES

Prepared by Watson Wyatt Worldwide

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Contents

Executive Summary

Pension coverage is % of workers covered by pension plans. The report provides a brief description of the pension coverage related information on the following topics:

- Pension coverage statistics
- Initiatives taken by countries to improve coverage
- Tier 1 benefits
- Personal savings

We have covered the following countries:

- United States
- United Kingdom
- The Netherlands
- Denmark
- Australia
- Canada

Four pathways have been used to encourage pension coverage in member countries of the Organization for Economic Cooperation and Development (OECD) (Rein and Turner 2001). They are voluntary pension provision with tax incentives, contracting out of Social Security, labour contracting through collective bargaining, and mandatory pensions. Within each pathway, further distinctions can be drawn as to degrees of compulsion. While pension coverage rate is really high for Netherlands with 91%, Australia with 85% and United Kingdom with 70%, the, other countries lie in the 40% to 50% range.

Increasing pension coverage has been a concern for most countries worldwide, however, only a few have had success in this regard. Australia is a case in point. Prior to 1980s, pension coverage of employed workforce was limited to 40% but post 1980s, the then Labour government instituted a 3% occupational superannuation contribution to be paid by employers on behalf of their employees. This helped increase coverage to about 80% of the workforce but a further increase could be attained only when employer contributions were increased and made compulsory.

On the other hand, UK made a provision for people to contract out of the secondary state pension scheme into personal pension schemes. But this method hasn’t been able to improve pension coverage in the country. Similarly, United States has instituted numerous pension policy innovations over the past twenty years, including notably 401(k) plans and tax incentives on voluntary pensions but pension coverage has remained stagnant at roughly 50 percent of workers.

Most of OECD countries use the three tier pension system. First tier benefits usually have safety nets to prevent old age poverty also known as “first tier, redistributive schemes”. The benefits of basic pension schemes are either flat rate or with the same amount paid to each retiree, or depend only on the number of years of work (but not on earnings). Entitlement does not vary with the level of other pension income. Basic pensions in Canada make up around 34% percent of the transfer. In Netherlands and United Kingdom, basic pension makes up around one half of the total resource transfer to pensioners. The earning related schemes and occupational plans make up the other half. The resource-tested programmes – social assistance, separate, targeted pension schemes, and minimum pensions – also vary hugely in importance. Australia and Denmark rely mostly on these types of schemes, with over 40% of the transfer going on these benefits.

Moving on to saving rates, over the past decade, a fairly synchronised and steady decline in household saving rates has been witnessed in some OECD countries but not in others. A casual inspection of data reveals that this trend has been most pronounced for four English-speaking industrialised countries – that is, Australia, Canada, the United Kingdom and the United States.

The government of these countries are aware of the issues facing them – demographic change, low coverage rates in some countries, higher percentage of old aged dependency on tier 1 benefit. The government realises these short comings and are framing policies and working towards increasing the pension coverage rate.

General Overview

Pension Coverage

Four pathways have been used to encourage pension coverage in member countries of the Organisation for Economic cooperation and Development (OECD) (Rein and Turner 2001).

The chart below shows the approach used by different OECD countries for expanding pension coverage.

They are:

- Voluntary with tax incentives
- Contracting out of social security
- Labour contracting through collective bargaining
- Mandatory

Table 1. The Approach Used by Different OECD Countries for Expanding Pension Coverage

Country	Type of System	Coverage Rate (%)
Australia	Mandatory	85
Canada	Voluntary with incentives	41
Japan	Contracting out	39
Netherlands	Labor contracting	91
Switzerland	Mandatory	92
United Kingdom	Contracting out	70
United States	Voluntary with incentives	46

Sources: Schulz (2000), Stanton and Whiteford (1998), Dailey and Turner (1992)

Table 2. Relationship between the two systems for deconstructing retirement income policy

	Add On	Carve Out
Voluntary	Voluntary with tax incentives	Contracting out
Mandatory	Labor contracting; Mandatory	Mandatory

Source: the authors.

Voluntary with Tax Incentives:

- The pathway the United States uses to encourage pension coverage can be characterized as voluntary with tax incentives.
- Employers are not required to provide pensions, and employees are not required to be covered. If an employer chooses to provide pension coverage, regulations may require that the employer offer coverage to most or all workers. Often, part-time workers are excluded from the requirement.
- With this approach, pension coverage is encouraged through favourable tax treatment of employee pensions. The extent of the incentive is higher the higher are marginal tax rates, and also depends on the degree to which pensions are tax exempt.

Contracting Out:

- A second pathway to encouraging pension coverage, which is designed to go beyond the approach of voluntary with incentives, is contracting out.

- This approach involves a choice between participating in Social Security or in an alternative system.
- With contracting out, the employer and the worker may reduce their contribution to Social Security if the worker participates in a private sector plan that provides benefits meeting at least minimum requirements.
- For those workers choosing to contract out, the reduced contribution to Social Security reduces the benefit they ultimately receive from Social Security.
- This approach, called "a voluntary carve out" in the United States, is used by Japan and the United Kingdom.

<u>Labour Contracting</u>:

- A third pathway is widespread labour contracting. In some countries where all or most of the labour force is covered by a collective bargaining agreement, a high percentage of the labour force is covered through pension plans resulting from collective bargaining.
- The ability to use this approach also depends on the effective legal backing provided for collective bargaining.
- Both defined benefit and defined contribution plans are used in this approach. Countries using this approach include France, the Netherlands, Denmark, Norway, and Sweden.

<u>Mandating:</u>

- A fourth pathway is mandating. Mandating private pensions is an alternative to raising the Social Security payroll tax and benefit level.
- Social Security pensions are mandatory because it is generally felt that many people will not save adequately for retirement on their own or with the incentives provided for a voluntary system. Thus, it is felt that some degree of compulsion is needed in the retirement income system.
- This approach can either require employers to provide a pension plan for their workers or require workers to have an individual account plan with a third-party provider.
- Switzerland mandates employer provision (Gillion, Turner, Bailey and Latulippe 2000). In Australia, there is a de facto mandate in that employers who do not establish pension plans are required to pay a tax that is more costly than the required pension contributions.

<u>**Personal Saving**</u>

(Charts given in the next page)

- Over the past decade, a fairly synchronised and steady decline in household saving rates has been witnessed in some OECD countries but not in others. A casual inspection reveals that this trend has been most pronounced for four English-speaking industrialised countries – that is, Australia, Canada, the United Kingdom and the United States (Figure 1).
- In this set of countries, the fall in saving since the early 1980s has occurred in conjunction with a trend rise in wealth and improved access to capital gains in both financial and residential housing markets (Figure 2).
- It appears that gains in wealth have increasingly been used as a substitute for traditional personal saving, that is, saving as measured in the national accounts.

