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Research Briefing

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Pensions: International comparisons

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Contents

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.

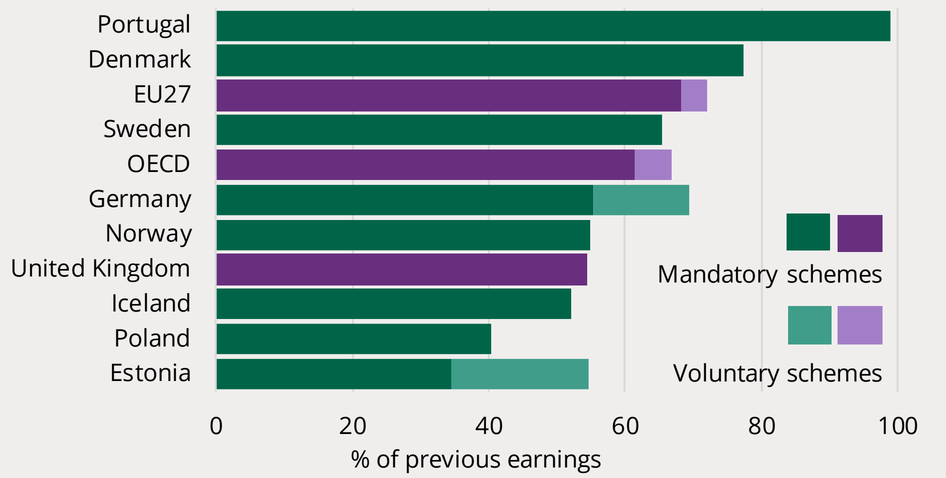
The task of comparing pension provision in the UK with that of other countries is complicated by substantial differences in the structure of pension systems across the developed world.

The UK devotes a smaller percentage of its GDP to state pensions and pensioner benefits than most other advanced economies.

A comparison of state pension alone shows the UK providing a lower level of pension than most other advanced economies relative to average earnings. The **UK** has an overall net replacement rate of **54.4%** from mandatory pensions for an average earner, below the OECD average of 61.4%.

Net pension replacement rates from mandatory public/ private and voluntary schemes in selected OECD countries

Pension income as a percentage of previous earnings, modelled for a retired private-sector employee who earned the average national wage, 2022-based



Source: OECD [Pensions At A Glance 2023](), Table 4.2 and 4.5

However, the relative position of pensioners converges if income from all sources is considered. 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.

OECD estimated that **14.5%** of people aged 66 and over in the UK were living in relative income poverty in 2022. This was the 14th highest rate among 34 OECD countries for which data was available for 2019-2022.

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

[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.

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]

In practice, countries vary greatly in terms of the reliance placed on each pillar or tier.

The latest OECD data for 2020[5], indicates that around 50% of pensioner income (excluding earnings) in the UK was from 'first-pillar' state pensions and benefits, while over a third (39%) came from occupational pensions and 11% came from personal savings.

As shown in the chart overleaf, when compared with other OECD countries, 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.

In 15 OECD countries out of 36, state pensions and benefits provide over nine-tenths of pensioner income (excluding earnings).

