

Pension Country Profile: United States

(Extract from the *OECD Private Pensions Outlook 2008*)

The *OECD Private Pensions Outlook 2008* contains a set of country profiles which describe in a concise manner the design of private pension systems in individual OECD countries. This document is an extract from this publication. For further information on the *Outlook*, please see www.oecd.org/daf/pensions/outlook.



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- Country pension design
- Pension funds data overview
- Reference information
- Overview of private pension system by type of plan and financing vehicle

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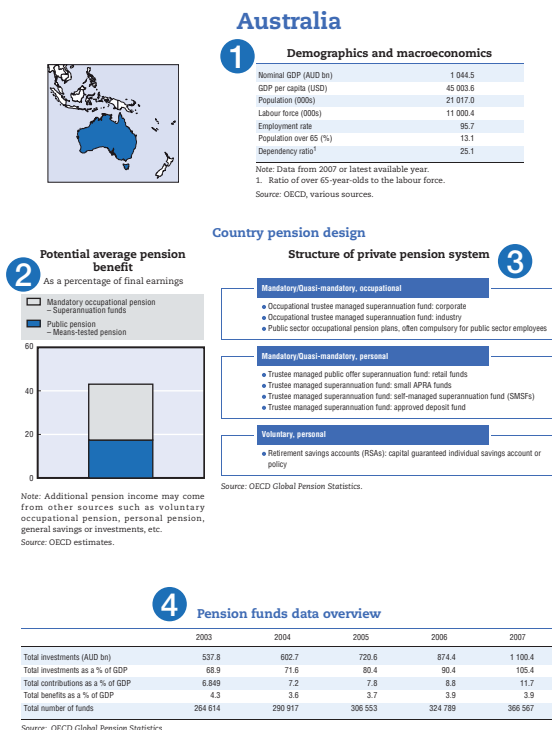
How to Read the Country Profiles

This section provides country profiles, describing private pension arrangements in individual OECD countries. Each pension country profile is divided into six main sections:

- Demographics and macroeconomics
- Country pension design
- Pension funds data overview
- Private pension system's key characteristics
- Reference information
- Overview of private pension system by type of plan and financing vehicle

The figure below shows how the first three sections are organised on the first page of each country profile.

5. AUSTRALIA



Series database. Population figures are from the OECD Population and Labour Force database.

Country pension design

This section is split into two parts:

2 Potential average pension benefit

This figure displays a broad estimate of the total pension income which an average-earning individual may receive from various sources (state, mandatory, and voluntary occupational pensions) after a full working lifetime. It is expressed as a percentage of the earnings the pensioner had just before retirement. These figures draw and expand on a microeconomic approach used in the publication *Pensions at a Glance*, looking at future individual pension entitlements under 2004 parameters and rules.

The pension incomes projected here, however, should be considered only as broad indications of what may happen, as they are conditional on a number of assumptions. It is assumed that individuals are covered by public pension plans throughout their careers. For the countries where occupational pension plans are common, average-earning individuals are assumed to be covered throughout their careers by occupational pension plans that are typical of market practice in that country. In countries where private pension accounts are compulsory, they are assumed to have participated in the compulsory system throughout their careers. Those with shorter, or periodically interrupted, careers should expect lower benefits than those which are set out in this figure.

A public pension can be an earnings-related pension (a pension computed by reference to a rate of emoluments, whether actual emoluments or not and whether final or average emoluments), a flat rate pension (a pension payable at a rate fixed otherwise than by reference to a rate of emoluments or to the rate of another pension), a minimum pension (the minimum level of pension benefits the plan pays out in all circumstances), a basic state pension (a non-earnings related pension paid by the State to

Demographics and macroeconomics

1 The first section presents a selection of key demographics and macroeconomics indicators that provide a sense of the size of the country and its economy. GDP figures are from the OECD Reference

individuals with a minimum number of service years), or a means-tested pension (pension granted to a person after examination of his/her financial state).

Data cover public pensions and other mandatory or quasi-mandatory private pension plans. Voluntary plans are also included if they cover at least 30% of the working population. Additional pension income may come from other sources, such as individual savings, but these are not included in the data.

For five countries, several projections are presented as private pension systems are in a particular state of change.

3 Structure of private pension systems

The second part displays a bulleted list summarising the structure of private pension systems according to the pension plans currently in place in the country.

Pension funds data overview

4 The third section presents selected pension fund indicators from 2003 to 2007 from the *OECD Global Pension Statistics* project (www.oecd.org/daf/pensions/gps). For further data and analysis, readers can refer to Chapter 2 of this publication.