Figure 1: Evolution of Household Saving Rates in Selected OECD Counti

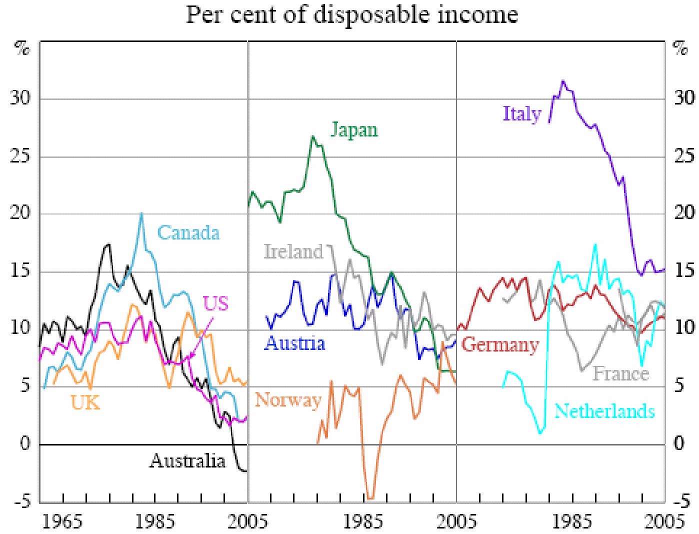
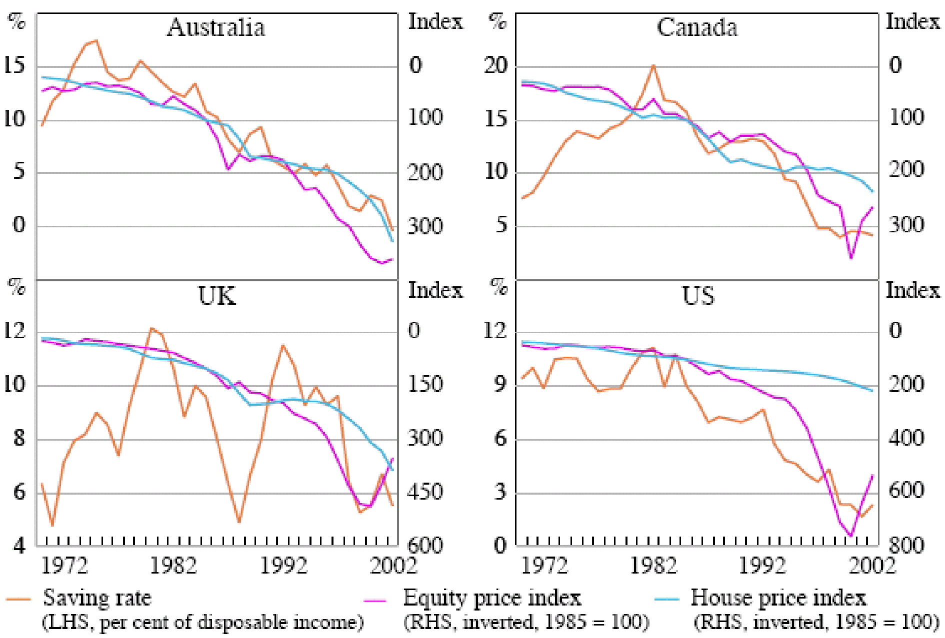
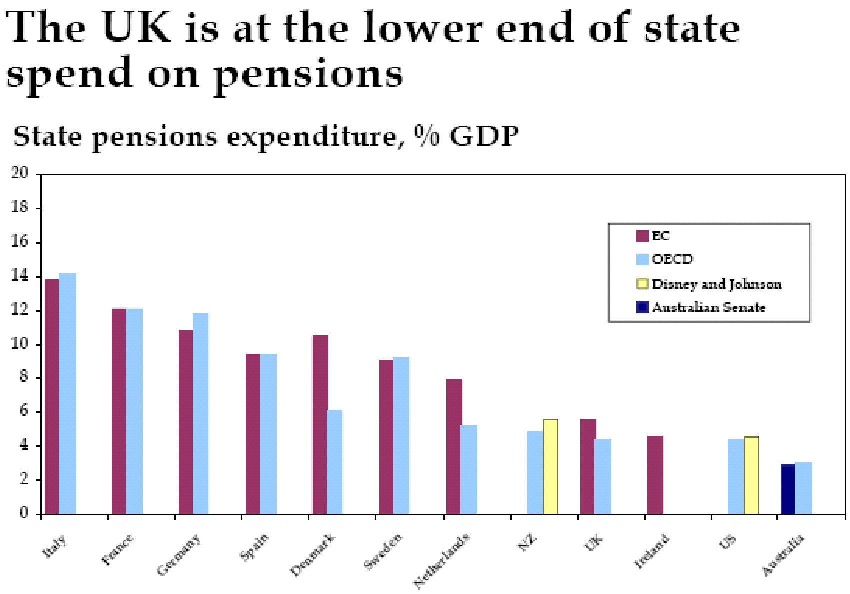


Figure 2: Household Saving Rates and Real Asset Price Dynamics



<u>State pensions expenditure, % GDP</u>



- The cost of UK state pension benefits, including other means-tested supplements given to pensioners is around 5% of GDP, which puts it at the lower end of the range.
- Italy stands in th top end with, the cost of State pension benefits given to pensioners is around 14% of GDP. The cost of France, Germany and Spain state pension benefits lies between 9-12% , which puts it in the higher end of the range.

1 Pension Coverage – Australia

1.1 Pension Coverage Statistics

a) Australian Age Pensions[1]

- The table below shows the number and characteristics of age pensioners and spending on age pensions since 1965.
- At 30 June 1998, there were a total of 1.73 million age and wife pensioners.
- The Age Pension is received by around two-thirds of the population of pensionable age.
- Veterans' pensions are received by a further 390,000 people, giving a total coverage of 81 per cent of the older population.

