State Pension Payout Claims - Is The Headline The Reality?

As expats, many of us are planning our own retirement income using investments and savings, but also relying on our home country's state provision, at least as part of our plans for old age. So what are you likely to receive?

The newspaper headline screamed; "UK State Pension Worst in the Developed World!"

This was then followed up by a report saying that according to data from Organisation for Economic Co-operation and Development (OECD), as a percentage of average earnings, the UK government pays out just 29%, putting it at the bottom of a global table.

The table was led by the Netherlands, which pays 100.6% of average earning, Portugal, which offers 94%, and Italy, on 93.2%. The UK is joined at the bottom of the list by Japan, Poland and Mexico, but all these countries still pay better state pensions, the report by the group of developed nations showed.

An annotated version of the table is below, with importantly the OECD average of 62.9% included – Which you will need to remember for a little later.

Rank	Country	% of Average Earnings
1	Netherlands	100.6
2	Portugal	94.9
3	Italy	93.2
4	Austria	91.8
5	Spain	81.8
24	UK	29
	OECD average	62.9

This information was further backed up by a widely shared social media image that claimed; “Pensioners in the rest of the EU get more cash than the elderly in the UK” – Stating that the maximum weekly state pension is £141 in the UK, £507 in Germany, £304 in France, and £513 in Spain.

But is this the reality of the situation, that the UK State Pension is really the worst in the developed world?

Let me start by saying that the figures for the UK, Spain and France are in the right ballpark, but the differences between their pension systems means it’s not a fair comparison.

For example, Germany doesn’t have a maximum amount for its state pension.

Compared to these other countries, the UK state pension is essentially a flat rate with the exact amount dependent on years of contributions and age.

Spanish, German and French pensions are calculated using more complex formulas that depend on previous earnings, so their maximum weekly pensions appear higher, as those would be only for the countries’ higher earners.

So, What is a Fair Comparison?

A fair comparison can only be made by taking other factors into account.

Firstly, this figure of 29% payout for the UK doesn’t include any additional state pension, pension credit, or other benefits a pensioner might be eligible for – Benefits that are not available at anywhere near to the same extent that they are in the UK.

So in this particular respect, should an individual’s personal situation dictate, UK pensioners can expect more money from the government than their European counterparts.

The headline article, and the OECD figures also do not take into account the large range of financial benefits available to UK pensioners - things like winter fuel payments (between £100 and £300), free prescriptions, and free TV licences for the over 75s are just some of the subsidies offered to pensioners in the UK that are not available in other countries.

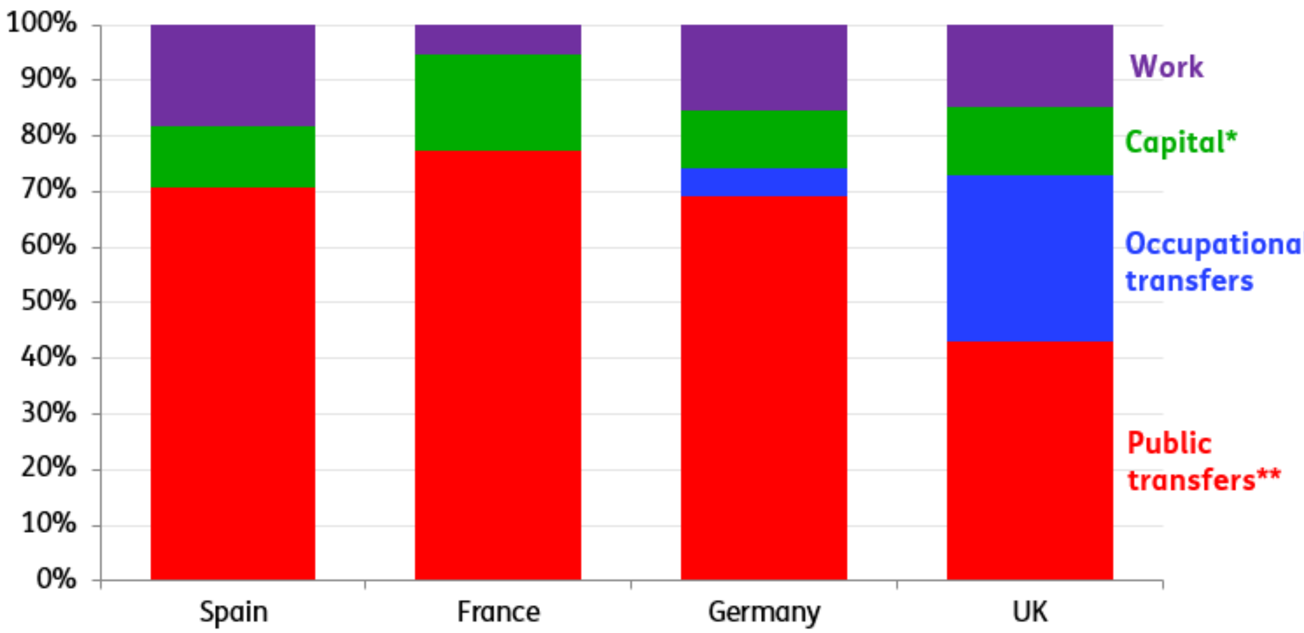
We also need to add to this that many UK workers pay into additional non-compulsory workplace pensions as well, and those are dependent on earnings, similar to the Spanish, German & French State pensions.

Could this be a Clearer Picture?

If we look at how different income sources contribute to the average pensioners’ total earnings, out of the four countries being compared in the viral image, the proportion of pensioners’ earnings from publically provided benefits is the smallest in the UK, at just 43%. In France, Germany and Spain, it’s closer to 70%.

However, occupational transfers, like a private workplace pension, make up 30% of older people’s earnings in the UK, compared to 5% in Germany and a negligible amount in Spain and France.

A more accurate comparison might be achieved by looking at the graph below comparing pensioners’ incomes internationally and the average percentage of the sources of their incomes.



*** Capital includes private pensions and income from non-pensions savings.**
**** Public transfers include earnings-related pensions and resource tested benefits.**

So while it is true that the UK lags behind in its basic State pension payout, it's not a simple as just looking at one piece of information in isolation.

And finally, we need to remember that these figures provided by the OECD and the viral image do not take into account the different average incomes and cost of living in various countries.

The Conclusion

Once the UK's private pensions are added to the state pension, the average income in retirement for UK pensioners rises to just over 60% of former career earnings, just below the OECD average of 62.9%.

If you then take into account the other factors available to UK pensioners, such as means-tested benefits, winter fuel payments, free prescriptions and TV licences etc etc, the situation may not be quite as bad as the headline writers scream – and remember, their job is to sell newspapers, not necessarily to tell the exact truth or the whole story!

To Be Continued…

This information may have brought you to another question – How do I Create a Retirement Plan that Provides my Ideal Pension Pot?

This is not a question to be answered today - enjoy your Christmas and New Year holidays. Let's address it together in the January newsletter as part of your New Year Resolutions!