Private pension system's key characteristics

The information provided in this section covers eight private pension system key characteristics:

- Overview
- Coverage
- Typical plan design
- Contributions
- Benefits
- Fees
- Taxation
- Market information

Depending on data availability, these characteristics are developed for each existing category of pension plan (mandatory vs. voluntary pension plan, occupational vs. personal pension plan). Information provided in this section refers to December 2007 or to the latest available year.

Reference information

This section includes references to key legislation reforms, provides the name of regulatory and supervisory authorities and displays official statistical references and sources on private pensions.

Overview of private pension systems by type of plan and financing vehicle

This last section gives a detailed description of the various private pension plans found in each country as well as the statistical data coverage of the *OECD Global Pension Statistics*.

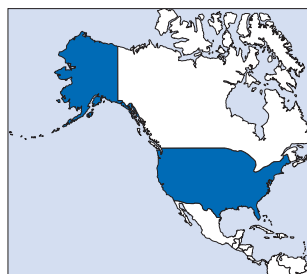
The following figure gives an example of such an overview. The first two columns provide the name and the description of each pension plan. Pension plans included in the *OECD GPS database* are marked with a tick in the next column, excluding OECD estimates. Under the column headings “Type of plan” and “Financing vehicle” are given the correspondence of each pension plan with the OECD Classification by funding vehicle and by type (see OECD (2005), *Private Pensions: OECD Classification and Glossary*, OECD, Paris).

Overview of private pension system by type of plan and financing vehicle

	Included in OECD GPS database	Type of plan				Financing vehicle			
		Voluntary	Mandatory/Quasi-mandatory	Occupational	Personal	Pension fund	Book reserve	Pension insurance contract	Banks or investment companies
Occupational trustee managed superannuation fund: corporate	✓		✓	✓		✓			
Occupational trustee managed superannuation fund: industry	✓		✓	✓		✓			
Trustee managed public offer superannuation fund: retail funds	✓		✓		✓	✓			
Trustee managed superannuation fund: small APRA funds	✓		✓		✓	✓			
Retirement savings accounts (RSAs): capital guaranteed individual savings account or policy		✓			✓			✓	✓

Source: OECD Global Pension Statistics.

United States



Demographics and macroeconomics

Nominal GDP (USD bn)	13 776.5
GDP per capita (USD)	43 800.7
Population (000s)	299 398.5
Labour force (000s)	148 893.2
Employment rate	94.5
Population over 65 (%)	12.4
Dependency ratio ¹	24.4

Note: Data from 2007 or latest available year.

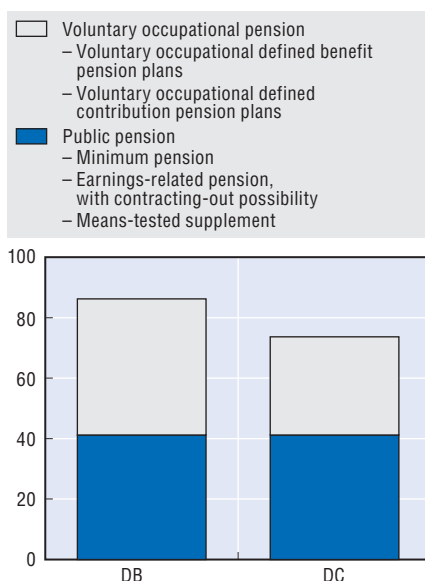
1. Ratio of over 65-year-olds to the labour force.

Source: OECD, various sources.

Country pension design

Potential average pension benefit

As a percentage of final earnings



Note: Additional pension income may come from other sources such as personal pension, general savings or investments, etc.

Source: OECD estimates.

Structure of private pension system

Voluntary, occupational

- Private pension fund: defined benefit plans
- Private pension fund: defined contribution plans
- State and local government employee retirement funds
- Federal government retirement funds: defined benefit plans
- Federal government retirement funds: defined contribution plans

Voluntary, personal

- Traditional individual retirement accounts (IRAs)
- Roth individual retirement accounts (Roth IRAs)
- Annuity reserves at life insurance companies

Source: OECD Global Pension Statistics.

Pension funds data overview

	2003	2004	2005	2006	2007
Total investments (USD bn)	7 919.2	8 604.7	9 171.5	9 945.1	10 238.1
Total investments as a % of GDP	72.6	74.0	74.1	75.7	74.3
Total contributions as a % of GDP	..	..	..	..	..
Total benefits as a % of GDP	..	..	..	..	..
Total number of funds	..	..	..	..	..

.. : means not available.

Source: OECD Global Pension Statistics.

