

Are survivor pensions still needed?

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Key facts about survivor pensions in OECD countries (Policy lessons are provided in the last page)



There is about one survivor pension recipient for each five old-age pensioners on average in the OECD. Women represent more than 85% of widowed survivor pension recipients.



Nowadays' safety nets directly target poverty alleviation in all OECD countries. Hence, the main objective of survivor pensions has become smoothing living standards after the partner's death.



On average across OECD countries, expenditures on survivor benefits have been stable at about 1% of GDP over the last 25 years. However, expenditure on survivor relative to old-age benefits decreased from 20% to 13% on average among 24 countries.



Based on current legislation, the survivor pension of a widowed person will amount to 50% of the deceased's contributory old-age pension, on average across OECD countries. Means-testing lowers this rate substantially in many countries, especially for those with own pensions.



More and more countries have expanded survivor pensions to civil unions (16 countries) or cohabitation (9 countries), including same-sex partners. A few countries abolished survivor pensions entirely. Nineteen countries grant survivor pensions after divorce, although the death of the ex-partner does not generally deteriorate one's finances.



On average across OECD countries, a surviving spouse, who never worked and was married to a full-career average-wage worker will receive a total pension equal to 31% of the average wage. Accounting for lost economies of scale of living in a couple, this means that living standards fall by 24% after the death of the partner.

Following the death of a partner, survivor pensions for widowed persons have pursued two main objectives. First, they have protected widows or widowers from poverty risks and the sharp drop in disposable income to low absolute levels following the loss of the deceased's benefits. Second, they have contributed to insuring against the decrease in disposable income, in the same way as old-age pensions replace a share of the income when moving out of paid work upon retirement.

Nowadays, all OECD countries have instruments directly targeted at poverty alleviation. On average across 35 countries, basic pensions and safety nets currently provide an income of 20% of the average wage for those who have never worked. In terms of poverty alleviation, there is no obvious justification why widowed persons should be granted higher old-age benefits than other individuals in a similarly poor income situation. Smoothing consumption after a partner's death has thus become the main justification of survivor pensions for the widowed.

Survivor pensions for widowed persons transfer pension rights from one partner to the other. Whether pension entitlements are viewed as a more or less explicit part of own accumulated assets influences whether they should be treated as part of inheritance rights. In general, entitlements in pay-as-you-go schemes are not part of the estate and cannot be transmitted except through survivor schemes.

Survivor pensions today

There are 22 recipients of survivor benefits for each 100 old-age pensioners on average in the OECD. Comparatively many survivor benefits are paid in Germany, Lithuania, Luxembourg, Spain and Turkey - close to or more than 40 per each 100 old-age pensioners. By contrast, Australia, Estonia, Latvia, the Netherlands and Norway only few people receive survivor benefits - less than 5 for every 100 old-age pensioners. In Australia, the Netherlands and Norway, survivors' income risks after retirement age are only indirectly covered by basic pensions which are granted on residency criteria - although the funded schemes in the Netherlands (and Sweden) provide survivor pensions optionally. Women represent more than 85% of widowed survivor pension recipients on average in the OECD.

Eligibility criteria for widows and widowers vary significantly across countries. They depend on the age of both the survivor and the deceased, as well as on the type of partnerships and, in less and less countries including Israel, Japan and Switzerland, on gender (Table 1). Most countries require a minimum period of contribution to the old-age or disability pension schemes before a contributor's dependents become eligible for survivor pensions.



