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Efficient fiscal policy
to ensure income security
for the elderly

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OECD Working Papers on Public Governance

Efficient fiscal policy to ensure income security for the elderly



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Abstract

An ageing population and the growing need for support for elderly retirees have put public finances under pressure. This paper examines how countries can strengthen income security in old age through efficient fiscal policies, considering not just income flows but also wealth during retirement. As many older people hold significant assets, particularly housing, income alone does not fully capture financial well-being. Drawing on experiences in selected OECD countries, the paper explores concrete options for targeting financial support during retirement, considering both income and wealth. The paper also explores how annuities and reverse mortgages can allow individuals to convert existing assets into additional retirement income, reducing the need to draw on public finances. The analysis suggests that, while these tools have the potential to complement public pensions and help manage financial risks, they remain underused due to informational, regulatory and market challenges. The paper highlights practical experiences with overcoming these challenges, including providing clear information, ensuring appropriate safeguards and offering supportive market conditions to facilitate uptake drawing on a range of experiences across OECD countries.

Keywords: pension; housing; reverse mortgage; annuity; budget; public finance; ageing

JEL codes: A1; E6; H55; H6

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Executive summary

In a context of ageing populations and increased pressures on public finances, promoting efficient fiscal policy to ensure income during retirement is an important goal. This paper analyses options for ensuring income security among elderly populations while minimising additional pressures on public finances, including use of means- and wealth-testing for elderly support, annuities and reverse mortgages. It was prepared at the request of the Korea Institute of Public Finance. In Korea, old-age poverty rates remain high while asset ownership among older households, particularly housing assets, is also substantial. The paper draws on a comparative analysis of selected OECD countries for each mechanism explored. The paper also provides contextual information for Korea where relevant.

First, the paper looks at the extent to which four OECD countries – Australia, Canada, France and Sweden – take income and wealth into account in providing public support for the elderly. It includes comparative analysis of the income and wealth distribution among the elderly and a discussion of asset-based mechanisms. Considering only income when measuring poverty does not provide a full picture: wealth, particularly housing, also plays a significant role in old age. All four countries have systems to support pension sustainability, including means-testing of programmes, incentives to continue working past retirement age, and adjustments of pension indexation when pension assets are insufficient. All four also support low-income retirees through mechanisms such as means-tested pension supplements and, in some cases, retirement savings support and tax relief mechanisms. While income is the most common basis for determining government assistance, several countries also consider wealth. In Australia, an asset test alongside an income test determines public pension eligibility. Sweden considers assets above a certain threshold in eligibility calculations for housing support. France has clawback mechanisms for certain low-income elderly support programmes if assets are sufficiently high. Other mechanisms include linking benefits to life expectancy and labour market trends, as in Sweden, or including an invested component or reserve fund part in public pension programmes.

The paper also looks at tools that can transform existing wealth into income throughout retirement, without public funding. Annuities and reverse mortgages can generate alternative income flows in retirement for retirees with housing or financial assets.

The analysis of the design, promotion and regulation of annuities draws on six focus countries, including Denmark, France, Germany, Italy, the United Kingdom and the United States. In Denmark, France, Germany and Italy, annuities are either offered through public schemes, though not necessarily mandatory, or private schemes while benefitting from government incentives. In the United Kingdom and the United States, annuities are primarily provided through private markets, with fewer direct incentives or mandates. Despite their theoretical advantage, annuity uptake remains comparatively low. On the consumer side, this is partly due to fear of giving up liquidity, and to the perception of annuities as irreversible. On the supply side, fear of longevity and low-interest rate risks, as well as stringent regulatory requirements, limit product development. However, in Germany and Denmark, strong incentives mean that most people take some portion of their pension as an annuity. The United Kingdom used to mandate the purchase of an annuity with assets accumulated in defined contribution plans, leading to a large annuity market, but annuity purchases dropped once the mandate was removed.

Tax incentives can encourage annuitisation. In Denmark, there are no limits on the tax deductibility of contributions to pension plans paying life annuities, while contributions to plans paying lump sums are not tax deductible (pension income is then taxable for annuities while it is not for lump sum withdrawals). Some countries are discussing making annuities the default option within retirement schemes. However, several countries, including Italy and Denmark, are trying to provide variants that allow some form of a lump sum withdrawal (OECD, 2024^[1]).

Annuities may carry financial risk, which requires prudential requirements to ensure solvency. Consumer assistance and protection are crucial for ensuring understanding and encouraging uptake. Most countries require annuity providers to supply clear, standardised information to consumers before purchase. Digital tools such as simulators can also help.

The paper also reviews reverse mortgages as a tool to generate income from wealth during retirement, drawing on the analysis of Australia, Canada, France, Italy, Sweden, the United Kingdom and the United States. Unlike conventional loans, reverse mortgages do not have credit requirements. Since borrowers are not required to make regular payments, lower-income retirees can benefit. Most countries impose requirements such as age minimums, house value minimums or that the home be owned outright. Maximum amounts can be taken out as a loan, expressed as a proportion of the house value.

Reverse mortgages are generally provided privately, although public schemes exist in Australia and the United States. They are tightly regulated, and focus countries have legislative guidelines in place such as a no negative equity guarantee (if the loan value exceeds the sale price of the property at the point of contract termination, the bank takes on the difference).

Reverse mortgages are flexible: disbursement can involve either a lump sum or monthly payments. Borrowers can often choose to pay the loan early, not pay at all until their death, or choose to sell the home and pay it off then, although specific conditions vary across countries and providers. Several countries also have mechanisms in place to ensure the borrower's spouse is supported by the reverse mortgage when the borrower dies.

Interest rates are generally much higher than for a standard mortgage given the flexibility, combined with the risk assumed by lenders (e.g. borrowers' longevity and property values insufficient to cover the accumulated loan balance). Public guarantees and risk-pooling funds can reduce these risks, and hence the interest rate. Most focus countries have measures in place to prevent compounding interest for borrowers.