StatLink <http://dx.doi.org/10.1787/518051215646>

Private pension system's key characteristics

Occupational voluntary

Overview

Employers may offer their employees pension provision through a number of different mechanisms. The most common forms are private pension funds which are defined benefit (DB), defined contribution (DC), or hybrid. There also exist many state and local government employee retirement funds, which are largely DB pension funds sponsored by states and municipalities. Traditional DB plans were historically the main types of pension plan, but these have been overtaken by DC plans, including the 401(k) defined contribution type of plan.

There are several DB types of federal government retirement funds, such as the National Railroad Retirement Investment Trust, and non-marketable government securities held by the civil service retirement and disability fund, Railroad Retirement Board, judicial retirement fund, military retirement fund, and the foreign service retirement and disability fund. An example of a DC Federal Government Retirement Fund is the Federal Employees Thrift Savings Plan. The federal and state pension funds are not discussed in this profile.

There are many types of DC plans, of which the most important (which are overlapping) are:

- 401(k) and similar plans: plans developed specifically under section 401(k) of the Internal Revenue Code, under which employees are allowed to make before-tax contributions from their salaries (which are subject to social security contributions, nevertheless) through salary reduction elections, which US law encourages to make on an automatic enrolment basis. 401(k) plans often include matching employer contributions, such as a match equal to 50% of the employee's before-tax contributions up to 6% of salary.
- Profit-sharing and similar plans: plans established and maintained by an employer usually to provide for a specific contribution formula to be allocated among employees based on a specific allocation formula under the plan, such as a percentage of salary.
- Employee stock ownership plans (ESOPs): plans under which the employee accounts are primarily invested in shares of company stock. An ESOP is permitted to borrow money to purchase this stock. The loan is either from the employer or from a commercial lender with an employer guarantee, and with the purchased shares held in a suspense account to be allocated to employee accounts as the loan is repaid.
- Individual retirement arrangements (IRAs) are investment vehicles which are permitted to include contributions by the IRA owner, so-called "rollover" contributions for distributions from employer plans, or contributions under employer-sponsored plans. Under a savings incentive match plan for employees (SIMPLE), an employer with fewer than 100 employees may establish a SIMPLE through a contract with an IRA provider, to which employees earning at least USD 5 000 can contribute a portion of their salaries on a tax-deductible basis. The maximum employee contribution is USD 11 500 (USD 14 000 for employees age 50 or older) for 2009. Employers either match the employee contribution up to 3% of salary, or make a straight contribution of 2% of salary. Both employee and employer contributions vest immediately. The IRA is owned by the employee, so benefits are available at any time, with an additional 10% tax generally applicable if withdrawn before age 59.5.

Coverage

Single employers, or a group of employers, may voluntarily establish a complementary occupational pension plan for their employees. The plan sponsor decides what type of plan to establish (see below). If a private employer offers a DB plan, participation is automatic and thus compulsory for covered employees. In the case of DC plans, participation is typically automatic or may be voluntary for covered employees, depending on the type of plan and/or plan rules. Employers are not required to cover all employees, although they must meet minimum employee coverage and non-discrimination rules.

It is estimated that 61% of private-sector workers have access to company-sponsored pension plans. Twenty-one per cent of private-sector workers have access to DB plans and 55% to DC plans.

Typical plan design

A typical DB plan might offer from 1% to 1.5% of final average earnings for each year of service. Plans are sometimes subject to a service maximum of 30-35 years and often include early retirement subsidies after a specified number of years of service or age.

A typical 401(k) DC plan would allow employees to contribute any percentage of pay up to 25%, along with employer matching contributions of 50% of any employee contributions, up to 6% of pay.

Private plans whether DB or DC are usually non-contributory for employees, except for 401(k) plans, which are limited in 2009 to USD 16 500 or USD 22 000 for employees aged 50 and over. Employers are required to contribute to all types of plans, except 401(k) plans, where employer contributions are not required and are often limited to matching contributions. There are maximum limits on aggregate contributions.

Normal retirement is typically at age 65.

Taxation

Employee contributions to 401(k) plans are subject to social security contributions, but not income tax. Beginning in 2007, a 401(k)-type plan can permit employees to choose to have their contributions be included in taxable income (called a "Roth" contribution, after former US Senator William Roth who popularised this idea), in which case separate accounts are kept and distributions from a Roth account are not subject to income tax if, for example, the distribution is made after age 59.5 and 5 years of participation in the Roth portion of the plan.