Table 1. Eligibility for survivor pensions: Criteria for the surviving spouse

Permanent payments to non-disabled surviving spouses without dependent children

	Minimum eligibility age	Civil union	Cohabitation	After divorce	After remarriage		Minimum eligibility age	Civil union	Cohabitation	After divorce	After remarriage
Austria	-	√		√		Japan	55/-		√		
Belgium	46.5					Korea	-		√		
Canada	-	√	√	√	√	Lithuania	63.3/61.6*				
Chile	-	√				Luxembourg	-	√			√
Czech Republic	55/58					Mexico	-	√	√	√	
Estonia	63*			√		Norway	-	√	√	√	
Finland	50	√		√	√ ^A	Poland	50			√	√
France	55/60			√	√	Portugal	35	√	√	√	
Germany	45.5	√		√		Slovak Republic	62*				
Greece	55			√		Slovenia	55	√	√	√	
Hungary	63*	√	√	√		Spain	-	√	√	√	√ ^A
Ireland	-			√		Switzerland	45	√		√	
Israel	40	√				Turkey	-	√			
Italy	-	√		√		United States	60			√	√ ^A

Note and source: * = same as retirement age. - = no requirement age. √ = pension is payable. ^A = Eligibility or period of payment differs depending on the age of remarriage. See Table 7.1 of Pensions Outlook 2018 (https://doi.org/10.1787/pens_outlook-2018-en).

The criteria related to the age of the survivor are meant to limit disincentives for survivors to participate in the labour market. Having a disability or caring for a dependent child usually suspends age tests. Only widowed persons above a certain age can receive permanent survivor pensions in 17 OECD countries. Estonia, Hungary, Lithuania and the Slovak Republic do not grant access to permanent survivor pensions before the recipient reaches the normal retirement age. However, no minimum age requirements apply in Austria, Canada (from 2019), Chile, Ireland, Italy, Korea, Luxembourg, Mexico, Norway, Spain and Turkey.

Before beneficiaries reach the eligibility age to a permanent survivor pension, many countries grant survivor benefits for a limited period to help survivors adjust to the new situation without limiting work incentives in the longer term. For example, in Greece, survivor pensions are paid for only 3 years if the survivor is younger than 55 years. In Portugal, the pension is paid for only 5 years to the spouse under 35 years-old, and in Hungary for only one year before age 63.

While marriage used to be required to access survivor pensions, an increasing number of countries have expanded survivor benefits to civil unions and registered cohabitations. Nineteen countries grant survivor pensions after divorce treating this entitlement as a derived right acquired during

marriage as long as the spouse meets additional conditions. Yet, after divorce or separation, the death of the former partner does usually not cause any income drop to the survivor (unless alimony was granted).