Table 1: Number and characteristics of age and service pensioners, Australia, 1965 to 1998

	1965	1970	1975	1980	1985	1990	1995	1996	1997	1998
Age Pensions	628.1	779.0	1,092.2	1,321.9	1,331.8	1,340.5	1,578.7	1,602.8	1,680.2	1,682.6
Wives	3.5	6.6	21.9	30.8	22.9	23.8	39.6	41.1	36.6	36.2
Total Social Security (DSS) pensioners and beneficiaries	849.2	1,054.7	1,707.7	2,338.2	2,848.5	2,808.8	3,741.0	3,912.4	3,994.9	n.a.
DVA pensions	65.2	74.4	121.6	264.7	412.3	440.5	346.8	335.0	389.5	n.a.
Total of DSS and DVA cash benefits	914.4	1,129.1	1,829.3	2,602.9	3,260.8	3,249.3	4,087.8	4,247.4	4,384.4	n.a.
Characteristics of age pensioners (including wife/carers)										
% of total population	5.56	6.21	8.06	9.21	8.51	7.92	9.01	9.03	9.32	9.24
Coverage (%) of pensionable population	53.2	60.3	72.6	76.8	66.5	58.2	64.9	64.7	66.4	67.3
Single rate	61.1	61.1	57.4	55.2	56.0	57.2	49.5	46.9	46.9	46.5
With Rent Assistance (%)	10.8	13.4	14.9	14.1	16.2	18.2	n.a.	15.6	15.4	9.6
Reduced rate (%)	13.4	20.6	10.4	33.5	28.7	29.5	32.7	34.6	32.6	32.0
Nil income assessed (%)	n.a.	n.a.	19.4	9.5	14.9	11.2	10.1	15.1	8.9	9.6
Spending on Age Pensions 1996–97 $ million	2,918	3,765	7,205	9,339	10,005	9,844	12,552	12,551	13,118	13,142
% of GDP	1.65	1.65	2.60	2.91	2.70	2.22	2.50	2.41	2.45	–

Sources: Department of Social Security, *Ten Yearly Statistical Summary*, annual reports, and *DSS Customers: A Statistical Overview*, various years

- Over the past 33 years, the number of age pensioners has nearly trebled, rising from 5.5 per cent to 9.2 per cent of the total population. Coverage of the pensionable population has fluctuated markedly, reflecting changes in policy towards income and assets testing.
- Correspondingly, the proportion that is completely dependent on the Age Pension (nil income assessed) has fallen from more than a quarter in the early 1970s to around one in ten in the 1990s.

Source: Trends in income and living standards of older people

[1] Age pensions were introduced to protect the living standards of older people and replaced earlier pension schemes run by some states. It has remained universal but it is targeted and means tested so as to provide a safety net in retirement only for those who cannot provide for themselves. Source: Age Pensioners Projections, Page no: 4

b) Superannuation

- In 1991 the government announced a significant expansion of compulsory superannuation, along with the introduction of a new compliance mechanism known as the Superannuation Guarantee Charge (SGC).
- The SGC legislation established a timetable for employer contributions to be increased to 9 per cent in most cases by the 2000/01 financial year, with tax penalties for non-compliance.
- Further measures were announced in 1995 to encourage additional contributions of 3 per cent by employees, to be supplemented by a matching contribution from the federal government, thus bringing the total level of contributions eventually to 15 per cent.
- As shown in Table below, superannuation coverage has widened substantially as a result of these measures.

Table 2: Superannuation Coverage

	Public sector		Private sector		All employers	
	% covered	% of labour costs	% covered	% of labour costs	% covered	% of labour costs
1985/86			32.3	3.3		
1986/87	63.4		31.8	3.4	41.6	
1987/88	68.0		34.1	3.5	44.0	
1988/89	90.4		40.7	3.2	54.8	
1989/90	91.7		56.9	3.8	66.9	
1990/91	93.9	6.0	67.5	3.9	75.3	4.6
1991/92	94.6	6.4	70.7	4.2	77.6	4.9
1993/94	97.0	6.9	89.4	4.9	91.5	5.6

Source: ABS Cat. No. 6348.0.

Source: Australia Retirement Income System

1.2 Initiatives to improve coverage

- Prior to 1980s Australia had a two tier system. The major part was the federal government's safety net age pension which was introduced in 1909 and funded by government tax revenue on a pay as you go basis. The other part of the system consisted of a mix of public sector and private sector arrangements. State and federal governments offered retirement benefits to public servants.
- Coverage of the employed workforce was accordingly limited (under 40%), with blue collar employees and those with broken work patterns, such as women and transient or seasonal workers, effectively excluded from long term superannuation arrangements.
- *Post 1980s, the then Labour government negotiated with the trade union movement a 3% occupational superannuation contribution to be paid by employers on behalf of their employees. The contributions were supported by a federal regulatory regime under the Occupational Superannuation Standards Act 1987 and Regulations. By the late 1980s, occupational superannuation covered a substantial proportion of the workforce.*
- Employers were obliged to pay minimum levels of contributions into superannuation funds on behalf of their employees. Though coverage increased to about 80% of the workforce, not all workers were covered by awards, not all employers complied with their award superannuation obligations.
- *A universal compulsory contribution system commenced in 1992, named as the Superannuation Guarantee system, provided for employer contributions to progressively rise to 9% of ordinary wage or salary by the 2002-2003 year. Coverage of the working population increased to over 90%.*

- In 1993, the Superannuation Industry (Supervision) legislation introduced the concept of the trustee of the superannuation fund as the sole responsible entity in relation to the operation and management of the fund, and providing for employee and employer representation on the board of the trustee company.
- From 1 July 2005, employees have the right to choose the fund into which their employer pays the compulsory 9% contribution.
- The compulsory contribution system has driven immense growth in superannuation savings: from $229 billion at 30 June 1995 to $710 billion at 31 March 2005. Coverage is now estimated at over 98% of permanent employees and 72 % of casual employees.

Source: Developments in the reforms of Australian Pension System

1.3 Tier 1 Pension Benefits

- The graph below shows recipients of social security income support as a proportion of the pension age population from 1966 to 1998.
- Coverage of age pensions increased significantly in the 1970 to 1975 period, due to the phased abolition of the means test.
- Reductions in coverage were significant in the period 1980 to 1990, associated mainly with the re-imposition of the income test on pensioners aged 70 years and over and the reintroduction of the assets test.

Source: Income Support Systems in Australia

2. PENSION COVERAGE – US

2.1 Pension Coverage Stats

a) Change in pension coverage, 1979-1998 by employment category and firm size.

- In this table, calculations are based on Current Population Survey (CPS) data from May 1979, May 1998, March 1996 and March 1999
- Pension coverage rates fell disproportionately for workers aged 21 to 44. Where as 48% of the male workers aged 21-29 received a pension benefit in 1979, fewer than 31% did by 1998;
- Among workers overall, virtually the entire decline in pension coverage after 1979 occurred among Blue Collar and Service occupations across all industries.

