

Key findings

- Poverty rates for older people are high compared to the whole population and to other OECD countries. Currently, 21% of people over 65 live in income poverty in the United States relative to 17% for the whole population. This compares to 12.5% and 11.5% for the OECD average, respectively.
- The future net pension replacement rate from mandatory schemes for a full-career average-wage worker equals 49% against an OECD average of 63%. Workers on half the average wage who retire after a full career may expect a net replacement rate of 60% relative to 73% on average across the OECD.
- Private pensions play an important role in providing incomes for old age in the United States. Assuming that workers contribute to voluntary private pensions throughout their career at a rate of 9% the average-earner net replacement rate would increase from 49% to 87%.
- Population ageing is less pronounced in the United States, which will become one of the OECD countries with the lowest old-age dependency ratio. In the United States, the number of people aged over 65 per 100 of working age is projected to increase from 25 currently to 40 in 2050. The OECD average is 28 and 53, respectively.
- The employment rate of older workers has been growing slowly in the United States. Working longer would improve both the financial sustainability of the pension system and retirement-income adequacy. Employment rates of people aged between 55 and 64 have increased by 14 percentage points on average in the OECD, from 44% in 2000 to 58% in 2016. In the United States, however, the rate only increased from 58% to 62%.

Overview – Old-age poverty is high and must be prevented from rising

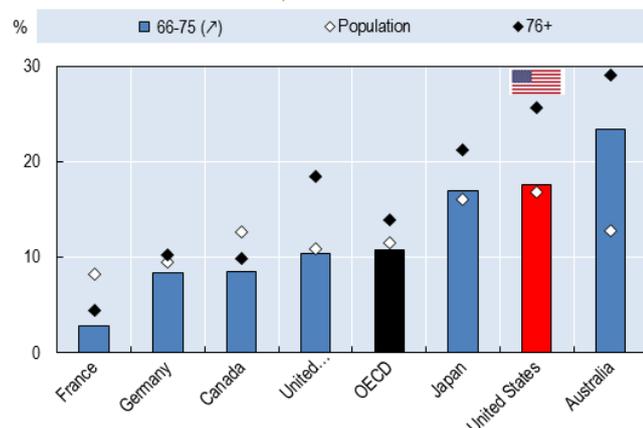
Income poverty (at half the median equivalised household income) is high in the United States, in general and among the elderly in particular. Poverty among 66-75 year olds stands at 17.6% but is lower than among those aged 76 and over who have a poverty risk of 25.7%, compared to the OECD averages of 10.7% and 13.9%, respectively. As in the OECD on average, there is a large gender gap in old age poverty with 23.9% of women aged 66 and above at risk of poverty compared to 17.2%

of men. Although old-age poverty rates are high, people aged 66 and above have on average incomes equal to 94.5% of those of the total population, against 87.6% on average in the OECD, reflecting the high level of old age inequality in the United States.

The future net pension replacement rate from mandatory schemes for a full-career average-wage worker equals 49% against an OECD average of 63%. Although the replacement rate increases to 60% for low income earners, it is still relatively low in comparison with the OECD average at 73%. Additional income from personal or occupational pensions is therefore required to supplement incomes.

Poverty rates are high among all age groups

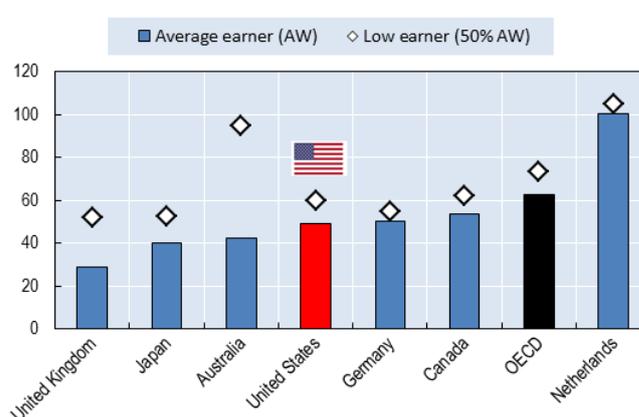
Percentage of population with incomes less than 50% of median household disposable income, 2015



Source: [Table 6.3].

Net replacement rates are below the OECD average

Net replacement rates from mandatory schemes, by earnings level



Source: [Table 4.8].