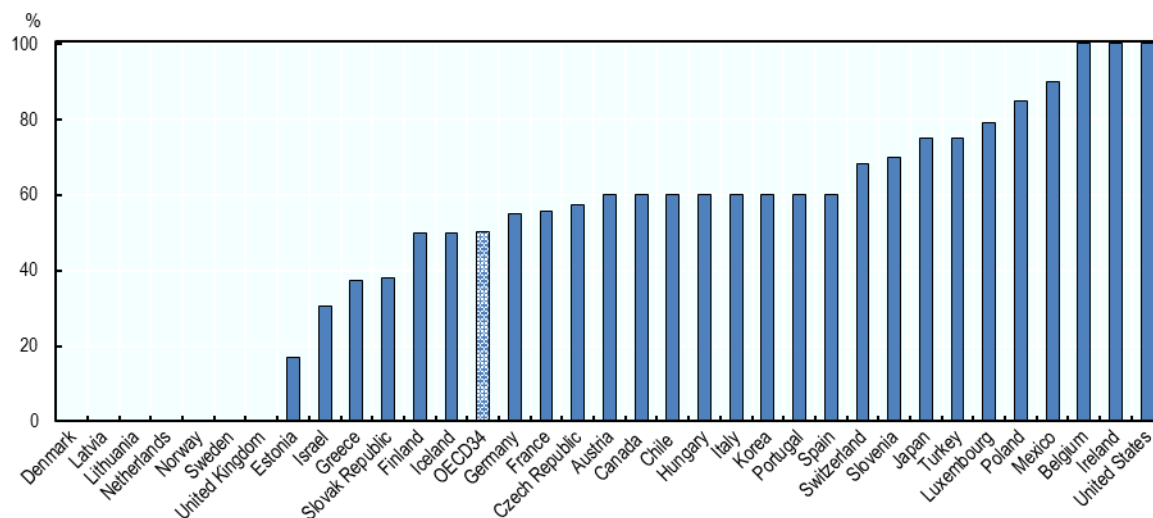
Benefit levels

The survivor pension level depends mostly on the pension entitlements of the deceased spouse and on the replacement rate that the survivor pension guarantees. Taking into account the full effect of currently legislated measures, half of the OECD countries will have a survivor replacement rate at least equal to 60%; in several countries, there is no mandatory permanent survivor pension after retirement age in the contributory schemes (Figure 1). On average in the OECD, future survivor pensions will automatically replace 50% of the deceased's contributory pension, when no other income is taken into account for any household member, including the survivor. Denmark, Latvia, Lithuania, the Netherlands, Norway and Sweden provide no permanent mandatory survivor pensions for spouses. By contrast, survivor pensions will grant at least 80% of the deceased's mandatory contributory pension in Belgium, Ireland, Mexico, Poland and the United States.



Figure 1. Survivor pension as a share of the deceased's pension

Mandatory contributory pension schemes only, paying permanent survivor pensions after the retirement age and not accounting for means testing against other income



Note and source: See Figure 7.10 of Pensions Outlook 2018 (https://doi.org/10.1787/pens_outlook-2018-en).

In practice, however, means-testing against individual earnings, individual pensions or even total household income reduces the survivor replacement rate in 24 OECD countries. On average in the OECD, the survivor pension of a widowed person who was married to a full-career average-wage worker is cut by about half if the survivor had the same career relative to the benefit received if he or she never worked. Countries vary strongly in the way how own entitlements affect the level of survivor benefits.

Belgium, Ireland, Israel, Japan, Korea and the United States grant spousal pension supplements to pensioners if their spouses have no or low own pensions, but not to survivors thereby lowering the effective survivor replacement rate.

Survivor pension spending is shrinking relative to old-age pensions

OECD countries spend on average about 1% of GDP on survivor benefits in mandatory schemes. In most countries, spending is mostly public while private schemes dominate in Denmark, Iceland, the Netherlands and Switzerland only. Greece, Italy and Spain report the highest spending on survivor benefits, exceeding 2.3% of GDP. By contrast, twelve OECD countries (Australia, Canada, Estonia, Ireland, Korea, Latvia, Lithuania, Mexico, New Zealand, Norway, Sweden and the United Kingdom) spend less than 0.5% of GDP. In some countries including Australia, the remaining account balance in the private-sector defined contribution pension schemes is typically transferred to the heirs, which is not reflected in the spending data as such transfers are

not part of survivor pension schemes.