Table P1

Changes in Pension Coverage, 1979-1998
By Employment Category and Firm Size

	1979	1988	1995	1998	1979-1998 Change
All Employees	47.7%	42.6%	39.6%	42.5%	-5.2%
Age 21-29	42.7%	33.6%	27.3%	29.9%	-12.8%
Age 30-44	56.1%	50.6%	48.2%	50.8%	-5.3%
Age 45-54	61.5%	55.8%	54.5%	58.5%	-3.0%
Age 55-64	58.4%	53.4%	51.9%	52.9%	-5.5%
White Collar	49.2%	46.1%	46.0%	49.6%	+0.4%
Blue Collar & Service	46.4%	38.5%	31.9%	33.6%	-12.8%
Manufacturing					
White Collar	71.3%	65.8%	67.0%	70.7%	-0.6%
Blue Collar & Service	67.7%	58.8%	51.5%	56.6%	-11.1%
Non Manufacturing					
White Collar	43.3%	41.7%	42.6%	46.4%	+3.1%
Blue Collar & Service	32.1%	27.1%	24.1%	25.3%	-6.8%
Firm Size Under 100	20.3%	18.1%	20.9%	24.2%	+3.9%
Firm Size 100-499	53.4%	43.0%	46.6%	48.7%	-4.7%
Firm Size 500-999	59.9%	48.4%	51.9%	55.0%	-4.9%
Firm Size 1000+	75.9%	66.1%	56.2%	57.3%	-18.6%
Firm Size Under 500	27.3%	22.1%	27.9%	31.1%	+3.8%
Firm Size 500+	74.1%	64.6%	55.6%	57.0%	-17.1%
Manufacturing					
Firm Size <500	41.8%	32.5%	40.0%	47.0%	+5.2%
Firm Size 500+	85.2%	78.3%	73.5%	74.8%	-10.4%
Non Manufacturing					
Firm Size <500	24.2%	20.2%	25.4%	28.2%	+4.0%
Firm Size 500+	64.9%	56.6%	49.6%	51.6%	-13.3%

[3] The March surveys, which generally cover employment from the longest job held during the previous year, may understate coverage levels compared to current year estimates. A comparison of the 1995 and 1996 data from the March 1996 current and previous year survey indicates, however, that the resulting difference is small.

Source: The impact of labour market trends on health and pension benefit coverage and inequality - James Medoff and Michael Calabrese

b) Pension coverage among full time, full year male and female workers, 2004.

Pension coverage among women who work full time, full year is virtually identical to that of men

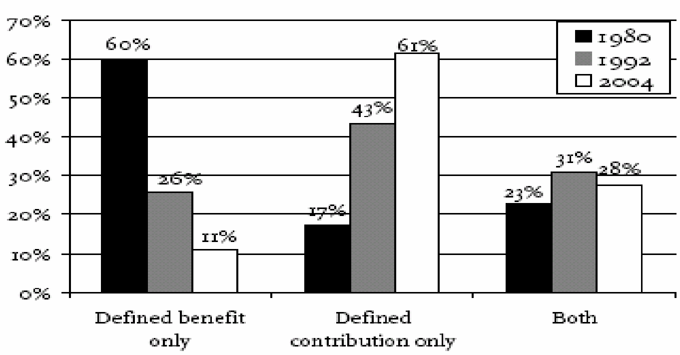
Figure 3. Pension Coverage among Full-Time, Full-Year Male and Female Workers, 2004

Source: Authors' calculations from U.S. Bureau of the Census (2005).

c) Workers with pension coverage, by pension type, 1980, 1992 and 2004.

Overall pension coverage declined slightly and along with the enormous expansion of defined contribution plans, especially 401(k)-type plans, has produced a sharp drop in the percent of workforce covered under traditional defined benefit plans.

Figure 9. Workers with Pension Coverage, by Pension Type, 1980, 1992, and 2004



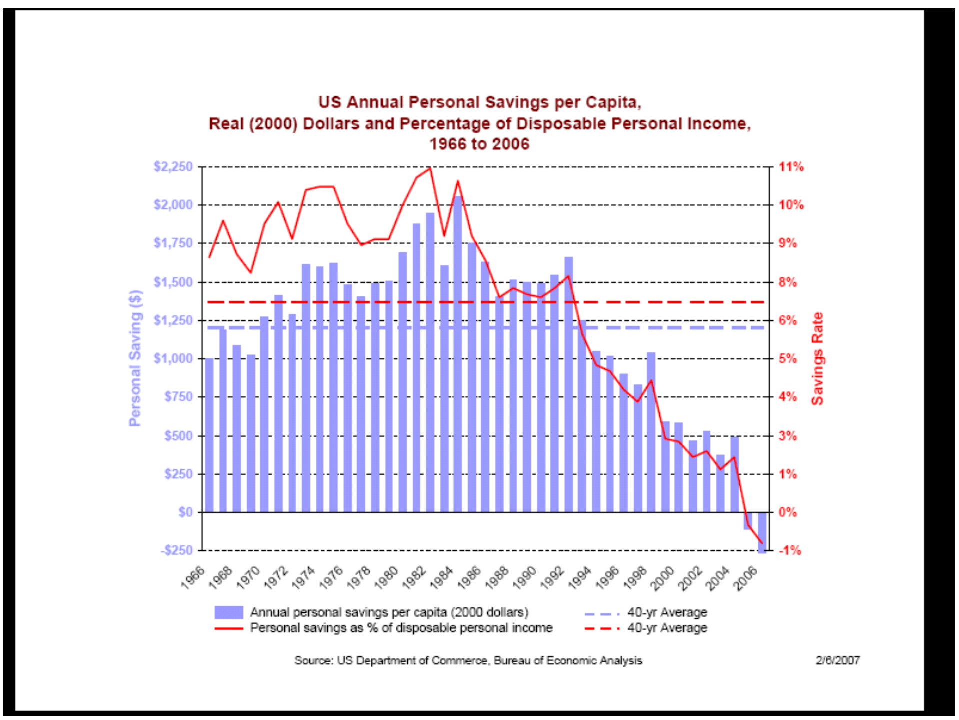
Note: Although these calculations adjust for double-counting, some overestimation of coverage may still remain.
Sources: U.S. Department of Labor (2004) and authors' calculations from U.S. Department of Labor (2006).

2.2 Initiatives to improve coverage

- United States has instituted numerous pension policy innovations over the past twenty years, including notably 401(k) plans – but the pension coverage has remained stagnant at roughly 50 percent of workers.
- The pathway the United States uses to encourage pension coverage can be categorized as voluntary with tax incentives.
- Among countries that use US approach to increase the pension coverage, which is voluntary with tax incentives, it is rare for coverage to exceed 50 percent of the private work force.
- High coverage rates are achieved by systems that provide contracting out, systems that are based on widespread coverage of the workforce by labour unions and mandatory systems.
- Coverage by labour union us not possible in U.S because of the low percentage of jobs covered by collective bargaining. However, the government has taken initiatives on other counts but hasn't yielded much.
- A voluntary carve-out from Social Security has been proposed by President Bush's commission on strengthening social security.
- Mandating was proposed by a commission created during the Cater administration. While individual retirement accounts are available to all workers, mandatory individual accounts are currently being considered in the form of an add-on carve-out from social security.

