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Issue Brief

Lessons for Private Sector Retirement Security from
Australia, Canada, and the Netherlands

By John A. Turner, PhD and Nari Rhee, PhD

August 2013



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Why This Study?

- Assess the income security provided by each country's retirement system through social security, employer-sponsored plans, and individual savings.
- Highlight potential lessons for U.S. policymakers and stakeholders.

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Primary Findings

1. Risks related to saving and investing for lifelong retirement income are pooled among workers or offset by employers/government to a greater extent than in the U.S. private sector.
2. Higher combined income replacement for low- and middle-wage workers through robust social security and/or universal or quasi-universal workplace plans.



Australia



Australia:

Social Security (Age Pension)

- General revenue financed
- Flat benefits requiring at least 10 years in residence in Australia
 - Full benefit: ~A\$20K single, \$A30K couple
- Means-tested against both income and assets
 - Highest income group receives no benefit



Australia:

Superannuation Guarantee

- **Universal defined contribution (DC) plan**
 - Mandatory employer contributions
 - Voluntary employer and employee contributions
 - Private fund management
 - Employees choose fund, but default funds are widely used
- **High level of mandatory employer funding**
 - maxed at 9% in 2012; new law raises to 12% in 2019
 - Contributions taxed 15%, refunded back into accounts for lower-income workers



Canada



Canada:

2-tier Social Security

1. Canada Pension Plan (CPP)/Quebec Pension Plan (QPP)

- Payroll tax, pay-as-you-go, with trust fund
- Earnings related benefit; Eligibility @ 60
- Target 25% gross replacement

2a. Old Age Security (OAS)

- General revenue/PAYGO
- Flat benefit based on at least 10 years of residence @ age 65 (67 by 2029)
- Benefits phase out completely by ~\$110K income.

2b. Guaranteed Income Supplement (GIS)



Canadian Workplace Retirement System Similar to U.S., But More DB-centered

- Voluntary, limited coverage: $>1/3$ of labor force
 - $\sim 3/4$ of private participants in defined benefit (DB) plans
 - Statistic includes Registered Pension Plans (RPPs)
 - DB or DC, employer sponsored
 - Excludes Group RRSPs – similar to payroll deduction IRAs, considered DC plans
- Steady shift to DC plans



Netherlands:

Social Security (AOW – National Old Age Pension)

- **Payroll tax financing** supplemented by general revenue
- **Flat rate benefit** scaled to years of residence in Netherlands
- **Modest benefit:** 50% of minimum wage each for couples (~€1,400/month), 75% for singles
- **Eligibility** age rising from 65 yrs + 1 mo to 67 in 2023.



Netherlands: Strong DB-Centered Workplace Retirement System

- **Quasi-mandatory coverage**
 - 95% of all employees in a workplace plan; almost all DB
 - 80% in industry-wide plans with labor/mgmt representation
- **Rigorous funding policy**
 - Primarily by employers, but employees also contribute.
 - Required funding ratio of 105% or greater based on market interest rates, ~125% with reserves.
- **Collective risk sharing**
 - Shift from final salary to career avg formula since 2001
 - Corporate sponsors (<20% of EEs) shift to “Collective DC Plans” since 2005 that are DB from employee perspective



Combined Income Replacement from Social Security and Mandatory Workplace Plans

Table 7. Gross Replacement Rates from Social Security and Mandatory Workplace Retirement Plans, if Applicable, by Earning Level

	Australia		Canada	Netherlands	United States	OECD Average
	Men	Women				
Median Earner	52.6%	50.1%	48.5%	89.1%	42.3%	60.6%
Low (50% of mean earnings)	73.3%	70.8%	76.6%	93.0%	51.7%	72.1%
Middle (100% of mean earnings)	47.3%	44.8%	44.4%	88.1%	39.4%	67.8%
High (150% of mean earnings)	38.6%	36.1%	29.6%	86.5%	35.3%	62.0%

Source: Adapted from OECD (2011).

Note: Values are percentage of gross wage-indexed lifetime average earnings. Data for Canada and the United States, which do not have mandatory workplace retirement plans, are for social security only.



Conclusions

- These case studies demonstrate the importance of national policies to ensure that low- and middle-wage workers have basic retirement income security through social security and workplace plans combined.
- Critical to automate retirement savings and pool or offset at least some of the risks related to workplace-based retirement savings.
- Whether DC or DB, robust employer funding plays an important role in determining benefit adequacy of workplace retirement plans.



More information?
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