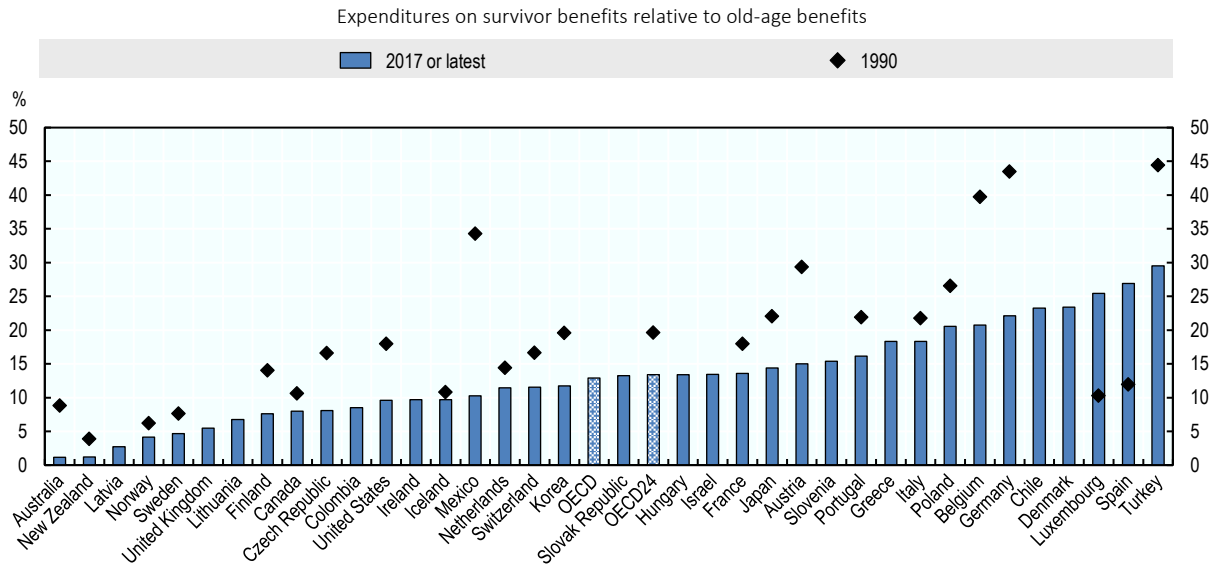
Survivor benefit expenditures have been stable since 1990 at about 1% of GDP on average across 24 OECD countries for which data are available. However, they have not kept pace with the substantial increase in old-age pension spending. As a result, survivor benefit expenditures, on average, represented 13% of old-age pension spending in 2017 (or latest), down from 20% about twenty-five years earlier (Figure 2).

One reason for this decline is that women have been participating more in the labour market and earning their own contributory pension rights. Lower gender gaps in life expectancy and changes in couple formation have also contributed to this fall. Stricter means-testing and a tightening of benefits and eligibility conditions partly explain this trend as well.

For example, Germany broadened the means-tests to nearly all kinds of income in 2001, limited the duration of some survivor benefits to two years, introduced a one-year requirement on the minimum length of marriage and cut benefit levels from 60% to 55% of old-age pensions. In Norway, after the 2002 reform, in order to enhance work incentives, recipients who are younger than 55 and do not work have their pension reduced. In France, means-testing was introduced in 2003. Belgium has been increasing the eligible age of survivor pensions since 2015. Australia, Latvia, New Zealand, Sweden and United Kingdom went further by abolishing the survivor pensions for spouses altogether, but the previously granted benefits are still included in expenditures.



Figure 2. Expenditures on survivor benefits 1990 and 2017



Note and source: See Figures 7.2 and 7.11 of Pensions Outlook 2018 (https://doi.org/10.1787/pens_outlook-2018-en).

The role of survivor pensions is evolving...

The original design of survivor pensions refers to a timeworn family model. The man was working, the woman was taking care of children and house, and everyone was assumed to be part of a unique, lifelong heterosexual marriage. The foundations of this model are becoming less common with more and more formal female employment and more diverse and less stable family constellations.

As with other benefits, survivor pensions might hamper the employment of actual or potential recipients by reducing incentives to work, potentially leading to early labour market exit or reduced working hours. This effect is even stronger when own labour income reduces or suspends survivor pensions, which is the case in 14 OECD countries. Such means-tests are meant to better target the survivor benefits at people in need, thereby lowering costs. Recent simulations for the United States indicate that abandoning both survivor pensions and spousal pension supplements would increase women's labour supply by at least 1% and potentially much more (Nishiyama, 2018; Sánchez-Marcos and Bethencourt, 2018).

Partnerships are less stable than in the past, couples are formed later and marriages are also contracted later. In the 2010-2016 period, 38% of women aged 30-34 have never been involved in legal partnership nor were living in an informal marriage-like relationship compared to 19% in 1990-1996 and 12% in 1960-1966 on average across 26 OECD countries.

Improvements in men's life expectancy which tend to shorten the duration of widowhood, fewer

marriages and more frequent divorces contributed to more than halving the share of widows in the age group 65-69, from 38% in 1960-66 to 18% in 2010-16 on average.

Over recent decades, pension entitlements have become more individualised, potentially creating some tension with redistribution mechanisms such as those inherent in survivor pensions. In some countries systemic reforms of old-age pensions led to the elimination of the survivor protection while in others it had no impact.