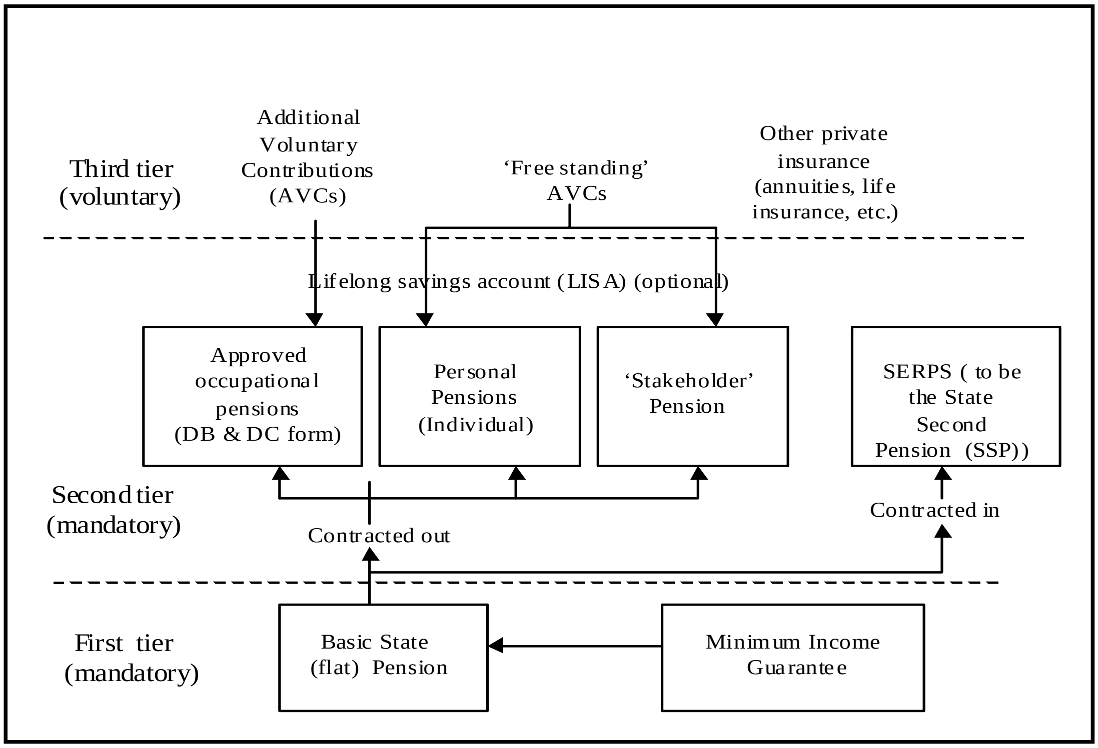
Source: Pension coverage lessons for the United States from Other Countries

2.3 Personal Saving Rate



3 Pension Coverage - UK

3.1 General Overview



Features of the State Pension Scheme –

- To gain entitlement to a basic State Pension, a person must normally have at least one qualifying year made up of **paid** contributions.
- And then, after the first contribution condition has been met, to get a minimum basic State Pension a person normally needs to have paid, been treated as paid or been credited with full National Insurance contributions to qualify for at least 25 per cent of a full basic State Pension.
- The second contribution condition effectively requires a person to have active engagement with the labour market for a quarter of their working life – 10 years for a woman compared with 11 years for a man. The minimum basic State Pension payable on this basis in 2005/06 is £20.51 a week.
- In today's State Pension system people who earn less than the LEL, currently £87 per week, do not pay National Insurance contributions and do not accrue State Pension entitlement through earnings. People who earn at or above the LEL in at least one job do accrue entitlement.
- Those who earn less than the LEL in two or more jobs are not liable to pay National Insurance contributions and do not accrue State Pension, even if, when combined, their earnings are above the LEL. In other words, earnings from separate jobs cannot be aggregated for pension purposes.

3.2 Private Pension Coverage Statistics

The state/private interface is particularly important in the UK

- The UK has an extensive private pensions market, comprising occupational schemes and individual personal pensions. For current pensioners, 57% of pension income comes from state pension-related benefits and 43% from private pensions and other savings.
- Private pensions lift the average pensioner income so that the total average pensioner income in the UK looks more favourable compared with that in other countries than the comparison of average state pensioner income. But it is not enough to put the UK's pensioner income into the highest league.
- The total average pensioner income in the UK is at best middle of the pack.

Private pension coverage, by plan type

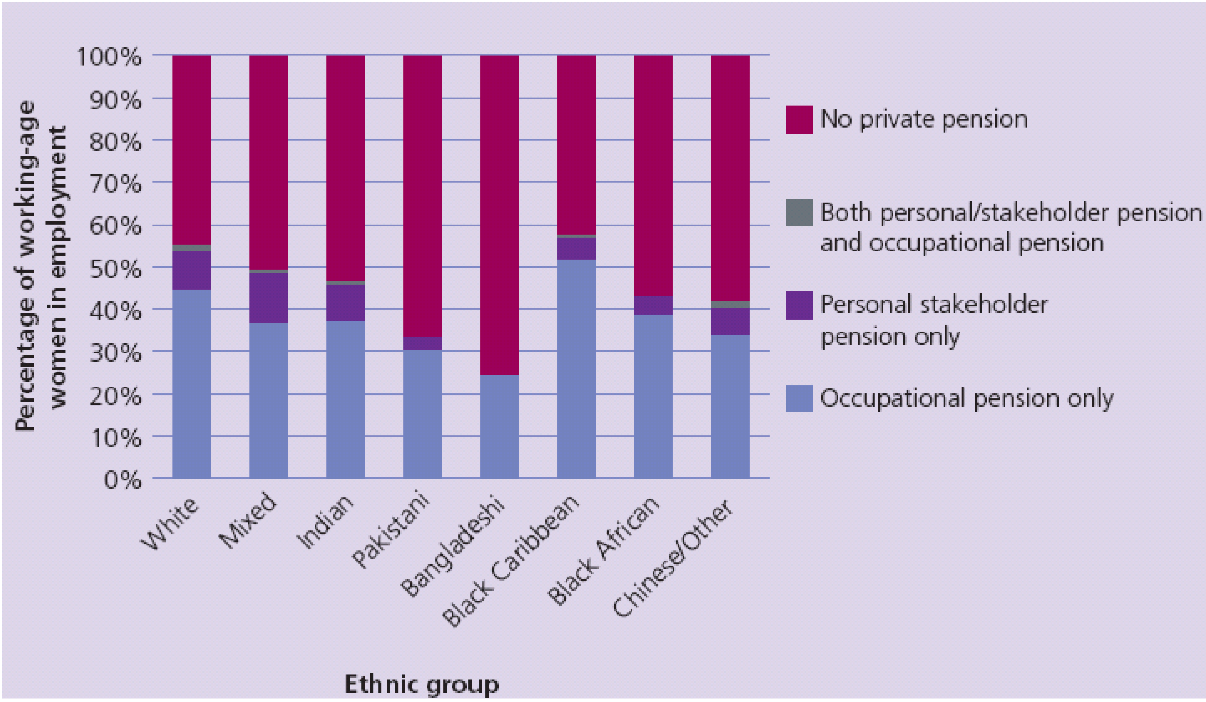
	1999	2000	2001	2002	99-02
SHP	0.0	0.0	0.9	1.4	+1.4
PP	11.2	10.1	9.7	8.7	–2.5
OP	46.8	46.6	46.9	46.8	0.0
Multiple	1.9	1.9	2.0	2.2	+0.3
Total	59.8	58.6	59.4	58.9	–0.8