For 2009 employee contributions to 401(k) plans are exempt from income tax up to a yearly ceiling of USD 16 500 (USD 22 000 for employees age 50 or older). Employer contributions to all DB plans in 2009 are tax-exempt up to a level that allows an annual pension of USD 195 000. Total employer and employee contributions to DC-type plans for 2009 are limited to USD 49 000 a year or, if lower, to 100% of salary. Employer contributions are not subject to social security contributions. Investment income is tax-deferred in all cases. Benefits in retirement from all types of plans are taxed as income (except for Roth contributions and any other benefits financed through taxable employee contributions).

Personal voluntary

Overview

The most common individual retirement savings arrangements are individual retirement accounts and individual retirement annuities (IRAs), of which there are two different types.

- Traditional IRAs, which can be deductible depending on age and membership in an occupational retirement plan.
- Roth IRAs, which are taxed much the same way as a Roth 401(k) plan.

Most IRAs are self-directed, which allows the saver to make a wide range of investment decisions. A trustee or other custodian or an insurance company must own the IRA assets.

IRAs can also receive “rollover” contributions of an amount distributed from an occupational retirement plan, in which case the distribution is not taxed until paid from the IRA. Approximately 45% of the funds held in IRAs are from rollovers. An amount held in a traditional IRA or distributed from a non-Roth plan can in some cases be put into a Roth IRA, in which case that amount is subject to income tax.

Coverage

Eligibility rules for contributions vary by type of IRA and include the annual income of the saver (expressed as the Modified Adjusted Gross Income, or MAGI), membership in an occupational plan, and the family situation of the saver.

Contributions

IRAs (traditional and Roth) allow contributions up to USD 5 000 per person in 2009. The maximum limit is USD 6 000 for those who are age 50 or older in 2008. In addition, assets from a traditional IRA can be transferred to a Roth IRA, though income tax must be paid over the transferred sum.

Benefits

Savers must start withdrawing benefits by age 70.5. The required minimum withdrawal for each year is calculated by dividing the IRA account balance as of 31 December of the prior year by the applicable distribution period or life expectancy.

For IRAs, benefits withdrawn before age 59.5 are subject to a 10% income tax penalty, unless withdrawn for various specific reasons.

Taxation

Contributions to traditional IRAs are often tax-deductible. Transactions and earnings within the IRA have no tax impact, while withdrawals at retirement are taxed as income (except for those portions of the withdrawal corresponding to contributions that were not deducted).

Contributions to Roth IRAs are made with after-tax assets. No transactions within a IRA have any tax impact, and withdrawals after age 59.5 and 5 years of participation in the Roth IRA are tax-free. Investment income and benefits are generally tax-exempt.

Market information

Occupational voluntary

Plans are implemented under a written trust agreement or through an insurance contract. The trustees may manage the contribution and benefit administration or contract it to a pension management or insurance company. Under an insurance contract, the insurance company manages the contribution and benefit administration.

At the end of December 2007, total assets managed by occupational pension plans amounted to USD 10.2 trillion. The total number of participants in occupational voluntary plans was 142.5 million in 2005.

Personal voluntary

It is possible to have both a traditional IRA and a Roth IRA, but the maximum overall contribution limits apply to the saver.

IRAs managed assets worth USD 6.8 trillion at the end of 2007. They covered 50.9 million participants in 2005.

Reference information

Key legislation

2006: The Pension Protection Act, which is to be implemented over the course of the coming years, sets new funding requirements for DB plans, and lays down additional rules for underfunded DB plans. It further clarifies the status of cash balance and hybrid DB plans, and encourages automatic enrolment and a default investment option for 401(k) plan members.

2001: The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) relaxed constraints on the conversion of IRAs into other types of plans.

1978: The Revenue Act of 1978, which established 401(k) plans.

1974: The Employee Retirement Income Security Act (ERISA) is the most important complementary occupational pension plan law in the United States. It has been amended on several occasions.

Key regulatory and supervisory authorities

The Social Security Administration: administers the public pension system, www.socialsecurity.gov.

The Department of Labor: regulates and supervises the occupational pension system, www.dol.gov.

The Treasury Department: supervises the collection of social security taxes through the Internal Revenue Service and supervises the payment of benefits and the management of social security funds, www.treasury.gov.

The Internal Revenue Service (IRS): administers the Internal Revenue Code and determines the tax-qualified status of plans. It has jurisdiction over eligibility, vesting, and funding requirements under ERISA. The IRS is part of the Treasury, www.irs.gov.

The Employee Benefits Security Administration (EBSA): enforces ERISA's standards concerning reporting, disclosure, and fiduciary matters. It is part of the Department of Labor, www.dol.gov/ebsa.

