

# How does the United States retirement system compare to other countries?

Quickly, let's compare 5 countries: the U.S., Canada, Japan, the United Kingdom, and Denmark.

By **Frederic Slade** | March 21, 2019 at 02:07 PM



When comparing the quality of retirement security in the United States as opposed to other countries, the question is not: which system is best or worst? All retirement systems have their positives and negatives.

Instead, the approach here is to compare several quality metrics among selected countries, understanding that subjective, or “quality of life” metrics, while also important, are more difficult to compare.

The five countries selected here are the United States, Canada, Japan, the United Kingdom, and Denmark.

**Retirement age:** According to Aperion Care, average retirement ages are generally in the 62-66 range for these five countries, ranging from age 62 in Japan to age 66 in Denmark.

However, the “official” retirement ages are higher for four of the countries (65 and above) with Japan expected to raise its normal retirement age to 65 by 2025.

**Income replacement rates:** How well does the combination of public and private retirement programs replace a worker’s pre-retirement income? Recent estimates from the Organisation for Economic Cooperation and Development (OECD) show a wide range of replacement rates.

For the five subject countries, Denmark had the highest gross replacement rate (86.4%) while the UK had the lowest (52.2%). The United States had a gross replacement rate of 71.3%, with nearly half coming from voluntary retirement plans such as 401(k)s.

**Ratio of workers to retirees (support ratio):** A key predictor of the potential cost and coverage of retirement systems is the number of people of working age who are supporting retirees. The lower the ratio of potential workers to retirees, the greater the support required by public and private retirement plans per worker.

In 2015, according to the United Nations, of the five selected countries, Japan had the lowest support ratio (2.2) while the United States had the highest (4.1). However, all of these countries are expected to face lower support ratios in the future. By 2055, the United States support ratio is expected to decline to 2.5 workers per retiree, while Japan’s is expected to decline to 1.5.

**Global Retirement Index Study:** A frequently cited measure of the quality of global retirement systems is the Natixis Global Retirement Index. The index, calculated annually, is comprised of four main components: Health; Material Well Being; Quality of Life and Finances in Retirement.

Health incorporates factors such as life expectancy and health spending; Finances in Retirement includes inflation, interest rates and taxes; Material Well Being incorporates Income equality and employment; and Quality of Life includes air quality and other environmental factors.

For the five selected countries, Denmark ranked highest in the 2018 Natixis study (8th overall globally) and Japan ranked lowest (22nd overall). The United States was in the middle, ranking 16th overall.

For the United States, the greatest relative detractors were income inequality, happiness and biodiversity. The main positives for the US compared to other countries were finances and health care expenditures.

Although countries have different retirement systems and mixes of public and private programs, one common challenge is the aging of their populations.

While rankings can be informative, a more important objective is identifying current and expected challenges to providing secure retirement outcomes.

*NOTE: Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. Past performance is not a guarantee of future investment results.*

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