Private pension coverage, by earnings group

	1999	2000	2001	2002	99-02
Zero	3.4	3.6	3.5	3.5	+0.1
Low	34.0	34.2	35.6	35.2	+1.2
Medium	68.2	66.9	67.3	65.5	–2.7
High	86.2	85.4	84.6	83.8	–2.4

- Private pension income in the UK is heavily weighted to the top end of the income distribution – it makes the difference between rich and poor pensioners. Although the number of pensioners with private income is still increasing, there is still likely to be a sizeable gap between rich and poor pensioners.

Private pension coverage for working –age women in employment by ethnic group



3.3 Initiatives taken

- The government has made a provision for people to contract out of the secondary state pension scheme into personal pension schemes. This method, however, not been able to improve pension coverage in the country.
- A recent change in pension change in the United Kingdom allows pension coverage for any person, with no minimum age limit. Because high-income parents may have offspring who become low-income adults, the approach used in the United Kingdom would extend coverage to more low-income workers in the future, who would have coverage based on a pension their parents has established for them as children.

3.4 Improvements Suggested

- Approximately 5 million people do not qualify for a contribution to the BSP each year. This is primarily because of the rigid and complex eligibility structure of the State Pension Scheme. A more relaxed eligibility may increase coverage of the BSP.
- Someone who has more than one part-time job, individually not paying enough for contributions to the BSP to be payable, would not qualify for the BSP scheme. Scrapping this law and considering total earnings to be the eligibility criteria for participation will also help improve coverage.
- Make the State Second Pension flat-rate and/or increase accruals to it for lower earners. This would keep the overall system structure, but increase redistribution to the poorest during their period of working age. It would also give greater incentive for low wage earners to contribute to the Second Pension Schemes, thereby increasing coverage.

4. PENSION COVERAGE – CANADA

4.1 Pension Coverage Stats

a) Pension Coverage of Men and Women, 1986 -2003

- Table 1 below shows trends in pension coverage of Canadian workers over 1986 – 2003 periods.
- RPP fell significantly for young men and prime aged women.
- RPP dropped slightly for young women.
- Employees covered by pension plan has dropped significantly for young and prime aged men where as it has increased for young women and prime aged women.

**RPP – Tax filers with annual wages and salaries of at least $1000 (1994 dollars)*

Table 1 Pension coverage of men and women, 1986 to 2003

	Employees covered by a pension plan*				Taxfilers with contributions to an RPP**			
	Men aged		Women aged		Men aged		Women aged	
	25 to 34	35 to 54	25 to 34	35 to 54	25 to 34	35 to 54	25 to 34	35 to 54
	percentage							
Year								
1986	49.8	66.8	43.4	46.9	27.7	41.5	28.4	33.4
1987	48.6	67.1	41.9	46.5	27.1	40.7	28.1	33.8
1988	49.2	67.0	42.9	49.8	27.0	40.6	28.6	35.5
1989	50.2	68.0	43.7	50.1	26.2	39.9	28.2	36.1
1990	48.5	67.6	43.8	50.2	26.0	39.7	28.6	36.8
1991	…	…	…	…	25.5	39.2	28.7	37.6
1992	…	…	…	…	25.3	39.1	29.3	38.6
1993	46.6	68.2	46.3	52.3	24.8	39.1	29.0	39.0
1994	47.0	70.2	46.0	55.0	23.6	38.2	28.2	39.0
1995	42.6	67.6	40.9	52.9	22.7	37.5	27.4	38.9
1996	43.1	63.8	41.2	52.2	21.7	36.7	26.3	38.6
1997	42.0	63.0	41.0	51.9	21.1	35.9	25.2	37.6
1998	40.5	60.8	39.7	51.7	20.7	34.8	25.0	36.8
1999	43.2	64.1	42.0	53.1	19.7	33.0	24.7	35.8
2000	48.2	63.6	45.6	55.7	19.5	32.1	25.2	35.7
2001	48.2	62.8	44.8	55.6	19.5	31.5	25.4	35.6
2002	45.0	58.2	44.0	50.8	19.9	31.3	26.2	35.9
2003	44.8	60.1	45.3	54.6	21.1	32.8	28.3	38.1

… not applicable
* Main job held by paid workers in May.
** Taxfilers with annual wages and salaries of at least $1,000 (1994 dollars).
Sources: Statistics Canada, Labour Market Activity Survey (LMAS), Survey of Labour and Income Dynamics (SLID) and Longitudinal Administrative Databank (LAD).

Source: Pension Coverage and Retirement Savings of Canadian Families, 1986 -2003

4.2 Three Tier Pension

The Canadian pension system has 3 tiers:

- The first tier of Canada's Pension system includes the federal old age security program fro low-income and middle income seniors, Guaranteed Income Supplement for low-income seniors and Spouse's Allowance for low-income widowed and married persons age 60-64. The income tax system provides a non-refundable tax credit for low-income and middle-income elderly taxpayers and a non-refundable pension income credit for all taxpayers with private pension income.
- The second tier is made up by the CANADA PENSION PLAN (CPP) and parallel QUÉBEC PENSION PLAN (QPP), which are earnings-based social insurance programs covering virtually the entire labour force.
- The third tier is constituted by employer-sponsored private pension plans financed by employers and employees and individual retirement savings plans (Registered Retirement Savings Plans or RRSPs) paid for by individuals.

Table 1 below shows the summary of pension system in Canada and other OECD countries.

- Table 1 shows the target level of benefits from first-tier schemes as a percentage of each country's average earning.
- For minimum and basic pensions, the entitlement is shown for people withy a full career.
- The Social-assistance is shown only when there is no specific scheme for poor pensioners.
- The final row shows the total, first tier benefit to which a full-career worker would be entitled (because people can sometimes receive more than one first tier benefit or may only be eligible for a single programme)
- The average minimum retirement benefit across OECD countries is a little under 29% of national average earnings. The minimum pension in the Canada is at 30% of average earning.

Source: New indicators of 30 OECD countries' pension systems – Edward Whitehouse.