Adequate information for consumers is crucial for uptake. In the United Kingdom and United States, providers are required to provide prospective borrowers face-to-face advice on whether a reverse mortgage is appropriate for them and support consumer understanding throughout the transaction. Sweden, France and Italy emphasise formal disclosure, mandating transparency in reverse mortgage agreements and requiring that lenders take steps to clearly communicate financial concepts such as the effective interest rate and how debt is likely to evolve.

1 Key findings

1.1. Ensuring effective income security in old age from a broader income and wealth perspective

Population ageing creates significant additional pressures on public finances across OECD countries, particularly in countries with a stable or declining share of the working-age population and low birth rates. In fact, public financing for pension systems generally represents a significant, if not the largest, budget item, on average around 18% of public spending (OECD, 2025^[2]). Furthermore, in the context of increased public debt, and rising private wealth, countries are exploring alternative policy options to reduce old-age poverty without creating additional fiscal pressures. In addition, the rise in house prices in many OECD countries (Figure 4), particularly across metropolitan areas, has also created an additional set of higher value assets. In this context, from an effective fiscal policy standpoint, it is useful to adopt a broader perspective on how individuals generate and manage income in retirement, that not only considers formal pensions but also other sources of wealth. This also requires gaining a broader picture of income and wealth patterns, including through longitudinal data on income and wealth in retirement, which are not always available in all countries.

A broader look at resources helps provide a more nuanced understanding of resources in retirement, as it is important to consider not only income flows but also assets, including housing wealth. The institutional set-up of public pension and support schemes in countries such as Australia, Canada, France and Sweden reflects this to varying degrees. While some of the institutional set-ups can remain fragmented, they can offer useful insights for other countries.

There is already an extensive literature discussing the role of private market instruments to provide effective pension provision, including primarily asset-backed/funded private pensions. Therefore, the goal of this paper was to complement the existing analysis with a more focused approach to shed additional light on the potential value of private assets in alleviating pressure on public finances by exploring the cases of annuities and reverse mortgages. These two tools can be used to transform existing wealth into flows of income. This could be relevant for countries with rapidly ageing populations and relatively limited coverage of personal pension plans,¹ and where the elderly may hold significant wealth, particularly Korea. In theory, annuities and reverse mortgages offer opportunities for transforming accumulated financial and housing wealth into predictable income, thereby helping retirees manage longevity and investment risk while easing pressure on public financing, which could help to reduce some pockets of poverty. However, the limited uptake in the focus countries suggests that in many cases, there remain barriers in market design, limits to consumer understanding, and gaps in regulatory frameworks, which calls for a closer look at both annuities and reverse mortgage schemes. This can help identify the gaps and mechanisms that could be implemented to use these tools to their full potential.

From a public finance perspective, it is useful to explore the opportunities that could be offered by greater reliance on annuities or alternatively reverse mortgages. This could help to ease pressures on public funds and help focus public funding to reduce remaining pockets of poverty in old age through means- and asset-tested mechanisms.

1.2. Opportunities for mobilising annuities

Annuities allow retirees to exchange their assets for a lifelong stream of guaranteed income. Such tools have significant potential benefits both for retirees, helping mitigate the risk that they outlive their assets, and for governments, through increasing private-sector retirement options and therefore alleviating financial pressure on public financing for pensions (for more detail see Section 3).

However, uptake of annuities remains low in most countries studied. Consumers are often hesitant about giving up direct access to their assets and often do not fully understand annuity products and their implications, which can lead to them undervaluing the benefits that annuities bring. In addition, the low interest-rate environment of the past decade has made annuities less appealing for consumers. Moreover, the value of additional private annuitisation depends on the wider retirement-income system and may be greater when public pensions are comparatively less developed. On the supply side, insurers face financial risks in cases where people live longer than expected, in what is known as systemic longevity risk.

Governments have employed various tools to try and mitigate these issues. One tool is the use of tax incentives. These can be a highly effective lever for encouraging annuitisation, although it can be a challenge to strike a balance between generosity and flexibility. The effectiveness of tax incentives should also be considered alongside their budgetary implications. Countries such as Denmark and Germany show that deferred taxation and age-based reliefs can successfully encourage long-term participation in annuity products, particularly when individuals are granted flexibility in how and when they rely upon annuities. However, overly rigid or mandatory structures – especially if paired with opaque or poor-value products – can create backlash, as illustrated by some aspects of the UK experience.

Another powerful incentivisation approach is the use of default mechanisms – that is, mechanisms where pension wealth is automatically converted into an annuity unless the recipient actively opts out – which most frequently take the form of integrating annuities into occupational and personal pension systems. However, as with tax incentives, such systems should be designed with care. Excessive rigidity or lack of transparency can have adverse effects and will not help secure buy-in from consumers. One middle ground is to integrate annuities into occupational and personal systems, but to offer a diversified set of options within this, including temporary or phased annuity products, and allowing combinations of lump sum and lifetime income to accommodate heterogeneous preferences.

In order to effectively encourage annuity markets, it is useful to also consider the perspectives of employers and providers. Liability concerns and administrative burdens have previously limited the availability of annuities in defined contribution plans. However, regulatory frameworks, perhaps most notably the US SECURE Acts, show that offering legal protections, portability options, and standardised procedures can foster a more conducive environment for employers offering annuity products.

Regarding risk management, robust solvency frameworks such as Solvency II (EIOPA, 2009^[3]) or its national equivalents are essential to maintain insurer resilience, particularly in the face of rising longevity and market volatility. However, overly conservative capital requirements can reduce the appeal and affordability of annuity products, particularly in the context of moderate interest rates seen in the past decade. Some options exist to allow a sufficiently high level of risk in investment to create appealing returns, thus allowing providers to offer higher income levels within annuities. There are options to experiment with hybrid designs that share risk between the insurer and annuitant, such as bonus-based approaches, where the annuitant receives a low base income while being eligible for a share of overall returns when market performance is strong, as evidenced in France and Denmark. Other forms of risk-sharing can include those where income benefits are accumulated relative to an index. This index is usually linked to an economic variable such as interest rates, where contributions provide investment returns subject to a minimum return level, or where a minimum income level is guaranteed (see Chapter 6 of the OECD Pension Outlook (2020^[4])).

