# United Kingdom

## Highlights from OECD *Pensions at a Glance*

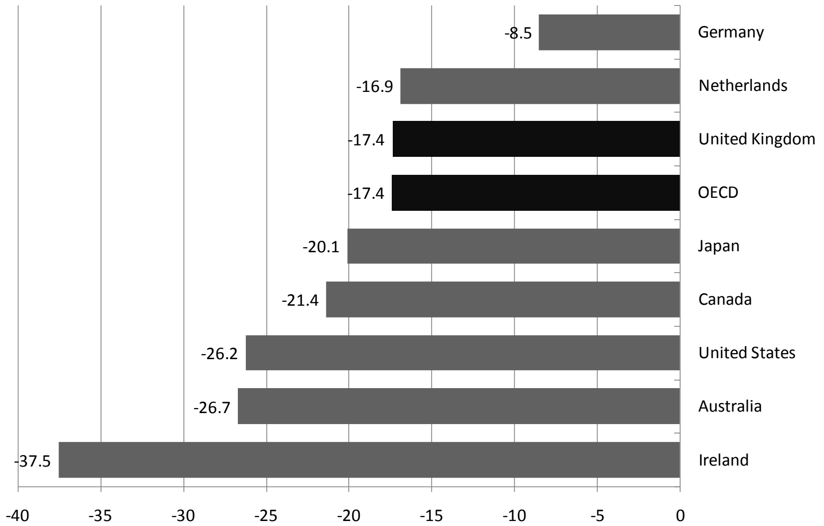
- The United Kingdom's private pension funds have been heavily hit by the financial crisis, with real losses of 17.4% in 2008.
- The proportion of retirement income package from voluntary private pensions in the UK is the highest among OECD countries.
- Public pensions in the United Kingdom are projected to provide the lowest pensions relative to individual earnings of OECD countries

### Pensions and the crisis

The financial crisis has hit private pension funds hard: they lost US$5.4 trillion in value in 2008 in OECD countries. The impact on the United Kingdom is particularly significant.

- Investment losses in the United Kingdom were mainly the result of the large share of equities in pension-fund portfolios: around 60% before the crisis hit, compared with an average of 36% in the 20 OECD countries where data are available.
- In the United Kingdom, private pensions and other investments provide a large share of retirement incomes, i.e. 53%, that is 33 percentage points more than the OECD average. Comparable figures are found in the United States (at 44.0) and Ireland (at 42.9). However, in the United Kingdom the pension funds' have performed better than in these two countries. Investment losses have certainly hit workers who are close to retirement, but many retirees in the United Kingdom are also heavily affected.

**1 Pension funds' real investment returns in 2008**

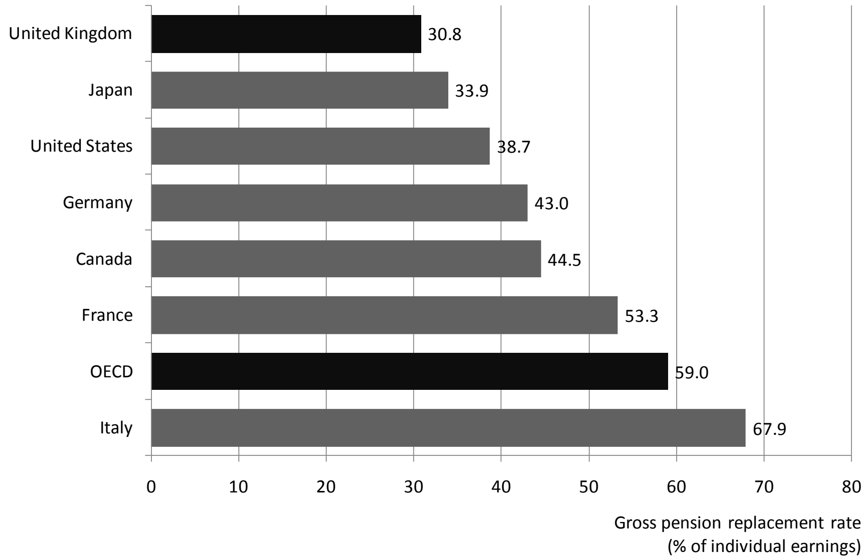



Note: the OECD figure shown is the unweighted average. The weighted average loss is larger at 23%, due to the importance of private pensions in the United States.
Source: OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries*, Figure 1.3

## Low pension replacement rates

The pension replacement rate – pensions relative to earnings when working – for new labour-market entrants from the UK public pension schemes is low compared with mandatory retirement provision in other OECD countries. For example, low earners (with half of economy-wide average earnings) can expect a pension of 51% of their earnings: only in Germany and Japan is the replacement rate lower. The OECD average gross replacement for low earners is 72%.
The UK also has the lowest gross replacement rate for average earners, just over half the OECD average.

**2 Pension replacement rates for average earners**




Note: assumes a full career from age 20 to national normal pension age

Source: OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries*

**3 Key indicators**

| | | United Kingdom | OECD |
|---|---|---|---|
| Pension replacement rate | Average earner (%) | 30.8 | 59.0 |
| | Low earner (%) | 51.0 | 71.9 |
| Public pension spending | % of GDP | 5.7 | 7.2 |
| Life expectancy | at birth | 79.1 | 78.9 |
| | at age 65 | 83.3 | 83.4 |
| Population over age 65 | % of working age population | 26.8 | 23.8 |
| Average earnings | GBP | 31 500 | 19 300 |

Note: replacement rate is pension entitlement from all mandatory sources of retirement income relative to individual earnings. Calculations for a full-career worker entering the labour market in 2006. Low earner is assumed to earn 50% of the average.

Source: OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries*

**Notes to editors**


***Pensions at a Glance 2009:***
***Retirement Income Systems in OECD Countries***

Published 11.00am Paris time (9.00am GMT) on 23 June 2009

The report includes 17 indicators of retirement-income systems for the 30 OECD member countries plus four special chapters on (i) pensions and the financial and economic crisis; (ii) incomes and poverty of older people; (iii) recent pension reforms; and (iv) voluntary retirement savings.

279pp. ISBN 978-92-64-06071-5

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