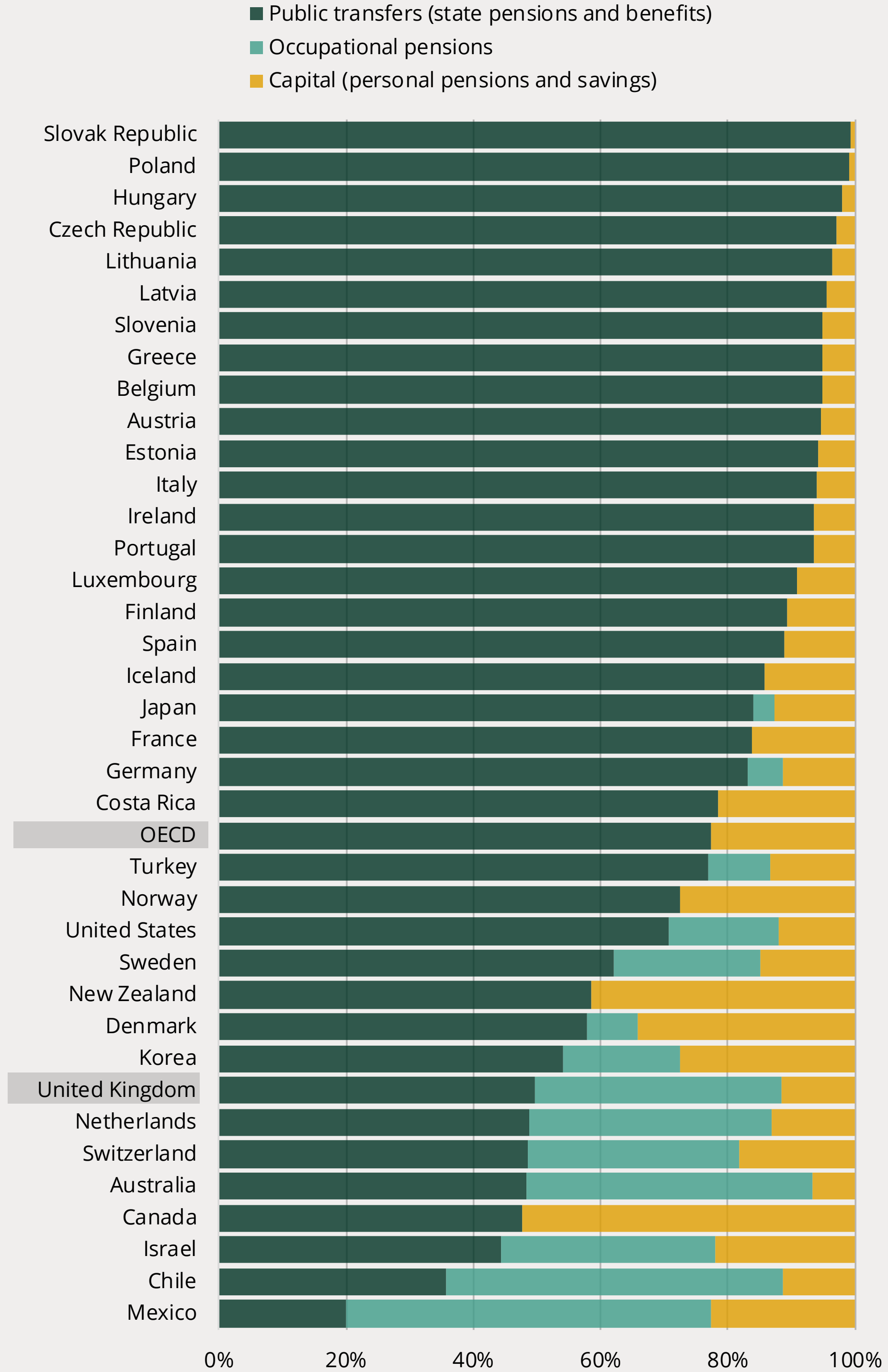
[3] World Bank (1994), Averting the Old Age Crisis, page 15

[4] OECD (2023) Pensions At A Glance 2023, Chapter 4

[5] OECD (2023) Pensions At A Glance 2023, Figure 7.1

Income sources of older people in OECD countries

2020 or latest available (excluding income from earnings)



Source: OECD Pensions At A Glance 2023, Figure 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 **£169.50** per week for an individual in 2024/25) 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 **£221.20** per person per week (2024/25 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: **£218.15** per week for a single person and **£332.95** per week for a couple (2024/25 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;[6]

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.

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.[7]

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:

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

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

Selected state pension systems in Northern Europe – snapshot as of April 2024

£ sterling values calculated at Bank of England spot rate as of 7 March 2022

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 **€ 277.30** per week in 2024,[8] equivalent to around **£230** per week.

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).[9] 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 2022, the full AOW amounts are:
€ 1,569.75 per month (**£237** per week) for a single person, and
€ 1067.47 per month (**£162** per week) for each member of a pensioner couple.

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

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).[10]

The basic amount in 2022 is DKK 6,928 per month – around **£167** per week. Once the pension supplement is added on, this amount rises (subject to means-testing) to:

- DKK 14,439 per month (**£360** per week) for a single pensioner
- DKK 10,657 per month (**£265** per week) for each member of a pensioner couple

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[8] Irish Department of Social Protection Rates of Payment SW19
[9] Sociale Vezekeringsbank, AOW pension rates depending on living situation (in English, accessed April 2021)
[10] Folkepension on borger.dk website, and Betingelser for folkepension on the Danish Agency for Labour Market and Recruitment website (both in Danish), accessed April 2022

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 2024 exchange rates) and as a percentage of each country's average wage.

