

Luxembourg

Luxembourg: Pension system in 2016

The public pension scheme has a basic (flat rate) part and an earnings-related part. There is also a minimum pension.

Key indicators: Luxembourg

		Luxembourg	OECD
Average worker earnings (AW)	EUR	56 197	34 803
	USD	59 134	36 622
Public pension spending	% of GDP	8.5	8.2
Life expectancy	at birth	82.0	80.9
	at age 65	20.2	19.7
Population over age 65	% of working- age population	22.0	27.9

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Qualifying conditions

Any insured person who has reached his or her 65th birthday is entitled to an old age pension, subject to proof of at least 120 months' contributory periods (compulsory or voluntary). Any insured person who has reached his or her 60th birthday is entitled to an early old age pension, subject to proof of 480 months' contributory (compulsory or voluntary) and non-contributory periods, provided that contributory periods account for at least 120 months. Any insured person who has reached his or her 57th birthday is entitled to an early old age pension, subject to proof of 480 months' compulsory contributory periods.

Benefit calculation

Basic

The basic pension benefit equalled EUR 458 per month in 2016, subject to 40 years of coverage. For shorter insurance periods, the benefit is reduced proportionally. Formally, the basic pension corresponds to a fixed annual percentage parameter of a reference amount, which amounted to 23.95% and EUR 1.913, respectively, in 2016.

There is also an “end-of-year allowance”, which adds EUR 61.27 per month to the pension for 40 years' contributions. Just as for the basic pension, it is proportionally reduced in the case of shorter insurance periods, thus amounting to around EUR 1.53 per month for each year covered.

Earnings-related

The accrual rate for the earnings-related pension benefit corresponds to a fixed annual percentage parameter and is equal to 1.825% (2016). It is applied to the total accumulated income.

The accrual rate is higher for older workers with longer contribution periods. For each year that the sum of the individual's age and number of contributory years exceeds 93, the accrual rate is increased by 0.012 percentage points. Both parameters represent the values that apply in 2016. The maximum accrual rate is equal to 2.05% per year.

The maximum pension in 2016 was EUR 7 969 per month (formally defined as $\frac{25}{6}$ of the reference amount).

Pension benefits are indexed to changes in both the cost of living (price indexation), and the real wage evolution (yearly readjustment). The degree of adjustment to real wage evolution depends on the financial situation of the pension scheme.

Minimum

The minimum pension benefit is equal to EUR 1 721 per month (formally defined as 90% of the reference amount) and conditional to 40 years' coverage (compulsory, voluntary or credited periods). The benefit is proportionally reduced for shorter periods, down to an eligibility minimum of 20 years' coverage.

Social assistance

The social-assistance safety-net level is EUR 1 348 per month for a single person and EUR 2 022 per month for a domestic community of two adults in 2016. In order to be eligible, an individual has to be 25 years of age and have a legal residence in Luxembourg.

Variant careers

Early retirement

Early retirement (anticipated pension) is possible at age 57 with 40 years' coverage of compulsory contributions, and at age 60 with 40 years' coverage of compulsory, voluntary or credited (non-contributory periods) periods. Early retirees may work provided that earnings remain insignificant or the overall income does not exceed the average of the five best yearly incomes of the career so far. There is no further actuarial adjustment to benefits for early retirement.

In addition, there are a number of pre-retirement programmes. Relevant here are the pre-retirement solidarity and pre-retirement adaptation schemes. The pre-retirement solidarity scheme allows early retirement given that the employer hires a job seeker assigned by the employment administration. A current draft law foresees to abolish the pre-retirement solidarity scheme.

The pre-retirement adaption scheme allows for early retirement for older workers losing their jobs due to restructuring or bankruptcy. Both schemes are available from age 57, provided that conditions for early retirement from age 60 are satisfied within the following 3 years. The pre-retirement benefit is equal to 85% of past earnings in the first year, 80% in the second year, and 75% in the third. The earnings reference is salary in the preceding three months.

Late retirement

The pension benefit has to be claimed at age of 65, unless qualifying conditions are not fulfilled at that date. However, it is possible to combine work and pension benefit receipt without reduction to the pension benefit.

Childcare

Parents can take a full-time parental leave (cong  parental) of up to 6 months (several part-time parental leave options exist). During this leave, the beneficiary receives a monthly allowance (replacement income subject to contribution) based on his previous salary. Parental leave periods count for pension eligibility and impact both the basic (flat rate) and the earnings-related part of the personal pension.

Childcare periods ("Baby years") of up to 24 months per child until the age of 4 can be credited as insured time. For these unremunerated periods, compulsory contributions, the baby years, are credited. Childcare periods count for pension eligibility and impact both the basic (flat rate) and the earnings-related part of the personal pension.

Employees with insufficient contributory years to claim baby years have the right to a special monthly allowance at retirement equal to EUR 81 per child.

Educational periods (“Périodes d’éducation”) for bringing up children under age six are credited as non-contributory periods and count for pension eligibility. They do thus impact the basic (flat rate) part of the personal pension.

Unemployment

Unemployment benefits count as replacement income and are subject to contribution. Thus, concerned periods count for pension eligibility and impact both the basic (flat rate) and the earnings-related part of the personal pension.