The Pension Benefit Guaranty Corporation (PBGC): administers plan termination rules and an insolvency insurance program for private DB plans, www.pbgc.gov.

Key statistical references and sources on private pensions

Department of Treasury, www.ustreas.gov/.

Federal Reserve Bank, www.federalreserve.gov/.

OECD, Global Pension Statistics Project, www.oecd.org/daf/pensions/gps.

Overview of private pension system by type of plan and financing vehicle

	Included in OECD GPS database	Type of plan				Financing vehicle			
		Voluntary	Mandatory/Quasi-mandatory	Occupational	Personal	Pension fund	Book reserve	Pension insurance contract	Banks or investment companies
Private pension fund: defined benefit plans	Include assets of defined benefit private pension plans held at life insurance companies (e.g. GICs, variable annuities).	✓	✓		✓		✓		
Private pension fund: defined contribution plans	401(K) type plans and assets of defined contribution private pension plans held at life insurance companies (e.g. GICs, variable annuities).	✓	✓		✓		✓		
Individual retirement accounts (IRAs)	Include Keogh accounts at depositories.	✓	✓			✓			✓
Roth individual retirement accounts (Roth IRAs)		✓	✓			✓			✓
State and local government employee retirement funds	Defined benefit pension funds sponsored by states and municipalities.	✓	✓		✓		✓		
Federal government retirement funds: defined benefit plans	National Railroad Retirement Investment Trust, and non-marketable government securities held by the civil service retirement and disability fund, Railroad Retirement Board, judicial retirement fund, military retirement fund, and foreign service retirement and disability fund.	✓	✓		✓		✓		
Federal government retirement funds: defined contribution plans	Federal Employees Thrift Savings Plan.	✓	✓		✓		✓		
Annuity reserves at life insurance companies	Excludes unallocated insurance contracts of private pension plans (e.g. GICs, variable annuities).	✓	✓			✓		✓	

Source: OECD Global Pension Statistics.

Notes

1. Statistics Canada (2004), *Pension Plans in Canada*, Pensions and Wealth Research Series, 1 January.
2. Statistics Canada.
3. The Reserve Fund is established with 5% of the pension company profits.
4. The TFR is a sort of severance pay scheme that the employer has to pay to an employee in the case of his dismissal or retirement. Every month the employer sets aside 6.91% of the gross salary of the employee; every year the accumulated stock of the TFR, which is accounted as a book reserve in the balance sheet of the employer, is appreciated according to a CPI-linked formula.
5. Minimum pension is equivalent to a 1997's monthly minimum wage updated in accordance with inflation.
6. The average monthly wage in Poland is PLN 2 869.69 (USD 1 025) before tax and social security contributions. The net wage is around 70% of the gross.
7. Contribution rates and information on rates of contracting out were obtained from the Department for Work and Pensions' report entitled *Employers' Pension Provision Survey 2005*.

Acronyms, Symbols and Conventional Signs

AFP	Contractual Early Retirement Plan
AGIRC	<i>Association Générale des Institutions de Retraite des Cadres</i>
ALM	Asset Liability Management
APRA	Australian Prudential Regulation Authority
ARRCO	<i>Association des Régimes de Retraites Complémentaires</i>
ASSEP	<i>Association d'Épargne Pension</i>
AVC	Additional Voluntary Contributions
CBFA	<i>Commission Bancaire, Financière et des Assurances</i>
CEE	Central and Eastern Europe
CONSAR	National Commission for the Retirement Savings System
CPP	Canadian Pension Plan
CSSF	<i>Commission de Surveillance du Secteur Financier</i>
DB	Defined Benefit
DBO	Defined Benefit Obligation
DC	Defined Contribution
TyEL	Earnings-related provisions for private-sector workers
EEA	European Economic Area
EET	Exempt-Exempt-tax
EPI	Employee Pension Insurance
EPF	Employees' Pension Fund
FMA	Financial Market Authority
GDP	Gross Domestic Product
GPS	Global Pension Statistics
HMRC	HM Revenue and Customs
IBA	Income Base Amount
IKE	Individual Retirement Account
IRA	Individual Retirement Account
ITP	Collectively bargained pension plan for white-collar employees
KNF	Polish Financial Supervisory Authority
LDI	Liability-Driven Investment
LO	Confederation of Trade Unions
MO	Mandatory Occupational
MP	Mandatory Personal
NHO	Confederation of Norwegian Business and Industry
OFE	Open Pension Fund
PAMC	Pension Asset Management Company
PAYG	Pay-as-you-go