The Irish contributory State Pension for an individual on their own contributions is relatively similar to the UK rate.

The Dutch AOW pension payable to a member of a pensioner couple is slightly lower than the UK new State Pension, but the singer pensioner rate is higher.

The Danish Folkespension is considerably higher than the UK new State Pension once means-tested supplements are included.

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

	April 2024 in national currency	In GBP April 2024[a]	As percentage of: UK New State Pension (April 2024)	As percentage of: National average wage (2023)
	per week	per week		
United Kingdom: New State Pension				
Individual	£221.20	£221.20	100%	25%
Ireland: State Pension (contributory)				
Individual	€ 277.30	£237.84	108%	24%
Netherlands: AOW pension				
Single pensioner	€ 361.28	£309.87	140%	36%
Each member of pensioner couple	€ 245.68	£210.72	95%	25%
Denmark: Folkepension				
Basic amount Individual	1,595 kr.	£183.41	83%	17%
Basic amount plus full means-tested pension supplement				
Single pensioner	3,323 kr.	£382.11	173%	36%
Each member of pensioner couple	2,453 kr.	£282.07	128%	27%

Notes:
a) Currency conversion rates as at 7 April 2024 (not adjusted for purchasing power parity).
Sources:
HoC Library calculations based on pension rates sourced from websites of respective ministries / agencies.
Average wages from OECD [Average annual wages (Edition 2023)]

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.[11] 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 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 2019 accounted for over 10% of GDP. In the UK the figure was 4.7%.

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[11] €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

Public social expenditure on old-age pensions in OECD

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

	2010	2015	2019
Greece	11.1	13.7	13.1
Italy	10.0	11.7	12.8
Portugal	9.6	10.8	12.4
France	11.3	12.0	12.0
Austria	9.5	10.3	10.9
Spain	6.1	7.7	10.8
Slovenia	6.1	6.7	9.9
Germany	8.2	7.9	9.8
Finland	8.1	10.1	9.6
Poland	6.9	7.9	9.4
Belgium	7.6	8.4	9.1
Japan	8.2	8.1	8.9
Czechia	6.7	6.9	7.9
Hungary	6.8	7.0	7.6
Turkey	6.0	5.5	7.5
Luxembourg	4.2	4.9	7.2
Slovak Republic	5.5	6.1	7.1
United States	5.8	6.3	6.6
Latvia	8.7	6.6	6.5
Lithuania	6.5	5.4	6.4
Estonia	6.4	4.9	6.4
Norway	4.7	6.1	5.9
Denmark	7.1	8.0	5.8
Colombia	5.5	5.9	5.7
Sweden	6.5	6.5	5.4
Switzerland	5.5	5.9	5.1
Costa Rica	..	4.5	5.1
United Kingdom	**4.9**	**5.1**	**4.7**
Canada	3.9	4.4	4.7
Israel	2.0	2.1	4.7
Netherlands	4.7	5.2	4.6
Australia	3.6	4.2	4.3
New Zealand	4.4	4.9	4.2
Korea	1.5	2.1	3.2
Ireland	4.3	3.2	3.2
Mexico	1.4	2.0	3.0
Iceland	1.5	2.0	2.9
Chile	2.6	2.3	2.8
OECD - Total	**6.0**	**6.5**	**7.0**

Source: OECD Pensions at a Glance 2023, expenditure on old-age pensions and survivor benefits

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.[12]

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 showing the hypothetical level of pension which people would receive if they work for a full career and if today's pension rules remain unchanged. This affords 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.[13]

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;
3. **Voluntary private**: occupational schemes for which enrolment is not deemed mandatory, plus personal savings.