First, in the 1990s, Italy, Latvia, Poland and Sweden reformed their public pay-as-you-go (PAYGO) pension schemes from defined benefit (DB) into notional (non-financial) defined contribution schemes (NDC). Sweden had eliminated survivor pensions in the public scheme in 1990, almost a decade before the introduction of NDC pensions. In Latvia, as part of the move towards more individualised pension entitlements, survivor pensions for spouses were abolished when the NDC scheme was introduced in 1996. In Poland and Italy, survivor pensions were unaffected by the introduction of the NDC scheme.

Second, the introduction of point systems, for example in the 1990s in Germany and Estonia, which also have tight links between earnings and benefits within PAYGO schemes, did not affect benefit rules for survivor pensions.

Third, in the United Kingdom, the 2016 reform linked old-age benefits only with the length of the contribution period and not with past earnings. At the same time survivor pensions for spouses were eliminated. Similarly, survivor pensions were

abolished in the public schemes in Australia in 1997 and in New Zealand in 2013.

Fourth, the role of private pensions has increased in several OECD countries. For example, Mexico moved in 1997 from a PAYGO DB to a mandatory funded privately managed DC scheme. In the new system, contributors can choose survivor benefit coverage for which they pay additional contributions. Already in 1981, Chile substituted its PAYGO DB scheme with the mandatory funded DC scheme, with survivor benefits remaining a strong component. Elsewhere, the move from funded DB to funded DC was often accompanied by reduced coverage of survivor risks.

...but survivor pensions are still needed...

Sustaining standards of living after the death of a partner is currently the key objective pursued by survivor pensions. Living with other household members usually entails economies of scale: expenses related to collective goods such as fixed living costs (like base rates of utilities or rental costs for common spaces such as kitchens and bathrooms) can be shared. Based on the OECD equivalence scale, a decline of more than 30% in the *total* income of the couple household upon the partner's death reduces the standards of living of the survivor.

As lifelong marriage becomes less common and female employment grows survivor pensions play a less important role. Yet, beyond their contribution to reducing existing gender pension gaps, limiting the decline in standards of living upon the death of a partner is still a worthwhile objective to be pursued by social policies, and in particular through survivor pensions.

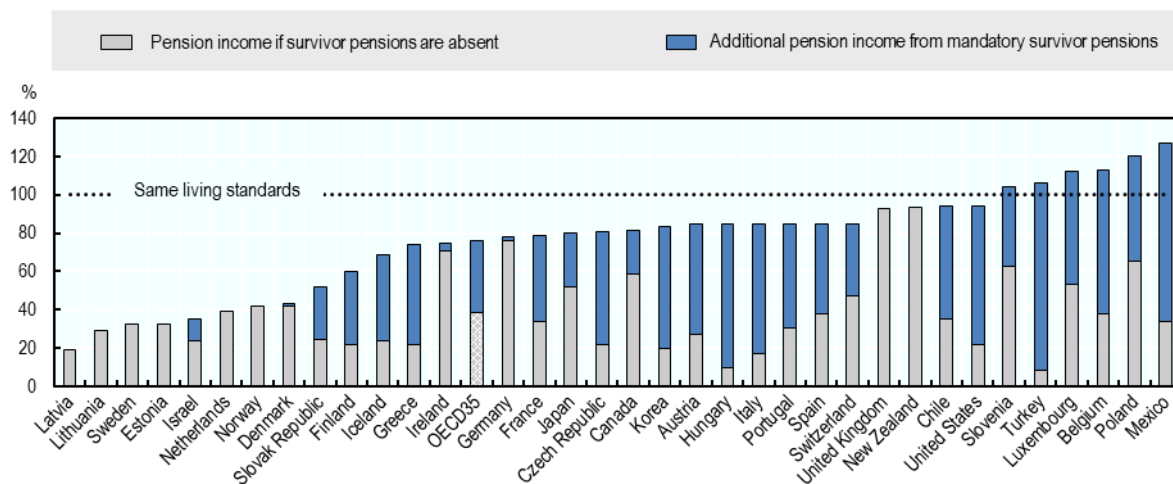
After the death of their spouse, survivors without work history would lose 24% of their equivalised disposable income, on average across 35 OECD countries (Figure 3). Without survivor pensions the loss would be 61%. That is, mandatory survivor pensions offset three-fifths of the financial impact induced by the loss of the breadwinner's entitlements.