Table 1. *Summary of pension system parameters*

	Australia	Austria	Belgium	Canada	Czech R	Denmark	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Italy	Japan
First tier															
(% average earnings)															
Social assistance	–	–	23	–	10	–	–	–	24	–	–	–	–	22	–
Targeted	23	37	–	16	–	17	21	31	–	12	–	25[8]	28	–	–
Basic	–	–	–	14	8	17	–	–	–	–	–	–	31	–	19
Minimum	–	–	38[1]	–	12	–	–	29	–	40	22	–	–	–	–
Overall entitlement *(full-career worker)*	23	37	38	30	12	34	21	31	24	40	22	25	31	22	19
Second tier															
Earnings-related															
Type	none	DB	DB	DB	DB	DB/DC	DB	DB/ points	points	DB	DB	DB	none	n. acs	DB
Accrual rate *(% indiv. earnings)*	–	1.78	1.50	0.63	0.45 [w][2]	–	1.5 [a][4]	1.75 [w][5,6]	1.00	2.57[6]	1.22	1.40	–	1.75	0.71
Earnings measure	–	40	L	b34	f30	–	L	b25/L	L	f5	L	L	–	L	L
Valorization	–	w[15]	p	w	w	–	80w/20p	p/p	w[16]	[17]	w	p	–	GDP	w
Indexation	–	d	p	p	33w/67p	–	80w/20p	p/p	w[16]	d	50w/50p	p	–	p[20]	p
Defined contribution															
Contribution rate *(% indiv. earnings)*	9	–	–	–	–	1	–	–	–		8	–	–	–	–
Ceilings															
(% average earnings)															
Public	–	164	129	100	none	–	–	128	164	325[7]	220	–	–	357	175
Private/occupational	234	–	–	–	–	–	none	385	–	–	220	none	–	–	–
Pension age															
Normal	65	65	65	65	63	65	65	60	65	65	62	67	66	65	65
(women)		60			59–63[3]										
Early	55		60	60	60		60		63	57			65	60	60
(women)					56–60[3]										

Source: New indicators of 30 OECD countries' pension systems – Edward Whitehouse.

Table 5 below shows the role of different components of the pension systems in OECD countries.

- The table shows the contribution that each system component makes to the potential resource transfer to pensioners. The shares of the public basic pension schemes reflect the degree to which countries rely on this redistributive tier.
- Basic pensions in Canada make up around 34% percent of the transfer. In Ireland and New Zealand, there is only a basic pension: thus the share is 100%. In Korea, the Netherlands and the United Kingdom the basic pension makes up around one half of the total resource transfer to pensioners. The earning related schemes in Korea and the United Kingdom and occupational plans in the Netherlands make up the other half.
- The resource-tested programmes – social assistance, separate, targeted pension schemes, and minimum pensions – also vary hugely in importance. Australia and Denmark rely mostly on these types of schemes, with over 40% of the transfer going on these benefits.

Source: New indicators of 30 OECD countries' pension systems – Edward Whitehouse.

Table 5. *Role of different components of pension systems*

(per cent of total)

Tier: function	First tier: universal coverage, redistributive				Second tier: mandatory, insurance		
Provision	Public				Public	Private	
Type	Social assistance	Targeted	Basic	Minimum		DB	DC
Australia		45.0					55.0
Austria		1.0			99.0		
Belgium				11.1[1]	88.9		
Canada		15.8	34.3		49.8		
Czech Republic		18.3			81.7		
Denmark		41.4	41.1		9.2		8.3
Finland		1.6			98.4		
France		6.5			93.6[2]		
Germany	1.9				98.1		
Greece							
Hungary					66.4		33.6
Iceland		37.8[3]				62.2	
Ireland			100.0				
Italy					100.0		
Japan			39.5		60.5		
Korea			51.6		48.4		
Luxembourg			13.6	0.2	86.2		
Mexico		1.1					98.9[4]
Netherlands			50.7			49.3	
New Zealand			100.0				
Norway		1.3	41.4		57.4		
Poland		0.6			47.3		52.1
Portugal				4.2	95.8		
Slovak Republic				0.7	99.3		
Spain				0.5	99.5		
Sweden		8.6			49.1	23.3	18.9[5]
Switzerland		0.4			66.6	33.1	
Turkey		*10.2			89.8		
United Kingdom			54.4	35.1[1]	10.5		
United States					100.0		

Notes:
1 Minimum credits.
2 State pension (63.5%) and ARRCO occupational scheme (30.1%).
3 Basic pension (18.1%) and supplement (19.7%).
4 Flat-rate contribution (8.9%) and variable contribution (90.0%).
5 State-mandated contribution (10.6%) and DC part of occupational pension (8.3%).

Source: New indicators of 30 OECD countries' pension systems – Edward Whitehouse.

4.3 Personal Saving Rate

- Same as UK with the same trend

4.4 Summary on the Canadian pension

- Pension coverage for couples has fallen since the mid 1980's. Closer look reveals that pension coverage for married men had fallen while that for married women has increased.
- However pension coverage fell substantially among lone fathers and slightly among individuals who are neither married nor lone parents.

Source: Pension Coverage and Retirement Savings of Canadian Families, 1986 -2003

5. PENSION COVERAGE – DENMARK

5.1 Pension Coverage Stats

a) Private Sector Occupational Pension Coverage

TABLE 2

Private Sector Occupational Pension Coverage (%)

	Denmark	Ireland	Netherlands	Spain	UK
ECHP 1994	31.5	35.5	13.3	8.3	n.a.
ECHP 1995	77.1	37.6	81.5	96.7	47
EC	80	40	85	15	48
Other Sources	46	38	83	9	39

Sources: Our Elaborations on ECHP 1994-1995 data, Commission of the European Communities (1997), Government Department (1994), Hughes and Whelan (1996), Tamburi (1997).

Summary

- In the Danish pension system, public old age pension is financed on a pay-as-you-go basis, while the supplementary pension schemes (labour market pension, etc) are contribution defined and savings based schemes. Savings-based schemes help reinforce the system in the face of demographic outlooks.
- In 1997, public old age pension accounted for some 51% and in 1998 for some 50% of pensioners' gross incomes and constitute their main income.
- The greater prevalence of labour market pension schemes and the ongoing build-up of these schemes (larger contributions, etc.) mean that most future pensioners will receive supplementary labour market pension in addition to public old-age pension. Before the labour market pension schemes became more prevalent in the late 1980s, only some 30 per cent of employees were covered by a labour market pension scheme. Now, some 82 per cent are covered

Source: National strategy report on the Danish Pension System, 2002

5.2 Main Pillars in the Danish System

The Danish system is base on three pillars:

- The first (public and mandatory) pillar consists of different tiers. The first one is represented by basic pensions covering all residents from the age of 65 (until 2004 it was 67). State Retirement Pensions (FP) are flat-rate benefits indexed to private-sector wages and are taxable.
- The second (private and quasi-mandatory) pillar is then represented by collective agreement-based supplementary schemes (Labour Market Pensions). These are fully-funded schemes financed through contributions (2/3 paid by the employers and 1/3 by the employees).
- The third pillar is private, individual and/or occupational, and voluntary. These programmes have increased in the last years mainly due to favourable tax incentives.