Finally, consumer protection and product transparency matter for a well-functioning annuity market – indeed, one reason for the annuity puzzle is the fact that economic theory underestimates the disincentivising impact that the complicated nature of annuities can have on an individual. To overcome this, it is important to promote disclosure standards that clearly communicate trade-offs, promote comparability of products, and require insurers to offer options tailored to varied consumer needs. Guarantee mechanisms, including national guarantee funds and employer guarantee funds, can also support confidence.

1.3. Opportunities for mobilising housing wealth through reverse mortgages

Expanding the use of reverse mortgages to support low-income households represents a potential policy lever to alleviate pressure on public finances, as in many cases support for the low-income elderly represents one of the largest financial obligations of the state.

In many developed economies, home ownership rates are relatively high even amongst low-income groups, with home ownership rates generally increasing with age. This indicates that housing wealth is a key asset for many retirees, who benefit from the imputed rent associated with their home ownership. Governments can take advantage of this through offering a wider set of options for reverse mortgage schemes, which can include a mix of public and private options, to provide a level of income security for low-income retirees in retirement that otherwise would not be accessible.

Reverse mortgages allow homeowners to convert part of the equity in their home into cash, while retaining the right to live in their property. Therefore, they represent a potential way to take advantage of this wealth even if in practice they can take multiple forms. They generally do not require the homeowner to sell the property or make regular loan repayments, and do not require loan repayment until the borrower's death or sale of the home, allowing for flexibility compared with other products. However, as with annuities, reverse mortgage markets are frequently underdeveloped, even in countries with high home ownership rates. This paper discusses the functioning of reverse mortgages in seven countries – Australia, Canada, France, Italy, Sweden, the United Kingdom and the United States – which vary significantly in terms of the maturity and development of their reverse mortgage markets.

A key appeal of reverse mortgages is their flexibility, and providers offer similarly high levels of flexibility across the various countries. All seven focus countries allow borrowers to receive the loan as a lump sum or as regular payments, and allow them to repay the loan early or defer repayment until their death. There are also generally no limitations on the use of the funds, with beneficiaries generally using reverse mortgages for a wide variety of reasons including paying off existing debt, funding healthcare requirements, or funding an early retirement.

However, these factors can also pose risks. The flexibility in the use of funds can lead to beneficiaries using up their loan too quickly, meaning they don't have enough funds for later retirement. Reverse mortgages also tend to have higher interest rates than traditional mortgages, and compounding interest, where interest is added to the loan balance over time and itself accrues further interest, can lead to very high payment requirements. This also means that the value of the home equity can deteriorate rapidly.

While the focus countries have similar setups regarding the flexibility of their reverse mortgages offerings, consumer protection mechanisms vary more. Reverse mortgages tend to be regulated, generally through financial oversight bodies. Many governments also ask that providers clearly explain the consequences of a reverse mortgage to potential clients, and in particular the impact of compound interest. However, the extent to which countries require such explanations varies. In some cases, countries highlight the value of receiving financial or legal advice, but do not require it. While they do mandate some form of an explanation, this often takes the form of a representative example, and does not require in-person explanations. Other countries mandate face-to-face legal counselling, and even require that the prospective borrower has their interests represented by a solicitor during the transaction.

Governments could play a part in mitigating risk levels, both on the lender and the borrower's sides. On the borrower side, two of the most mature reverse mortgage markets that have been analysed – the United Kingdom and the United States require prospective borrowers to receive financial and legal advice on what a reverse mortgage would involve and whether it is suitable for them. Given the apprehensiveness that is likely to exist around a product which involves using one's most significant asset as collateral, such advice can play a crucial role in building trust, clarifying misunderstandings, and ensuring that borrowers make informed decisions that align with their long-term financial needs and goals. As reverse mortgage contracts do not necessarily extend to spouses, it is also important for individuals to be reassured that spouses are protected in the event of the primary borrower's death. Furthermore, as in most cases it falls to the borrower's children or other heirs to pay off the reverse mortgage, often done by selling the house after the death of the borrower, it is important that they have sufficient time to sell the house and obtain the necessary funds. These advisory frameworks and guarantees are likely to help increase demand but may not always be sufficient.

On the supply side, a key issue is ensuring lenders do not have the perception that they are taking on excessive risk due to no negative equity guarantees. No negative equity guarantees are a feature of reverse mortgages that ensure the person responsible for repaying the loan will never owe more than the property's sale value when the home is eventually sold (typically after the borrower's death). This creates a risk for lenders: if house prices fall or borrowers live much longer than expected, leading to a longer period of interest accumulation, the accumulated loan balance may exceed the property value, resulting in losses under the no negative equity guarantee. This risk can affect prospective borrowers in two main ways. First, it may reduce the number of active lenders in the market, as some

providers may be unwilling to take on the uncertainty associated with potential losses under the no negative equity guarantee. Second, for those lenders that remain, it may lead to higher interest rates, as they price in the risk of the loan balance exceeding the property value. Possible remedies include developing risk-pooling mechanisms or providing guarantees that absorb no negative equity guarantee-related losses, thereby reassuring lenders they will not face disproportionate burdens. Governments could also reduce capital requirements for reverse mortgages relative to other loans to limit market exit driven by regulatory pressures, although this approach can also introduce contingent fiscal risks. Some countries additionally restrict how much individuals can borrow, linking limits to the borrower's age and property value. This reduces the likelihood that the eventual sale price fails to cover the loan, although it can make the prospect of a reverse mortgage less appealing.