Countries which record the largest losses in standards of living following the death of a partner - more than 25% - are those that combine low first-tier benefits with low survivor pensions: Estonia, Finland, Greece, Iceland, Ireland, Latvia, Lithuania, Norway, the Slovak Republic and Sweden. By contrast, the equivalised disposable income increases for survivors in Belgium, Luxembourg, Mexico, Poland, Slovenia and Turkey.

Couples may not be well prepared financially to cope with the death of a partner through voluntary private insurance markets. Indeed, both myopic behaviour and incomplete information lead to insufficient insurance of survivor risks at a fair price through private insurance and efficient annuity markets (Barr and Diamond, 2008; Blake, 2012; Findley and Caliendo, 2008). In particular, short-sightedness, compulsory behaviour and low financial knowledge mean that people do not insure themselves well against especially distant, future events. These limitations may be stronger for survivor pensions than for old-age pensions because they require planning beyond the horizon of one's own life. Mandatory survivor pension schemes overcome market failures by enlarging the pool of insured people sharing risks

Figure 3 Total pension income of a survivor of a single-earner couple relative to the equivalised pension income before the partner's death

Same age couple, the deceased worked a full career from age 20 in 2016 at the average wage and died just after having retired at the normal retirement age, mandatory pension schemes



Note and source: See Figure 7.15 of Pensions Outlook 2018 (https://doi.org/10.1787/pens_outlook-2018-en).

Currently, survivor pensions significantly reduce the gender pension gap. On average across 25 OECD countries, women had pensions that were 24% lower than men in 2015, slightly less than the 2007 average of 27%. In France, for example, survivor pensions narrowed the gender pension gap by about one-third (DREES, 2018).

... while they require modernisation.

Given population ageing prospects, pension policies should promote labour force participation for everyone. Making a surviving partner eligible to a permanent survivor pension at an age lower than the normal retirement age is therefore inconsistent with this general objective: being eligible to a permanent survivor pension should be in line with retirement age rules. Instead, at younger ages a temporary benefit should be granted following the partner's death to help adapt to the new situation. The level and the duration of this temporary benefit could be linked to the family situation such as caring for dependent children.

Taking stock of the recent trends in couple formation, survivor pensions should in principle be extended beyond marriages to civil unions and formal partnerships. One open question though might be whether survivor pensions should be limited to partnerships which have some legal or financial obligations in terms of solidarity within couples. If there is no formal obligation, a partner might not be protected to start with by his or her partner when both partners are alive; it might therefore be questionable whether sustaining standards of living when the partner dies is a valid objective for public policy in that case.

Survivor pensions could be seen as redistribution within a household over time, i.e. from before to after the death of a partner. The way survivor pensions are currently designed, however, typically involves redistribution across households. If survivor pensions are combined with the same contribution rates and benefit levels for single individuals and those living in a couple, resources are redistributed from singles to couples and from dual-career couples to single-earner couples, especially to those with large age differences (James, 2009). Singles pay but receive no additional benefits because the individual pension amount does not account for the cost of joint-life insurance. The financing of survivor pensions by singles is also questionable because survivor pensions help compensate for lost economies of scale that couples but not singles benefit from throughout their lives. Moreover, if the policy objective is to reward having or raising children, other instruments such as childcare-related pension credits are more efficient than survivor pensions.