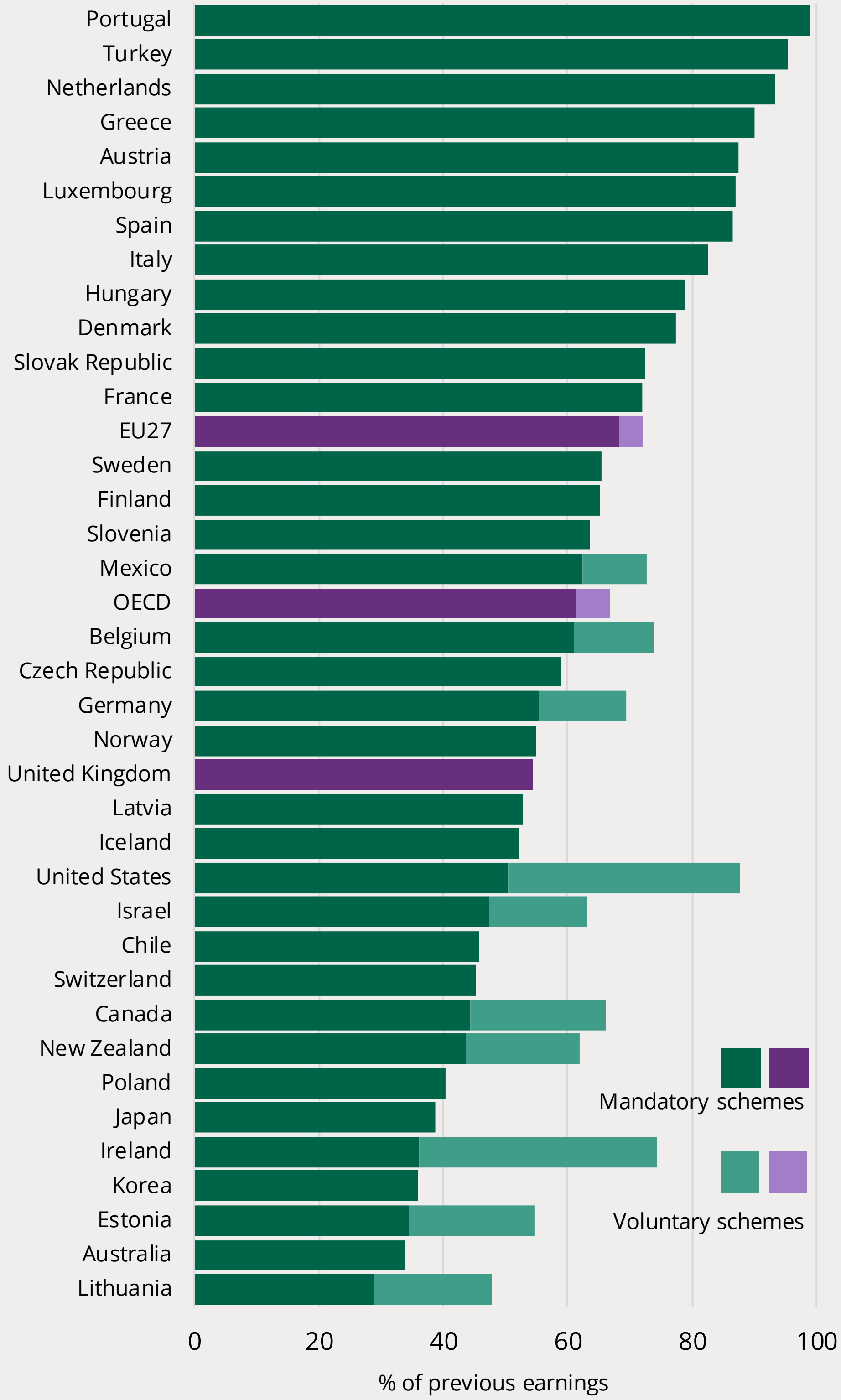
The analysis is based on an individual entering the labour market at age 22 in 2022 and working as a private-sector employee until his/her normal pension age, earning either the national average wage, half this amount or twice this amount. The individual's hypothetical pension is modelled using the national rules in place in 2022 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 **54.4%** from mandatory pensions for an average earner, below the OECD average of 61.4% and the EU27 average of 68.1%. This is illustrated in the chart overleaf. (See also the data download available on the landing page for this briefing).