One of the key factors that can impact the viability of a reverse mortgage is the interest rate, which needs to be actuarially calculated. This can involve a variety of calculations, including using life-expectancy data to estimate how long the borrower is likely to live, using probability distributions to estimate future home-price changes, and estimating the likelihood and size of potential losses, all to then set an interest rate that suitably compensates the lender for these risks. Such calculations can be a challenge, as they need to deal with fluctuations in property values (considering both national trends and regional variations), the loan-to-value ratio (as this impacts the potential cost to the bank of the no negative equity guarantee), and in life expectancy. There is also a need to consider the impact of compounding interest on the loan balance over time. While the higher lender risk associated with reverse mortgages means interest rates will inevitably be higher than in a traditional mortgage, actuarial calculations play a key role in determining appropriate pricing. A robust actuarial basis allows lenders to align interest rates with underlying risks and can help reduce uncertainty regarding potential losses.

A comprehensive legal and regulatory framework is also crucial. Any ambiguities around the regulatory framework of reverse mortgages are likely to disincentivise market entry both on the lender and borrower's sides. Such a framework should cover:

- the relationship of reverse mortgages with tax laws, including inheritance tax laws,
- conditions for loan repayment, property appraisal and property selling,
- any loan-to-value caps and interest rate controls,
- safeguards for spouses and dependents,
- mechanisms for dispute resolution.

In cases where reverse mortgages lack appeal to the public, home reversions can be a potential alternative. In home reversions, the house is sold to a buyer while the original owner retains the right to live in the house until their death, at which point the buyer can move in. These are distinct from reverse mortgages, where the house is used as collateral when taking out the loan. However, in many countries with high home ownership rates, culture revolves around home ownership as a point of pride, and as a valuable asset to be passed down, especially in times of economic uncertainty, where other income and asset sources may be seen as less stable. This can mean that people are reluctant to opt for home reversions. While these cultural barriers are also present for reverse mortgages, in a reverse mortgage the person living in the house retains ownership of the home. While generally the heirs then sell the house to repay the loan, this is not necessary if they have other means of paying.

1.4. Implications for effective fiscal policy related to old age

As the ratio of retired to working people increases in many countries, public pension systems are under growing strain. As such, it can be useful to take a wider perspective on how pension systems can be funded, both by considering what further resources could help fund pension systems and by considering how public funding can be focused on where it is most needed.

Two groups with greater exposure to the risk of old-age poverty are low-income groups, due to limited lifetime earnings and low accumulated savings, and the very old, who are more likely to have depleted private resources while facing rising health and long-term care costs.

Mobilising private wealth when feasible can represent an effective option to complement public transfers and reduce publicly funded old-age pension spending. Instruments such as annuities and reverse mortgages offer potential ways to convert existing wealth into stable, lifelong income streams. However, their uptake often remains limited. When designed well, such instruments can allow governments to concentrate public spending on those in greatest need, including older retirees with no significant assets to draw on, while enabling those with accumulated wealth to better self-finance their retirement.

International experience shows that asset-based means-testing mechanisms, such as those in Australia and Canada, can support more targeted use of public funds. These approaches can help ensure that tax revenues are directed towards preventing poverty in old age. However, as retirees age, financial considerations cannot be separated from health and care needs. Any strategy to mobilise wealth may require an integrated policy framework considering retirement income, as well as health and long-term care provision, including access to appropriate support services in later life, particularly for individuals ageing alone.

Looking forward, countries seeking to strengthen the effectiveness of public funding, while maintaining the adequacy and sustainability of retirement systems, may wish to combine reforms to public benefits with policies that enable individuals to effectively convert their wealth into income. This holistic approach can help mitigate poverty risks among the very old, ensure resources are focused where they are most needed, and provide greater resilience in ageing societies. Given the complexity and multiplicity of schemes and systems, this will also require significant interministerial policy co-ordination, with full engagement of ministries of finance.

2 Towards a broader understanding of resources in retirement from a public finance perspective

2.1. Framing the understanding of the effects of pension systems through a combined income and wealth perspective

Public old-age pension systems have a common goal of providing support to the elderly during retirement, and they represent significant portions of public budgets. Beyond this, the scope and characteristics of such systems tend to vary greatly. While in some countries these systems have matured over many decades, in others these systems are just starting to produce their effects.

In many countries, public pensions are only one part of the total. They include a set of relevant public schemes for the first tier of the retirement income system, and include residence-based basic pensions, targeted, contribution-based basic pensions and minimum contributory pensions. Public spending on pensions also includes second tier pensions, involving mandatory earnings-related schemes. These include various kinds of arrangements, with defined benefits, points, notional defined contribution and funded defined contribution schemes. In some countries, private pensions also play a significant role, with a mix of defined benefit and funded defined contribution arrangements, which can be subscribed on a voluntary basis (with some cases where they are mandatory).

The economic analysis of pensions involves understanding their cumulative effects. On the one hand, pensions represent pension wealth for households, either implicit, where they have acquired formal rights guaranteed by pay-as-you-go (PAYG) mandatory schemes, or explicit, as in the case of asset-backed pensions. On the other hand, this implicit wealth in turn represents implicit liabilities for public finances. This is particularly the case for PAYG pension systems. As the trend towards a larger retired population and smaller working population in many OECD countries continues, there is a risk that the liability levels of PAYG systems will increase in an unsustainable manner. From a public finance perspective, a broader perspective considering how other assets can contribute to pension support can therefore be helpful, as a way to mitigate the direct and indirect pressures generated by existing arrangements. This broader perspective can include looking at wealth, and particularly housing. As a result of home ownership, imputed rents from primary residences are, in most countries, not taxable and not accounted for when looking at the resources of the elderly during retirement.

While some groups are well covered through generous pensions, other groups may not be equally well covered, including those working in certain small or medium size enterprises, or the agricultural sector (OECD, 2025^[2]). Some “very old age” groups may also not have accumulated sufficient rights in the past. This can explain some of the challenges faced by countries such as Korea, where significant poverty remains among the elderly.² On the other hand, the rapid increase in housing prices in many OECD countries, in a context of lower interest rates, has also led to significant increases in housing wealth, particularly for individuals living in metropolitan and high-price areas. This supports the notion that housing wealth can be an effective source of potential income for retirees.