PEE	<i>Plan Épargne Entreprise</i>
PERCO	<i>Plan d'Épargne pour la Retraite Collectif</i>
PERP	<i>Plan d'Épargne Retraite Populaire</i>
PIP	Personal pension plan set up through life insurance contract
PPE	Employee Pension Fund
PPM	Premium Pension Authority
PPRF	Public Pension Reserve Fund
PRSA	Personal Retirement Savings Account
QMO	Quasi-Mandatory Occupational
RAC	Retirement Annuity Contract
S2P	State Second Pension
SAF	Swedish Employers' Confederation
SEPCAV	<i>Société d'Épargne Pension à Capital Variable</i>
SPS	Severance Pay System
SIMPLE	Savings Incentive Match Plan for Employees
SNA	System of National Account
SPMC	Supplementary Pension Management Company
SSRF	Social Security Reserve Fund
SWF	Sovereign Wealth Fund
TFR	<i>Trattamento di Fine Rapporto</i>
TQPP	Tax Qualified Pension Plan
UK	United Kingdom
US	United States of America
VO	Voluntary Occupational
VP	Voluntary Personal

Symbols

000s	Thousands	JPY	Yen
m	Million	KRW	South Korean won
bn	Billion	MXN	Mexican peso
AUD	Australian dollar	NZD	New Zealand dollar
EUR	Euro	NOK	Norwegian krone
USD	United States dollar	PLN	Zloty
CAD	Canadian dollar	SKK	Slovak koruna
CZK	Czech koruna	SEK	Swedish krona
DKK	Danish krone	CHF	Swiss franc
HUF	Forint	TRY	New Turkish Lira
ISK	Icelandic krona	GBP	British pound

Conventional signs

n.a.: not applicable

n.d. / ..: not available

Country ISO code

Australia	AUS	Korea	KOR
Austria	AUT	Luxembourg	LUX
Belgium	BEL	Mexico	MEX
Canada	CAN	Netherlands	NLD
Czech Republic	CZE	New Zealand	NZL
Denmark	DNK	Norway	NOR
Finland	FIN	Poland	POL
France	FRA	Portugal	PRT
Germany	DEU	Slovak Republic	SVK
Greece	GRC	Spain	ESP
Hungary	HUN	Sweden	SWE
Iceland	ISL	Switzerland	CHE
Ireland	IRL	Turkey	TUR
Italy	ITA	United Kingdom	GBR
Japan	JPN	United States	USA

Glossary

Most of the definitions below draw on the publication *Private Pensions: OECD Classification and Glossary*. It can be downloaded at the following address: www.oecd.org/dataoecd/0/49/38356329.pdf.

Term	Definition
Active member	A pension plan member who is making contributions (and/or on behalf of whom contributions are being made) and is accumulating assets or has accrued assets in the past and is not yet retired.
Annuity	A form of financial contract mostly sold by life insurance companies that guarantees a fixed or variable payment of income benefit (monthly, quarterly, half-yearly, or yearly) for the life of a person (the annuitant) or for a specified period of time. It is different from a life insurance contract which provides income to the beneficiary after the death of the insured. An annuity may be bought through instalments or as a single lump sum. Benefits may start immediately or at a pre-defined time in the future or at a specific age.
Asset allocation	The spread of fund investments among different investment forms.
Asset manager	The individual(s) or entity(ies) endowed with the responsibility to physically invest the pension fund assets. Asset managers may also set out the investment strategy for a pension fund.
Basic state pension	A non-earning related pension paid by the State to individuals with a minimum number of service years.
Beneficiary	An individual who is entitled to a benefit (including the plan member and dependants).
Benefit	Payment made to a pension fund member (or dependants) after retirement.
Book reserved pension plans	Sums entered in the balance sheet of the plan sponsor as reserves or provisions for occupational pension plan benefits. Some assets may be held in separate accounts for the purpose of financing benefits, but are not legally or contractually pension plan assets. Most OECD countries do not allow this method of financing. Those that do usually require these plans to be insured against bankruptcy of the plan sponsor through insolvency guaranty arrangement.
Closed pension funds	Funds that support only pension plans that are limited to certain employees (<i>e.g.</i> those of an employer or group of employers).
Contribution	A payment made to a pension plan by a plan sponsor or a plan member.
Contribution rate	The amount (typically expressed as a percentage of the contribution base) that is needed to be paid into the pension fund.
Deferred member	A pension plan member that no longer contributes to or accrues benefits from the plan but has not yet begun to receive retirement benefits from that plan.
Deferred pension	A pension arrangement in which a portion of an employee's income is paid out at a date after which that income is actually earned.
Deferred retirement	A situation when an individual decides to retire later and draw the pension benefits later than their normal retirement age.
Defined benefit (DB) occupational pension plans	Occupational plans other than defined contribution plans. DB plans generally can be classified into one of three main types, "traditional", "mixed" and "hybrid" plans.
"Traditional" DB plan	A DB plan where benefits are linked through a formula to the members' wages or salaries, length of employment, or other factors.