Source: Denmark – The Pension System by David Natali

Public old-age pension:

- Public old-age pension is a pillar 1 pension scheme. It is a basic, statutory retirement pension granted to all citizens from the time they turn 67. Calculated before tax, the pension amounts to DKK 105,400 (EUR 14,190)1 for a single pensioner in 2002. For a married or cohabiting pensioner, the pension amounts to DKK 77,200 (EUR 10,390).

- In 1999, public old-age pension for a single person with no other income corresponded to 47 per cent2 of an average worker's wage (after tax). The size of the pension is independent of the recipient's previous attachment to the labour market, but depends on the pensioner's present income and marital or non-marital relations.

- The pension is adjusted annually on the basis of wage trends in the private sector. Eligibility for public old-age pension is based on time of residence in Denmark. Public old-age pension is financed on a PAYG basis.

Source: National strategy report on the Danish Pension System, 2002

6. PENSION COVERAGE - NETHERLANDS

6.1 Relevant information on pension coverage[2]

- The important point to note is that even though Netherlands does not mandate private pension coverage, the strength of the labour unions in the country plays an important role in keep pension coverage high. The point is elaborated in the abstract below.

  Abstract from "Recent Evolution of Pension funds in the Netherlands –

  "<u>The importance of unions as agents of social solidarity</u>
  ***The institutional set-up of labour relations gives unions a much stronger position than its true power permits** (see Crouch 1993: 289). As an example, the funding rate of collective bargaining is very high (over 80 percent). This has both to do with the high organization rate of employers and with the mandatory extension of collective contract (see European Commission 2004: 30-31).*
  *Also the institutional set-up of the pension system gives unions a stronger position than is merited by its membership ratio. **The mandatory extension of collective contracts is historically intertwined with the mandatory extension of industry pension funds, which predominantly explain the high pension coverage rate in the Netherlands.** The representation of unions in pension boards gives them a strong institutional position."*

- Pension coverage in Netherlands has increased in spite of rapid growth of part-time and temporary employment.

  Abstract from "Is there a Dutch way to pension reform?" –

  "In spite of the rapid growth of part-time and temporary employment, pension coverage has held up remarkably well. The percentage of employees without coverage even declined from 11 percent in 1986 to 4.5 percent in 1996 (SER 2001:138-139). For more recent years no comparable data for the percentage of employees without supplementary pension coverage are available. However, the percentage of (mostly small) employers without a supplementary pension scheme declined from 22 percent in 1996 to 16 percent in 2001 (SER 2002b: 5). It is therefore likely that the percentage of employees without pension coverage continued to decline after 1996.
  ***The rise in pension coverage can be explained by two factors. First, from 1994 it is legally forbidden to exclude part-time workers from supplementary pension schemes. Second, as has been noted before, social partners committed themselves in the pension covenant to raise pension coverage in general.** This subsequently led to an agreement to increase pension coverage in the temporary work sector. Moreover, it has resulted in a lowering of age requirements for participation in supplementary pension schemes"*

[2] Information has been provided in the absence of any statistics

6.2 Tier 1 Pension Benefits

- The Dutch National Old Age Pensions Act (AOW) provides for basic state pensions for people age 65 and over. In addition, the AOW scheme includes a supplementary allowance for partners of beneficiaries who are under 65 and have either no income or an income below a certain level.

AOW rates as from 1 January 2007 (Euros)		
Type of pension	**Gross monthly rate**	**Holiday allowance**
Single person, no child under 18	970	54.36
Single parent with child under 18	1200.25	69.89
Married person*, partner also 65 or over	667.55	38.83
person*, partner under 65, full supplementary allowance	1321.28	77.66
person, partner under 65, no supplementary allowance	667.55	38.83
* Also applies to an unmarried person sharing a household with one other person.		

Source - http://www.svb.nl/internet/uk/social_insurance_schemes/aow/index.jsp

- Tier I Pension Benefits have been increasing as a percentage of GDP. Moreover, the proportion is expected to increase to 9% by 2040 as per the 2005 National Strategy Report on Adequate and Sustainable Pension.

Source - 2005 National Strategy on Adequate and Sustainable Pensions

AOW Pension as a percentage of GDP						
2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
4.75	4.72	4.8	4.94	4.92	4.95	4.93

6.3 Income sources for the elderly

- This table reports the income sources for the elderly. The income share of the basic public pension is about 50 per cent for both single elderly and for (married) couples. Occupational pension schemes provide about 30 per cent, but somewhat less for the older cohorts. Annuities provide less than 10 per cent. If asset income and income from owner-occupied housing is included, however, income from the third pillar amounts to about half the average size (20%) of each of the other two pillars.

Source: "Is there a Dutch way to Pension Reform?"

Table 2: Composition of retirement income. Percentage.

	public pensions (a)	**occupational pensions**	**asset income (b)**	**other income (c)**
Singles				
65 years and over	49	28	19	4
of which:				
65-69 years	49	28	19	4
70-74 years	48	30	18	4
75-79 years	51	27	18	4
80 years and over	50	26	20	4
couples (d)				
65 years and over	48	29	19	4
of which:				
65-69 years	44	32	16	8
70-74 years	48	29	20	3
75-79 years	49	28	19	4
80 years and over	51	24	20	5

Bovenberg and Meijdam (2001), data from CPB

6.4 Initiatives to improve coverage

- Level of Participation - With a view to broadening the basis of support regarding the approaching costs of ageing, the government is aiming for the highest possible degree of labour market participation. Within the framework of the Lisbon strategy, the government is aiming to achieve the participation objectives agreed at a European level.

  While the two table compare labour market participation against the Lisbon objectives and the national objectives.

  Source : "2005 National Strategy on Adequate and Sustainable Pension"

Table 6 Progress with the Lisbon objectives (net levels of participation)

	EU objective 2010	1999	2000	2001	2002	2003
Participation level, total	70%	71.7	72.9	74.1	74.4	73.5
Women	60%	62.3	63.5	65.2	66.2	65.8
Older people (55-64)	50%	36.4	38.2	39.6	42.3	44.8

Source: European Commission

Table 7 Progress regarding national objectives (net levels of participation)

	Objective	2000	2001	2002	2003	2004
Participation rate: women	65% (2010)	52	53.5	54.3	54.7	54.4
Older people (55-64)	40% (2007)	33.6	34.9	37.9	38.6	39.8
Minorities	54% (2005)	47.6	50.1	49.9	48.6	47.5

Source: CBS