A cross-country analysis of wealth in retirement, including pensions, as well as housing and other non-pension assets can offer a fuller understanding of the interplay of public pensions with other resources in retirement. The analysis in this section will draw on insights from a set of four countries: Australia, Canada, France and Sweden (referred to in this section as the focus countries). It will provide insights into the distribution of income and wealth in old age and discuss the capacity of pension systems to meet key goals, in terms of adequacy, sustainability, equity and affordability. In particular, the analysis provides an overview of mechanisms these countries use to alleviate poverty, as well as any asset-based means testing and clawback mechanisms used.

2.2. Towards a broader understanding of the distributional aspects of resources in retirement

From a policy perspective, it is important to understand the distributional effects of public expenditure such as pensions (OECD/KIPF, 2024^[5]). However, as a significant aim of old-age pension systems is to protect the elderly against the risk of poverty, and as assets are often significant and play an important role in old age, this analysis of distributional aspects will mainly focus on understanding the various dimensions of poverty, combining an analysis of income flows with an understanding of the distribution of wealth.

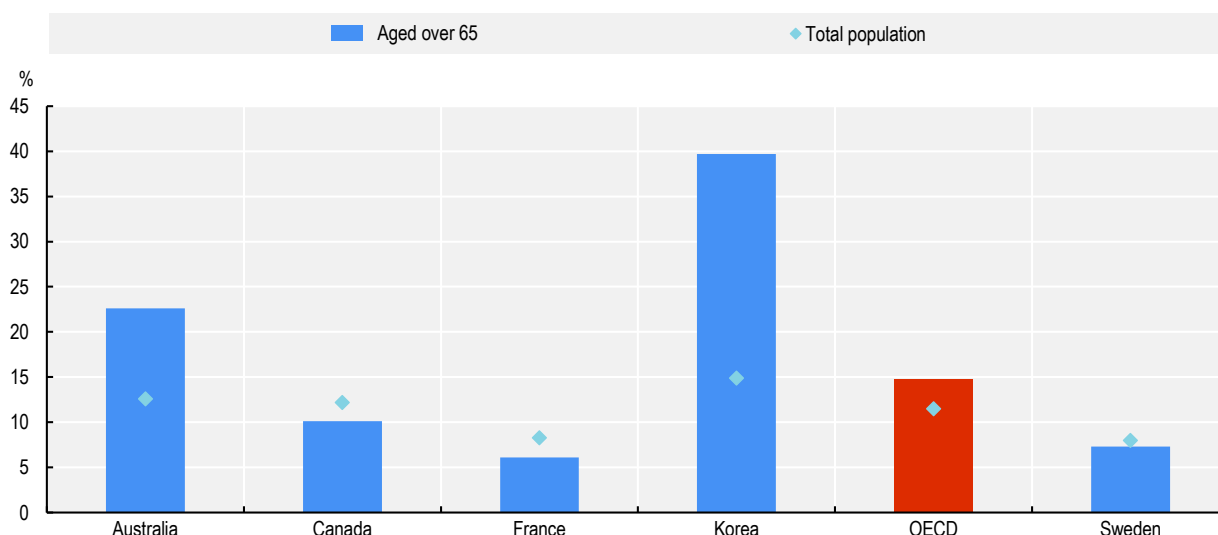
2.2.1. Understanding poverty in old age, integrating the effect of tax and transfers

Measures of poverty most frequently refer to income poverty, defined here as income below a certain percentage of the national median equivalised disposable income, defined as income after taxes and transfers, adjusted for household size and composition. The analysis can use either a 50% or 60% threshold. As market income (which does not consider taxes and transfers, including pension transfers) is usually very low among the elderly, poverty rates before taxes and transfers are generally very high. Therefore, the analysis needs to focus on disposable income, which more accurately represents the level of income available for individual and household consumption. The extent of poverty depends on the features of the pension system, particularly its public component. As evident from Figure 1, results vary across countries. In countries with relatively limited public pension coverage, such as Australia and Korea, poverty rates among those aged 65 and over are significantly higher than for the total population. In contrast, in countries with larger coverage, such as France and Sweden, poverty rates among older people tend to be lower than for the total population, although the gap is relatively modest. Canada presents an intermediate case, where poverty rates among the elderly are only slightly below those of the general population, suggesting that the equalising effect of pensions is present but limited.

Table 1 illustrates this same data with the over 65 poverty rate split by gender, indicating that poverty rates amongst women over 65 tend to be higher than those among men over 65. This is largely due to differences in lifetime earnings and career patterns, including lower wages, higher prevalence of part-time work, and more frequent career interruptions, which translate into lower pension entitlements in systems that are closely linked to earnings.

Figure 1. Income poverty rates for total population vs population over 65

Percentage with income lower than 50% of median equivalised household disposable income, 2022 or latest available year



Note: Most recent data are for 2022 except for Canada and Sweden (2023) and Australia (2020). Data are expressed in terms of disposable income.
Source: Adapted from OECD (2025^[2]), Table 7.2

Table 1. Income poverty rates by age and gender, 2022 or latest available year

Percentage with income lower than 50% of median equivalised household disposable income

	Aged over 65	Aged over 65 (men)	Aged over 65 (women)	Total population
Australia	22.6	18.2	26.6	12.6
Canada	10.1	8.7	11.3	12.2
France	6.1	4.8	7.2	8.3
Korea	39.7	32.6	45.0	14.9
OECD	14.8	11.7	16.9	11.5
Sweden	7.3	5.4	9.0	8.0