Term	Definition
"Hybrid" DB plan	A DB plan where benefits depend on a rate of return credited to contributions, where this rate of return is either specified in the plan rules, independently of the actual return on any supporting assets (<i>e.g.</i> fixed, indexed to a market benchmark, tied to salary or profit growth, etc.), or is calculated with reference to the actual return of any supporting assets and a minimum return guarantee specified in the plan rules.
"Mixed" DB plan	A DB plan that have two separate DB and DC components but which are treated as part of the same plan.
Defined contribution (DC) occupational pension plans	Occupational pension plans under which the plan sponsor pays fixed contributions and has no legal or constructive obligation to pay further contributions to an ongoing plan in the event of unfavourable plan experience.
Dependant	An individual who is financially dependent on a (passive or active) member of a pension scheme.
Dependency ratio	Typically defined as the ratio of non-active age to those of active age in a given population.
Final average earnings	The fund member's earnings that are used to calculate the pension benefit in a defined benefit plan; it is typically the earnings of the last few years prior to retirement.
Fund member	An individual who is either an active (working or contributing, and hence actively accumulating assets) or passive (retired, and hence receiving benefits), or deferred (holding deferred benefits) participant in a pension plan.
Funded pension plans	Occupational or personal pension plans that accumulate dedicated assets to cover the plan's liabilities.
Funding	The act of accumulating assets in order to finance the pension plan.
Funding level	The relative value of a scheme's assets and liabilities, usually expressed as a percentage figure.
Funding rules	Regulation that requires the maintenance of a certain level of assets in a pension fund in relation to pension plan liabilities.
Gross rate of return	The rate of return of an asset or portfolio over a specified time period, prior to discounting any fees of commissions.
Group pension funds	Multi-employer pension funds that pool the assets of pension plans established for related employers.
Industry pension funds	Funds that pool the assets of pension plans established for unrelated employers who are involved in the same trade or business.
Mandatory contribution	The level of contribution the member (or an entity on behalf of the member) is required to pay according to scheme rules.
Mandatory occupational plans	Participation in these plans is mandatory for employers. Employers are obliged by law to participate in a pension plan. Employers must set up (and make contributions to) occupational pension plans which employees will normally be required to join. Where employers are obliged to offer an occupational pension plan, but the employees' membership is on a voluntary basis, these plans are also considered mandatory.
Mandatory personal plans	These are personal plans that individuals must join or which are eligible to receive mandatory pension contributions. Individuals may be required to make pension contributions to a pension plan of their choice normally within a certain range of choices or to a specific pension plan.
Minimum pension	The minimum level of pension benefits the plan pays out in all circumstances.
Multi-employer pension funds	Funds that pool the assets of pension plans established by various plan sponsors. There are three types of multi-employer pension funds: <i>a)</i> for related employers <i>i.e.</i> companies that are financially connected or owned by a single holding group (group pension funds); <i>b)</i> for unrelated employers who are involved in the same trade or business (industry pension funds); <i>c)</i> for unrelated employers that may be in different trades or businesses (collective pension funds).
Net rate of return	The rate of return of an asset or portfolio over a specified time period, after discounting any fees of commissions.
Normal pension age	Age from which the individual is eligible for pension benefits.
Occupational pension plans	Access to such plans is linked to an employment or professional relationship between the plan member and the entity that establishes the plan (the plan sponsor). Occupational plans may be established by employers or groups thereof (<i>e.g.</i> industry associations) and labour or professional associations, jointly or separately. The plan may be administered directly by the plan sponsor or by an independent entity (a pension fund or a financial institution acting as pension provider). In the latter case, the plan sponsor may still have oversight responsibilities over the operation of the plan.
Open pension funds	Funds that support at least one plan with no restriction on membership.