[12] See, for example, Library Briefing Paper CBP 7202 Pensions 2015 (May 2015), sections 2.3 and 3.1
[13] OECD Pensions At A Glance 2023

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

Pension income as a percentage of previous earnings, modelled for a retired private-sector employee who earned the average national wage, 2022-based



Source: OECD Pensions At A Glance 2021, Table 4.2 and 4.5

4 Other comparisons

4.1 Benchmarking of pensions systems

Mercer Pension Index 2024

Selected countries

	Score	Grade
Netherlands	84.8	A
Iceland	83.4	A
Denmark	81.6	A
Israel	80.2	A
Singapore	78.7	B+
Australia	76.7	B+
Finland	75.9	B+
Norway	75.2	B+
Sweden	74.3	B
UK	71.6	B
Ireland	68.1	B
France	68.0	B
Germany	67.3	B
Spain	63.3	C+
Colombia	63.0	C+
Saudi Arabia	60.5	C+
USA	60.4	C+
Poland	56.8	C
Italy	55.4	C
Japan	54.9	C
Austria	53.4	C
South Africa	49.6	D
Turkey	48.3	D
Argentina	45.5	D
India	44.0	D

Source:

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 2024 report scores and ranks the pension systems of over 40 countries, based on more than 50 indicators under the sub-indices of adequacy, sustainability and integrity. An overall score of each country's system is produced along with an associated grade.

Mercer CFA Institute Pensions Grades

A	A first-class robust retirement income system that delivers good benefits, is sustainable and has high integrity.
B+ 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.
C+ C	A system that has some good features, but also has major risks and/or shortcomings that should be addressed.
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.

The UK system achieved a 'B' grade in the 2024 edition.

Denmark and the Netherlands have consistently been at or near the top of the Melbourne Mercer index/ Both countries scored an 'A' grade in 2021, meaning a "first class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity."

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 overleaf, the proportion of people aged 66 and over living in relative income poverty varies widely. In the **UK** it was **14.5%** in 2022, the 14th highest out of the 34 OECD countries for which data is available for 2019-2019. The highest rate was in Estonia (43.4%), followed by Korea (39.7%). Rates were lowest in Denmark (4.1%) and Norway (4.3%).

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, after housing costs was 9.6% in 2021/22 and 8.9% in 2022/23.

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 – 17.6% of pensioners were living below this benchmark in 2021/22 and 16.2% in 2022/23.

Pensioners with relative low income, UK

Percentage of pensioners living in households below relative low income thresholds

	2021/22	2022/23
Below 50% of median net household income:		
before housing costs (BHC)	10.5%	10.0%
after housing costs (AHC)	9.6%	8.9%
Below 60% of median net household income:		
before housing costs (BHC)	17.9%	18.5%
after housing costs (AHC)	17.6%	16.2%

Source: DWP Households Below Average Income dataset, accessed via Stat-Xplore

Income poverty rates in OECD countries

Percentage with incomes below 50% of median household disposable income after taxes and transfers (latest available year in range 2019-2022)

	Poverty rate		
Country	Aged 65 and over	Whole population	Rank of pensioner poverty rate
Estonia	41.3%	16.5%	1
Korea	39.7%	14.9%	2
Latvia	32.2%	16.0%	3
Lithuania	27.8%	13.6%	4
United States	23.1%	18.1%	5
Australia	22.6%	12.6%	6
Japan	20.0%	15.4%	7
Israel	19.9%	17.8%	8
Switzerland	18.7%	9.9%	9
Mexico	18.3%	15.0%	10
Ireland	18.2%	9.7%	11
Chile	16.2%	16.3%	12
Canada	14.8%	10.5%	13
United Kingdom	**14.5%**	**11.7%**	**14**
Spain	13.3%	14.4%	15
Slovenia	12.8%	7.7%	16
Italy	11.7%	12.8%	17
Poland	11.5%	8.8%	18
Austria	11.2%	9.8%	19
Germany	11.0%	11.6%	20
Portugal	10.3%	9.9%	21
Greece	10.1%	11.7%	22
Belgium	9.8%	7.8%	23
Sweden	9.4%	8.4%	24
Turkey	9.4%	14.0%	25
Czechia	8.5%	6.4%	26
Netherlands	8.1%	7.4%	27
Luxembourg	6.8%	9.6%	28
Hungary	6.7%	6.7%	29
France	5.8%	8.5%	30
Finland	5.5%	6.7%	31
Slovak Republic	5.2%	7.9%	32
Denmark	4.3%	6.5%	33
Norway	4.1%	8.0%	34
Iceland	n/a	n/a	n/a

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 and New Zealand are excluded from the table due to lack of timeliness of data (comparable data not available post 2015).

Source: OECD Income Distribution Database, accessed March 2022