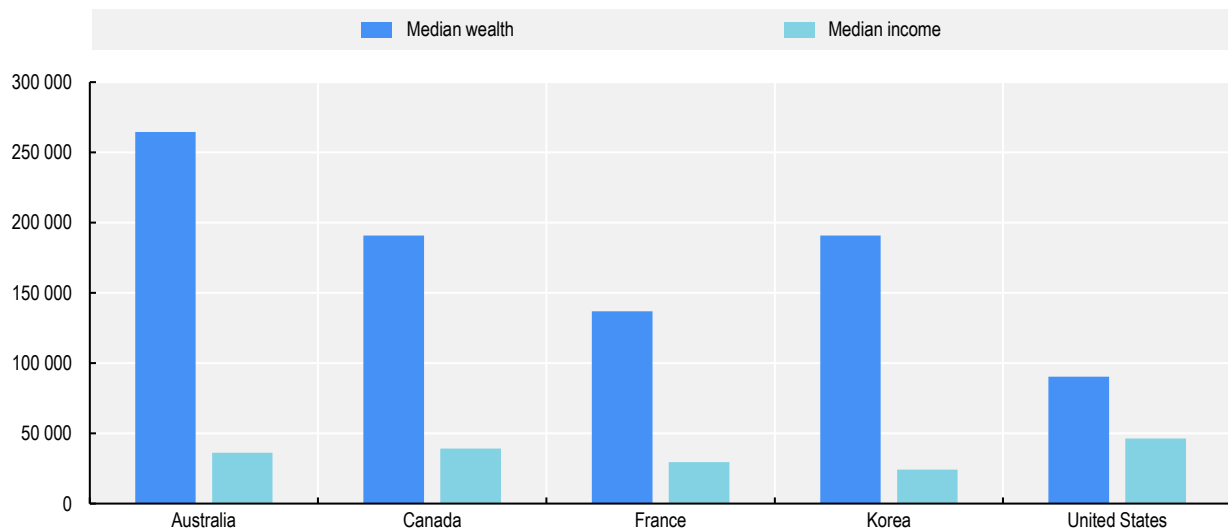
Note: Most recent data are for 2022 except for Canada and Sweden (2023) and Australia (2020).

Source: Adapted from OECD (2025^[2]), Table 7.2.

2.2.2. Combining income and wealth in old age

Measuring poverty rates exclusively by income can provide an incomplete picture of the resources available, particularly for older groups. This is because older individuals often hold significant assets, such as housing wealth accumulated over their lifetime, while having relatively low current income. As a result, income-based measures may classify some individuals as poor even though they have access to substantial wealth. Indeed, significant discrepancies exist: wealth inequality in the OECD is twice the level of income inequality on average, and households in low wealth quintiles are not necessarily in low-income quintiles (Balestra and Tonkin, 2018^[6]).

Such discrepancies are clear in Figure 2, where median wealth and median income are considered side by side. To take an example, when looking exclusively at income, Australia and Canada are very similar, but this picture changes completely when considering the much higher median wealth levels found in Australia. Wealth also tends to be very high in Korea. This makes it clear that consideration of income alone does not provide a complete picture of people's financial situation. While Figure 2 does not focus on a specific age group, wealth is generally accumulated over time, meaning differences between income and wealth are likely to be even more pronounced amongst elderly groups.

Figure 2. Median financial wealth vs median income in selected OECD countries, USD

Note: The latest available wealth data refer to: 2017 for France, 2018 for Australia 2019 for Canada, Korea, and the United States. The latest income data is from 2022 except Australia, which is from 2020. Original data for income was in original currencies and has been converted to USD via market rates. Values may not reflect actual purchasing power.

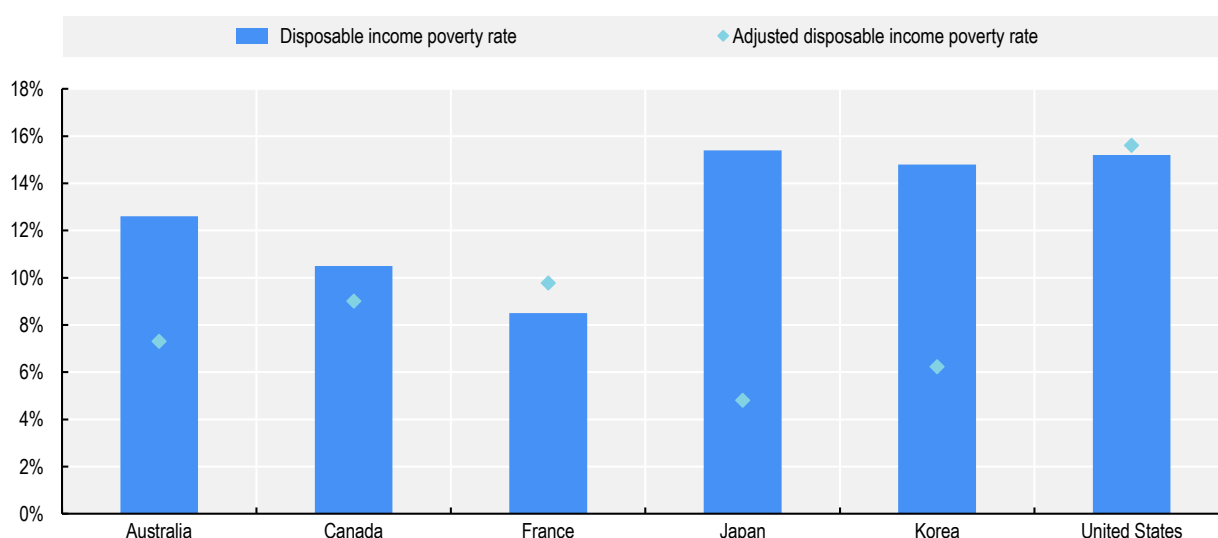
Source: OECD Wealth Distribution Database, <https://www.oecd.org/en/data/datasets/income-and-wealth-distribution-database.html>

Consideration of assets also significantly alters the proportion of the population below the poverty line. This is evident from Figure 3, which removes individuals from below the poverty line if they have liquid financial wealth higher than the equivalent of three months of the income poverty line. As evident, in four out of the six countries, the rate of poverty is lower when factoring in assets. In some cases, such as Korea, this difference is significant – a reduction from 15% to 6%.