From this perspective, the cost of survivor pensions for widowed persons should be internalised within a given couple or at least among all couples. In the funded schemes in Chile and Sweden, partners receive (or can choose to in Sweden) lower individual pension benefits when both partners are alive to finance the survivor benefit upon death. Such internalisation can be introduced also in other pension systems. In a budget-neutral reform, this implies that the pension level of singles will be higher while that of individuals living in a couple will be lower. Based on average mortality rates, initial pensions - when both partners are alive - would be about 9% lower compared to singles with the same contribution history.

Splitting pension entitlements might be one way to address survivor risks. Splitting pension rights means that old-age pension entitlements of partners are first added and then shared between partners, half-half or in any other proportion. During the partnership, resources were typically shared. In addition, some decisions such as those related to how much time each spends in formal employment - which generates pension rights - and in informal activities, such as unpaid work, are typically taken jointly. Hence, pension entitlements accumulated during the partnerships can be considered at least partly to be common to the partners.

For divorced and separated partners, the consumption-smoothing motive does not apply since there is no current consumption to smooth. Splitting pension rights might be an attractive proposition to replace survivor pensions for past partnerships.

Switzerland is the only country that in 1997 made pension splitting mandatory in its public scheme. Germany introduced in 2002 the choice, at least for some restricted cases, between the entitlement to a survivor pension or a fifty-fifty splitting of pension claims between partners upon the retirement of the younger spouse.

However, splitting is not a substitute to survivor pensions for ongoing partnerships. With split entitlements, current partnerships are still exposed to risks of lower standards of living after the death of the partner due to lost economies of scale. For ongoing partnerships, splitting should be combined with survivor pensions on the split entitlements, albeit at a lower replacement rate, to maintain standards of living upon partner's death. For example, when combined with a fifty-fifty splitting a survivor replacement rate of about 40% ensures consumption smoothing for a never-working widowed person compared to 70% required without splitting.



- Survivor pensions for widowed persons should more clearly focus on **smoothing survivors' standards of living** – a still needed policy objective - while limiting disincentives to participate in the labour market and removing some redistribution across households which are difficult to justify.
- Myopic behaviour strengthens the need for **mandatory survivor pensions**, while voluntary survivor options in private schemes limit the efficient functioning of annuity markets.
- Recipients should not be eligible to a **permanent survivor pension before the retirement age**. Instead, at these younger ages a temporary benefit should be accessible following the partner's death to help adapt to the new situation.
- The cost of survivor pensions for widowed persons should be **internalised within a given couple or at least among all couples**. This means that for the same accumulated entitlements the old-age pension of someone living in a couple should be lower than that of a single person, in order to finance survivor pensions. In a budget-neutral reform, this implies that the pension level of singles will be higher while that of individuals living in a couple will be lower.
- Survivor pensions **might be extended beyond marriages to civil unions and formal partnerships**. One open question though might be whether survivor pensions should be limited to partnerships which have some legal or financial obligations within couples.
- Survivor pensions should not be eligible to **partners from former unions** as in that case there is no current consumption to smooth. For former partnerships, the issue is rather about sharing past pension entitlements related to the common partnership.
- **Splitting pension rights within couples** – at the time of accumulation of pension rights, i.e. even for current partnerships – (but not necessarily half-half) offers some advantages although some countries favour the individual treatment of partners, including as part of a broader way to promote gender equality.
- Splitting is fairly easy to implement in defined contribution and point systems or in defined benefit systems that are based on straightforward accrual rates. It is more complicated to introduce splitting in complex and fragmented pension systems as well as in schemes with loose links between contributions and pension entitlements.
- Splitting pension rights should replace survivor pensions for **separated couples**, but is not a substitute to survivor pensions for ongoing partnerships. For the latter, survivor pensions should still play a role even though the survivor replacement rates on the split pensions should be lower than those currently applied without splitting.

References

See references in OECD (2018), "Are survivor pensions still needed?", *Pensions Outlook*, Chapter 7, OECD Publishing, Paris, https://doi.org/10.1787/pens_outlook-2018-en.

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OECD in figures refers to unweighted average of OECD countries for which data are available.

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