Private pensions play an important role in providing old-age income in the United States. The country has one of the longest traditions of complementing public pensions with voluntary private pensions. The net replacement rates of an average earner increases from 49% with public schemes only to 87% when full-career voluntary pension contributions at 9% are taken into account. However, this assumes a full 47 years of contribution at 9% of earnings which is uncommon.

The coverage of the working-age population (15-64 years) in private pension schemes is around 50%: 41% participate in voluntary occupational pension schemes and 19% in voluntary personal plans, with some having both. While this is around the OECD average, in Germany and New Zealand voluntary private pensions cover more than 70%.

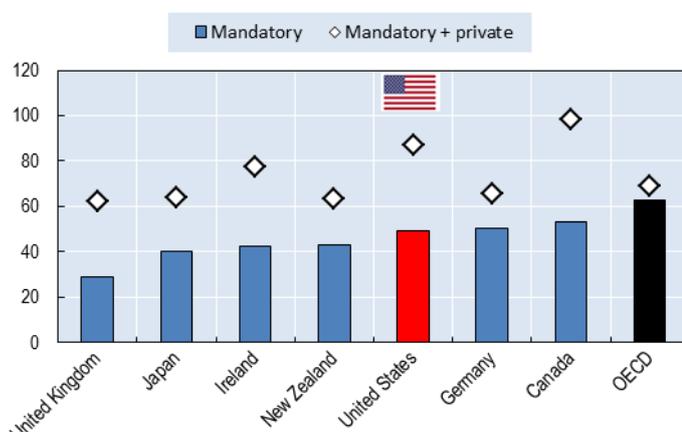
Longer lives, the increasing diversity of work trajectories and the growing desire for more autonomy in modern societies are motivating calls for more flexible retirement. Surveys referenced in Chapter 2 found that in the United States 77% of employers say that many employees at their company plan to continue working either full-time or part-time after the retirement age and 81% say their company is “supportive” of employees working past 65.

However, for most workers a smooth transition into retirement is not yet reality. In most OECD countries, employed workers aged 60-64 work only slightly fewer hours per week on average than those aged 55-59. In the United States, 55-59 year-olds work about 40 hours per week on average, while those aged 60-64 report an average of 39 hours worked per week. At the same time, employment rates fall sharply in people’s 50s and 60s in many OECD countries. But the employment rate of older workers, aged 55 to 64, has been high in the United States in comparison to OECD countries. In 2000 it was 58% in the United States compares to 44% on average. However, since then the OECD average has increased to 58% whilst the figure for the United States only increased to 62%. With 35 years of contributions required for the full social security pension many retirees will be unable to reach this level before the official retirement age unless employment rates increase at a faster rate. Indeed 31% of 65-69 year olds work (on average for 35 hours per week), whilst only 21% of 65-69 year olds work across the OECD. Moreover, over 35% of income for those aged over 65 comes from work versus 24% in the OECD on average.

While employers recognise that many of their staff want to retire more flexibly, few have programmes in place to support a gradual exit from employment. Fewer than two in five employers offer flexible time schedules in the United States and nearly one third of older workers in the United States perceived their retirement as forced, linking it to health limitations, job displacement, and care obligations.

Private pensions play an important role in providing old-age income

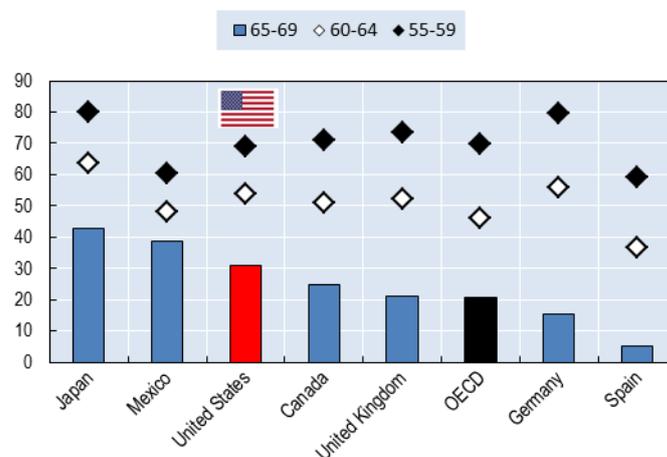
Net replacement rates from mandatory and voluntary schemes, average wage earner



Source: [Table 4.11].

Employment rates of older workers are high

Employment rates by age, 2016



Source: [Figure 5.6].