Levels of net wealth (total value of a household's assets, both financial and non-financial, minus its outstanding liabilities) are strongly linked to people's life cycle, as people build up wealth over the course of working life. The OECD Wealth Distribution Database indicates that average household net wealth is highest among households where the head is aged between 55 and 64. Net real-estate wealth is also highest amongst households with heads aged between 55 and 64, with average net real assets 4.2 times higher than those of households whose heads are under 35. A similar pattern can be seen for debt: while on average across the OECD, 69% of households aged 35-44 have some form of debt, only 33% of households aged 65-74 and 16% aged over 75 have any form of debt (Balestra and Tonkin, 2018^[6]). However, this general pattern is very different in Korea, where the proportion of people in households with working age heads who are asset poor is very low, whereas the number of people with low levels of assets is considerably higher among those living in households with older heads.

Figure 3. Share of individuals whose equivalised income is below the income poverty line, and who belong to a household whose liquid financial wealth is less than the equivalent of three months of the income poverty line

"Adjusted Disposable Income Poverty Rate" refers to the proportion of the population below the poverty line when removing individuals with liquid financial wealth higher than the equivalent of three months of the income poverty line



Note: Liquid financial assets are defined as the sum of currency and deposits; bonds and other debt securities; mutual funds and other investment funds; and other non-pension financial assets.

Source: OECD Wealth Distribution Database, <https://www.oecd.org/social/income-distribution-database.html>.

While Figure 3 only considers assets that can be easily liquidated by the owner (see Figure 3 note), it is essential to also consider less liquid assets. For most people, the most financially significant illiquid asset is their primary residence. House price rises across OECD countries mean that home ownership has become an increasingly significant source of wealth. Home ownership can also have positive effects on savings rates – as highlighted in the OECD paper *Measuring the Joint Distribution of Household Income, Consumption and Wealth at the Micro Level* (Balestra and Oehler, 2023^[7]), savings rates are significantly higher for both outright owners and owners with mortgages than they are for renters. This implies that home ownership is useful for accumulating savings even beyond the value of the home itself. Therefore, to obtain a fuller understanding of the economic situation of the elderly, it is important to understand housing tenure patterns among the elderly low-income households, as compared to low-income households in general.

Higher rates of home ownership are generally associated with lower levels of wealth inequality: the share of wealth held by the top 10% would be 15 percentage points higher if the value of main residences and outstanding mortgages were excluded (Balestra, Caisl and Hermida, 2025^[8]). A significant proportion of low-income households own their houses outright, with ownership rates reaching 50% or close to it in several countries when also considering mortgaged houses (Table 2 below). In fact, most of the time, income statistics do not take into account the “imputed rent”³ from the main residence, which in most countries is not taxable.

Table 2 also indicates that the rate of outright home ownership is highest among the bottom quintile of the distribution in Korea and is much higher than the OECD rate. The analysis below does not consider the share of the individuals living in subsidised social housing, for which data only exist for some countries. Unfortunately, the analysis below of housing tenure does not allow for distinguishing age groups. However, in many countries older people are more likely to own homes than younger people, often because they have had more time to pay off mortgages.

Table 2. Housing tenure amongst low-income households

Share of different tenure types across households in the bottom quintile of the income distribution, in percent, 2022 or latest year available

	Own outright	Owner with mortgage	Rent (private)	Rent (subsidised)	Other, unknown
Australia	43.7%	9.4%	40.2%	..	6.7%
Canada	27.1%	16.3%	56.6%	..	0.0%
France	27.1%	6.2%	25.1%	37.5%	4.0%
Korea	53.8%	..	29.3%	10.9%	6.0%
OECD	45.1%	10.4%	22.3%	14.2%	8.1%
Sweden	19.2%	15.9%	59.5%	..	5.5%
United States	25.6%	17.9%	53.1%	..	3.5%

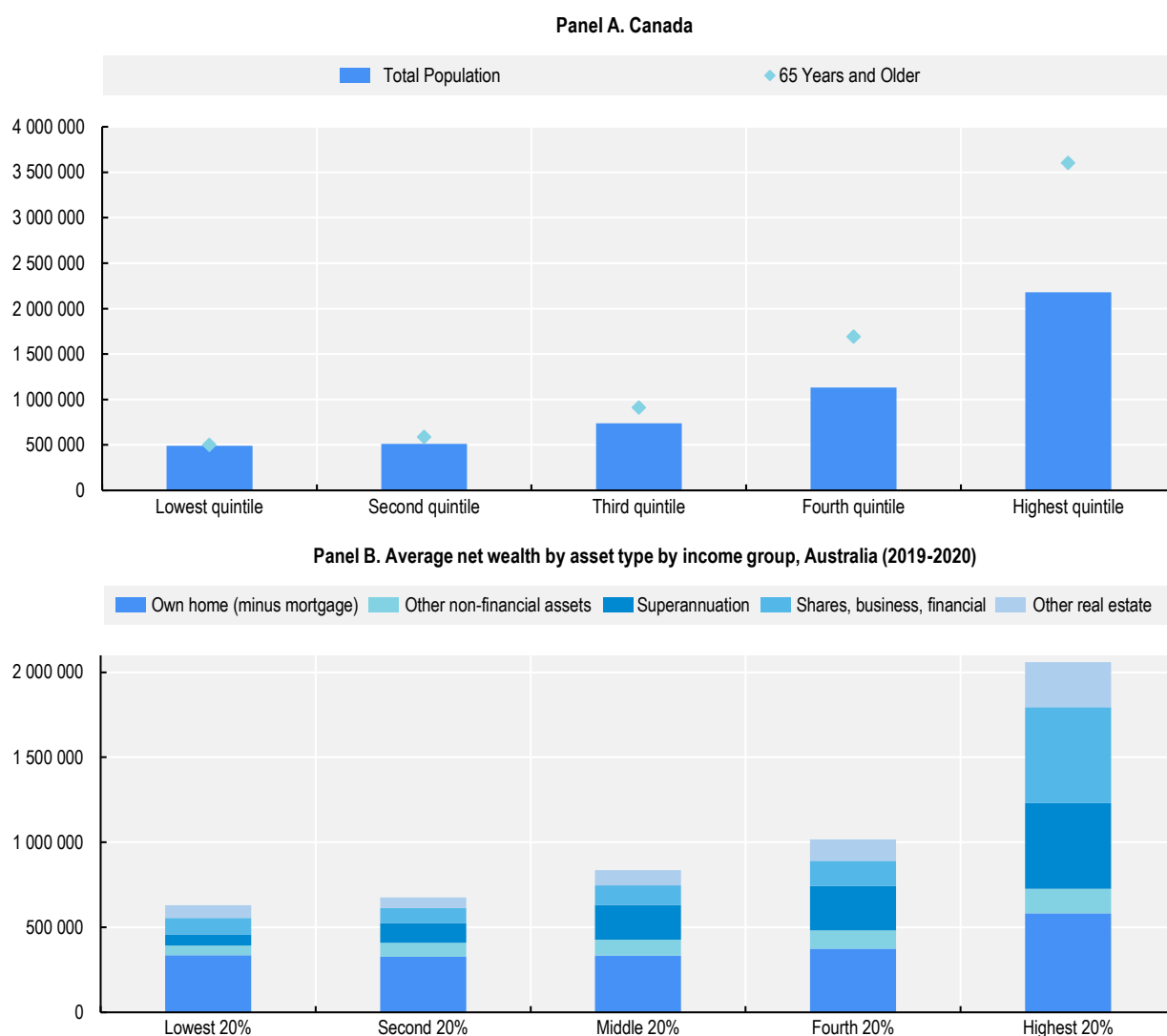
Note: Tenants renting at subsidised rent are lumped together with tenants renting at private rent in Australia, Canada and the United States, and are not capturing the full extent of coverage in Sweden due to data limitations. Outright owners of homes are lumped together with owners with mortgages in Korea due to data limitations. Data for Australia, Korea, and the United States refer to 2021.

