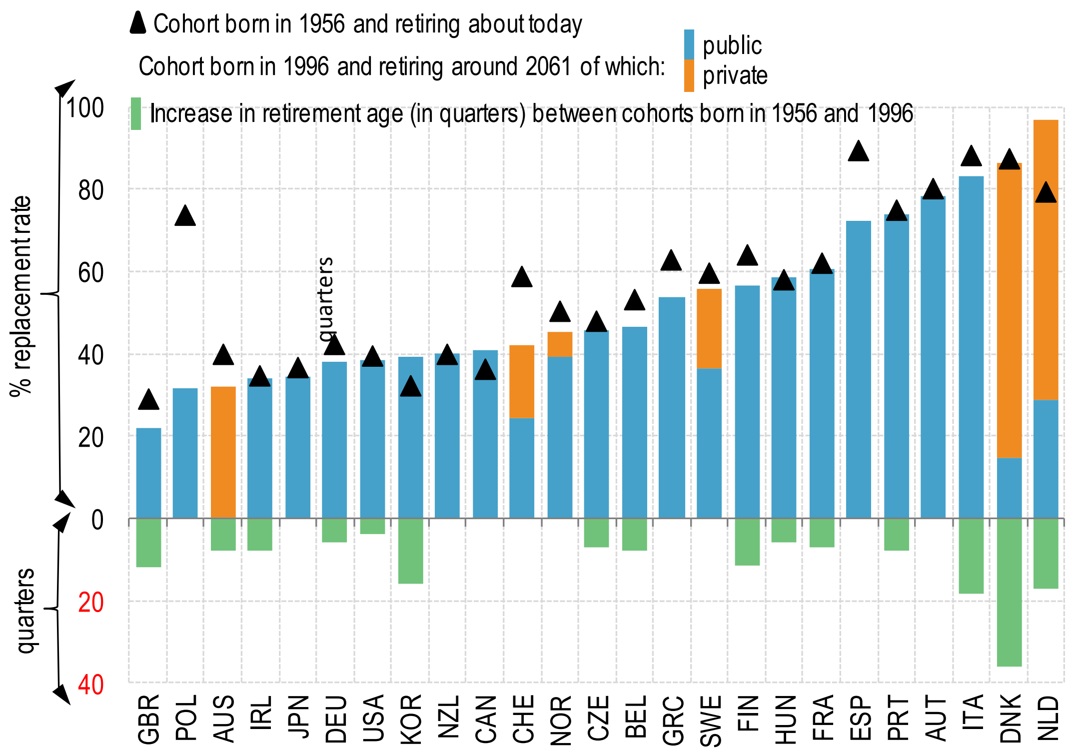
Pensions: Working longer for lower benefits

Population ageing creates major challenges for PAYG retirement systems in the OECD countries. Reforms are needed to their sustainability. These reforms have taken two directions: lower benefits or the extension of the retirement age. Based on current regulations, in most countries, benefits will be less generous for future cohorts. In Poland, replacement rates - the percentage of an individual's latest employment income that is replaced by a pension benefit upon retirement - could be more than halved compared to those retiring now.

Another possibility is the lengthening of the normal pension age. Countries that have linked the pension age to life expectancy will be able to maintain benefits at a relatively high level. If duly implemented, normal retirement ages would reach 71 in Italy and the Netherlands and even 74 in Denmark.

All in all, in most countries those entering the labour market now cannot expect to receive the level of benefits as those currently retiring. If they want to enjoy higher living standards beyond retirement, they have to increase savings during the years in activity.

Gross replacement rate from mandatory schemes
(full-career average male earners after labour market entry at age 20)



Source: OECD