Personal income tax and social security contributions

Taxation of pensioners

Pension income is subject to income tax. Beneficiaries can benefit from a tax-credit for pensioners (EUR 300 per year). Furthermore, pensioners are allowed to deduct a lump sum of EUR 300 per year as acquisition costs (frais d’obtention) and a minimum lump sum of EUR 480 per year as special expenses (dépenses spéciales).

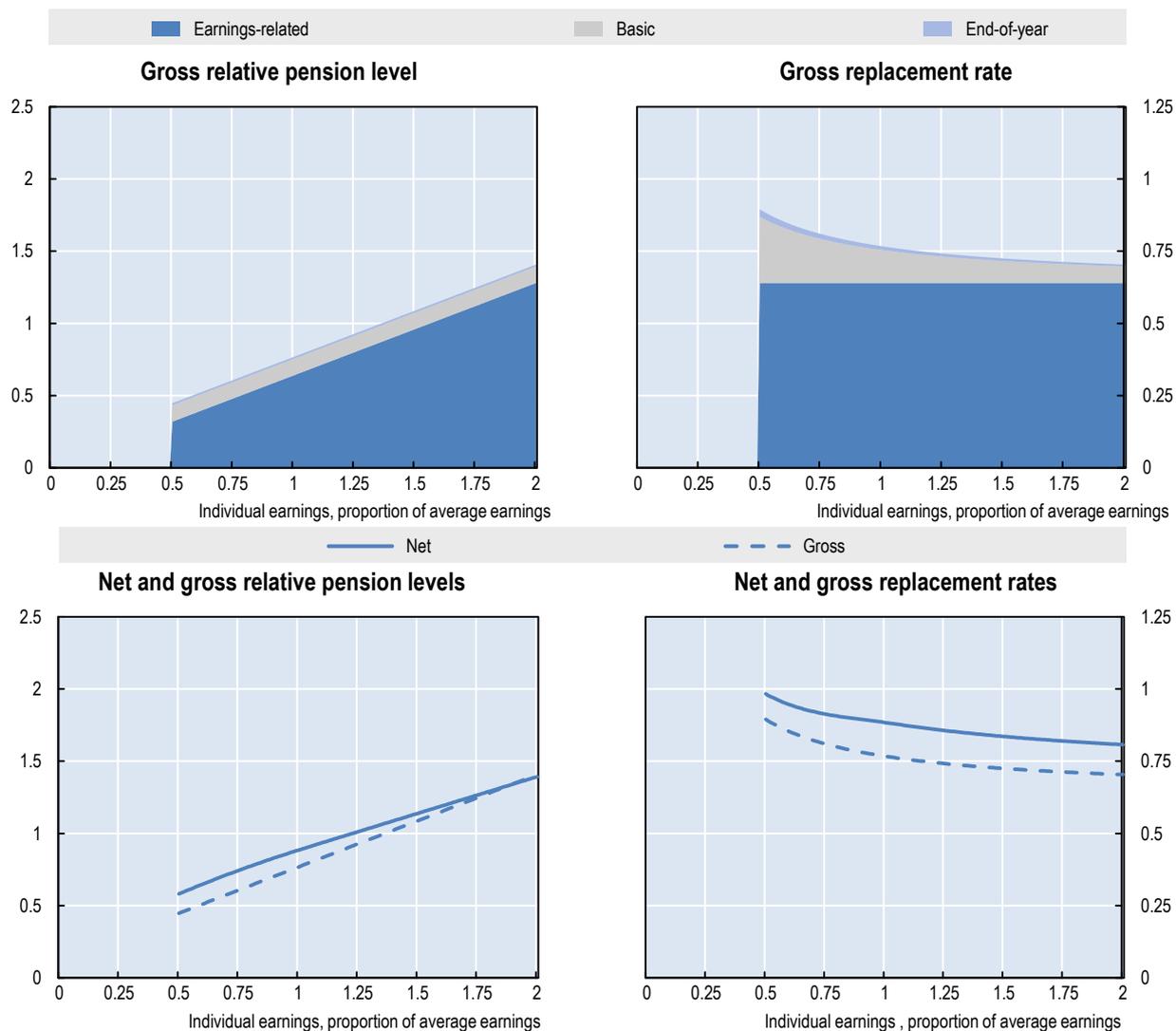
Taxation of pension income

There is no special relief for pension income.

Social security contributions paid by pensioners

Pensions are subject to healthcare insurance contributions (5.60%) and long term care insurance contribution (1.40%). Healthcare insurance contributions are paid in equal parts (2.80% each) by the pensioners (employee part) and the pension provider (employer part). Pensioners also contribute to the unemployment-insurance scheme through a solidarity surcharge between 7% and 9% on their income-tax liabilities.

Pension modelling results: Luxembourg in 2056 retirement at age 60



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	44.7	60.7	76.7	108.7	140.7	182.9
Net relative pension level (% net average earnings)	58.2	74.4	88.4	113.9	139.3	172.8
Gross replacement rate (% individual gross earnings)	89.5	81.0	76.7	72.5	70.4	61.0
Net replacement rate (% individual net earnings)	98.3	91.3	88.4	83.6	80.7	69.2
Gross pension wealth (multiple of individual gross earnings)	22.7	20.5	19.4	18.4	17.8	15.5
Net pension wealth (multiple of individual net earnings)	24.9	23.1	22.4	21.2	20.5	17.5

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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