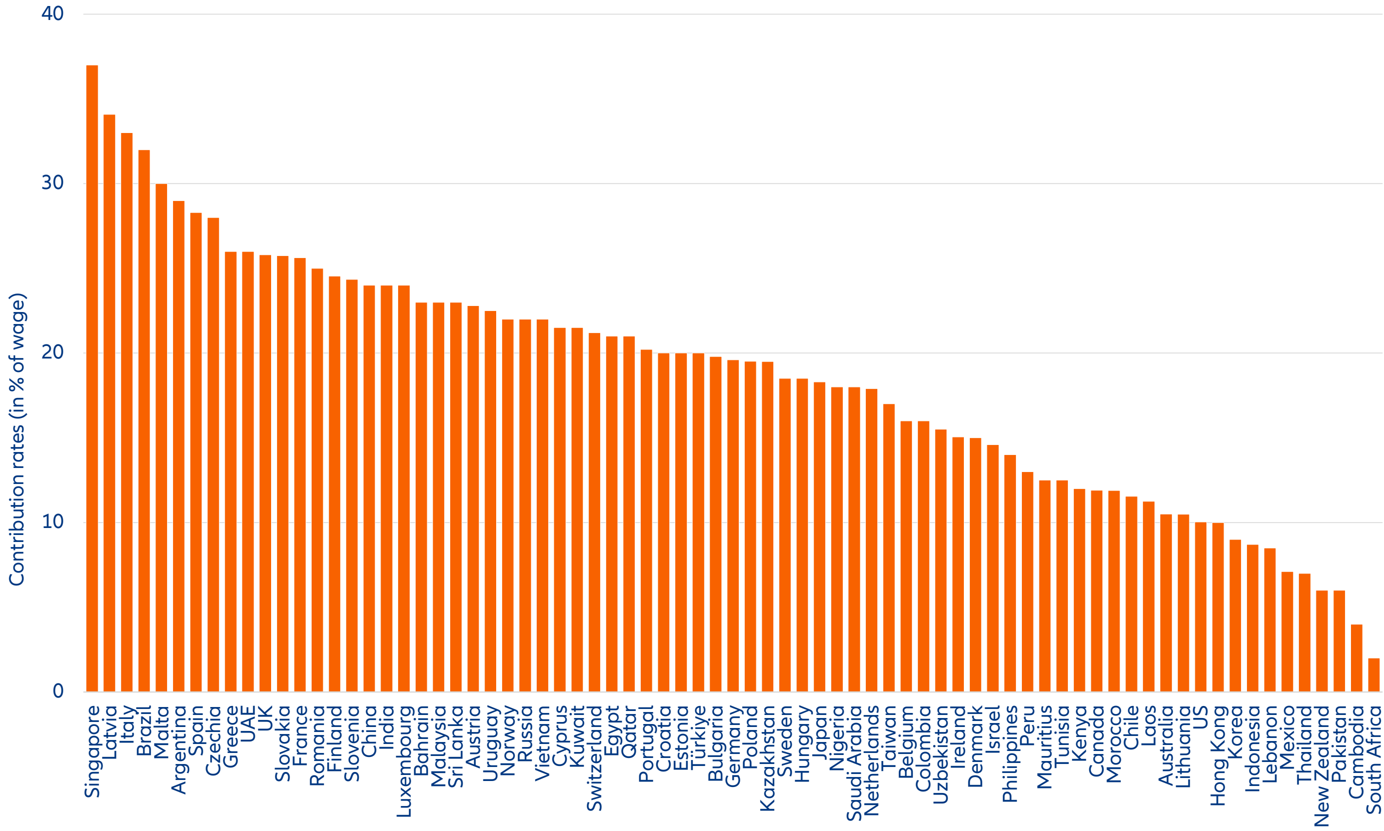
Figure 8: Small leeway for further contribution-rate increases in many countries



Sources: National social security administrations, ministries of social affairs, ministries of finance, PWC, OECD and Axco.

These already high levels leave only small leeway for further increases. With demographic and financial conditions deteriorating, the existence of built-in stabilizers that dampen the demographic effects on pay-as-you-go financed pension system are all the more important. These include incentives to postpone retirement, like a minimum contribution period that is necessary to claim an early or full pension; early retirement deductions or rewards for postponing retirement age and a built-in demographic factor in the pension formula to adjust benefit levels in line with the development of the average further life expectancy. The retirement age could also be linked to this.

In fact, in 48 of the countries that we cover in our index, at least one of these incentives is already in place. Half of the countries have introduced pension deductions that lower lifelong pension payouts in case of early retirement, and about a third have added demographic factors to their pension calculation and adjustment formulas to adjust benefit levels in line with the development of the average further life expectancy. In almost every country, fulfilling a minimum contribution period is also a precondition for receiving a pension. In most countries, this is around 15 years and will gradually increase. For example, in Egypt, it is set to increase from 10 to 15 years; in Bulgaria, it is going to increase to 40 years for men and 37 years for women and in France, the minimum contribution period to get a full pension is set to increase from 41.5 years currently to 43 years in 2027.