Term	Definition
Overfunding	The situation when the value of a plan's assets are more than its liabilities, thereby having an actuarial surplus.
Pension assets	All forms of investment with a value associated to a pension plan.
Pension funds	The pool of assets forming an independent legal entity that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits. The plan/fund members have a legal or beneficial right or some other contractual claim against the assets of the pension fund. Pension funds take the form of either a special purpose entity with legal personality (such as a trust, foundation, or corporate entity) or a legally separated fund without legal personality managed by a dedicated provider (pension fund management company) or other financial institution on behalf of the plan/fund members.
Pension insurance contracts	Insurance contracts that specify pension plans contributions to an insurance undertaking in exchange for which the pension plan benefits will be paid when the members reach a specified retirement age or on earlier exit of members from the plan. Most countries limit the integration of pension plans only into pension funds, as the financial vehicle of the pension plan. Other countries also consider the pension insurance contract as the financial vehicle for pension plans.
Pension plan	A legally binding contract having an explicit retirement objective (or in order to satisfy tax related conditions or contract provisions the benefits cannot be paid at all or without a significant penalty unless the beneficiary is older than a legally defined retirement age). This contract may be part of a broader employment contract, it may be set forth in the plan rules or documents, or it may be required by law. In addition to having an explicit retirement objective, pension plans may offer additional benefits, such as disability, sickness, and survivors' benefits.
Pension plan sponsor	An institution (<i>e.g.</i> company, industry/ employment association) that designs, negotiates, and normally helps to administer an occupational pension plan for its employees or members.
Personal pension plans	Access to these plans does not have to be linked to an employment relationship. The plans are established and administered directly by a pension fund or a financial institution acting as pension provider without any intervention of employers. Individuals independently purchase and select material aspects of the arrangements. The employer may nonetheless make contributions to personal pension plans. Some personal plans may have restricted membership.
Private pension funds	A pension fund that is regulated under private sector law.
Private pension plans	A pension plan administered by an institution other than general government. Private pension plans may be administered directly by a private sector employer acting as the plan sponsor, a private pension fund or a private sector provider. Private pension plans may complement or substitute for public pension plans. In some countries, these may include plans for public sector workers.
Projected Benefit Obligation (PBO)	The actuarial present value of vested and non-vested benefits attributed to the plan through the pension benefit formula for service rendered to that date based on employees' future salary levels.
Protected pension plan	A plan (personal pension plan or occupational defined contribution pension plan) other than an unprotected pension plan. The guarantees or promises may be offered by the pension plan/fund itself or the plan provider (<i>e.g.</i> deferred annuity, guaranteed rate of return).
Public pension funds	Pension funds that are regulated under public sector law.
Public pension plans	Social security and similar statutory programmes administered by the general government (that is central, state, and local governments, as well as other public sector bodies such as social security institutions). Public pension plans have been traditionally PAYG financed, but some OECD countries have partial funding of public pension liabilities or have replaced these plans by private pension plans.
Rate of return	The income earned by holding an asset over a specified period.
Replacement rate	The ratio of an individual's (or a given population's) (average) pension in a given time period and the (average) income in a given time period.
Separate accounts	A pension fund that is legally segregated from both the plan sponsor and a financial institution that acts as the manager of the fund on behalf of the plan member.
Single employer pension funds	Funds that pool the assets of pension plans established by a single sponsor.
Trust	A legal scheme, whereby named people (termed trustees) hold property on behalf of other people (termed beneficiaries).
Trustee	A person or a company appointed to carry out the tasks of the trust.
Underfunding	The situation when the value of a plan's assets are less than its liabilities, thereby having an actuarial deficiency.

Term	Definition
Unfunded pension plans	Plans that are financed directly from contributions from the plan sponsor or provider and/ or the plan participant. Unfunded pension plans are said to be paid on a current disbursement method (also known as the pay as you go, PAYG, method). Unfunded plans may still have associated reserves to cover immediate expenses or smooth contributions within given time periods. Most OECD countries do not allow unfunded private pension plans.
Unprotected pension plan	A plan (personal pension plan or occupational defined contribution pension plan) where the pension plan/fund itself or the pension provider does not offer any investment return or benefit guarantees or promises covering the whole plan fund.
Voluntary contribution	An extra contribution paid in addition to the mandatory contribution a member can pay to the pension fund in order to increase the future pension benefits.
Voluntary occupational pension plans	The establishment of these plans is voluntary for employers (including those in which there is automatic enrolment as part of an employment contract or where the law requires employees to join plans set up on a voluntary basis by their employers). In some countries, employers can, on a voluntary basis, establish occupational plans that provide benefits that replace at least partly those of the social security system. These plans are classified as voluntary, even though employers must continue sponsoring these plans in order to be exempted (at least partly) from social security contributions.
Voluntary personal pension plans	Participation in these plans is voluntary for individuals. By law individuals are not obliged to participate in a pension plan. They are not required to make pension contributions to a pension plan. Voluntary personal plans include those plans that individuals must join if they choose to replace part of their social security benefits with those from personal pension plans.