Source: OECD Affordable Housing Database, <https://www.oecd.org/en/data/datasets/oecd-affordable-housing-database.html>.

Australia, Canada and France have a relatively similar distribution of wealth across income groups. In Australia and France, many retirees are income-poor but asset-rich, in large part due to housing wealth. In Australia, the top income quintile holds three times the wealth of the bottom quintile, yet housing values are much more evenly distributed, meaning lower-income households often still possess homes of reasonable value, especially once mortgages are paid off. This can be seen in Panel B of Figure 4. Similarly, in France, the bottom income quartile averages EUR 107 200 in wealth in large part due to home ownership, although there are significant disparities within this quartile, with some households holding virtually nothing and others holding assets comparable to middle-income groups. In Canada, seniors hold more assets than younger households across income levels, yet wealth inequality is greater among the elderly: the gap between top and bottom quintiles reaches CAD 3.1 million, compared to CAD 1.6 million in the general population. Regardless, as evident from Panel A, lower income quintiles still have reasonable levels of assets, around CAD 500 000 on average.

However, it is important to consider that this more favourable static image is likely to change. In many OECD countries, home ownership rate amongst the bottom 40% of the wealth distribution has already declined in the past 15 years. Mortgage interest rates have also increased significantly, potentially locking out lower-wealth homebuyers (Balestra, Caisl and Hermida, 2025^[8]). This may have implications as these groups age over time, with less favourable patterns compared to baby boomer generations.

Figure 4. Low-income groups enjoy some level of home ownership



Source: Panel A: *OECD Income Distribution Database*, <https://www.oecd.org/en/data/datasets/income-and-wealth-distribution-database.html> Panel B: (UNSW, 2023^[9])

2.3. Understanding the public finance implications of pension systems: Insights from selected countries

To better understand the public finance implications of poverty-alleviating tools and asset-based mechanisms in the pension system, this section will provide an overview of the key features present in pensions systems and their relationships with public finances, and publicly financed orbacked commitments. The section draws on insights from four selected OECD countries, namely Australia, Canada, France and Sweden. It first briefly introduces their pension systems, before discussing the features in terms of adequacy, equity, sustainability and affordability from a public financial management perspective.

2.3.1. Overview of key pension features

Generally, national pension systems in the OECD can be classified through a taxonomy distinguishing three tiers, as discussed in detail in the OECD's *Pensions at a Glance* (OECD, 2025^[2]). The first tier comprises programmes offering the first layer of social protection in old age, and for which past earnings are irrelevant in the calculation of retirement income. The second tier covers earnings-related components, taking the form either of a defined benefit scheme,

defined contribution scheme or points scheme. The third tier covers voluntary provision, both personal and employer provided. Table 3 provides an overview of the different features present in each of these four countries for the first two of these tiers.

The table below provides a brief overview of the pension systems of each of these four countries. A more detailed overview is provided in Annex A, together with complementary insights of Korea's case, a system with relatively recent development and lower public pension spending,

Table 3. Structure of retirement-income provision through mandatory schemes

	First tier				Second tier	
	Residence-based		Contribution-based			
	Basic	Targeted	Basic	Minimum contributory	Public	Private
Australia		✓				FDC
Canada	✓	✓			DB	
France				✓	DB + Points	
Sweden		✓			NDC+FDC	FDC (q)

Note: These data apply to future retirees entering the labour market in 2024 at age 22. A tick for the column "Targeted" is only shown if a full-career worker at 30% of the average wage is eligible. (q) = Quasi-mandatory scheme based on collective agreements with a very high coverage rate. DB = defined benefit, FDC = funded defined contribution, NDC = notional defined contribution. In Canada, the basic pension (OAS) is income-tested but only through the tax system ("claw back").

Source: *Pensions at a Glance* (2025_[2]), Table 3.1.

Brief analysis of pension features

This section discusses the various policy trade-offs that exist from a public finance perspective. It considers several factors key to meeting the core objectives of a pension system, and which have to be gauged in light of their implications for public finances. (Holzmann, Hinz and Dorfman, 2008_[10]). These include:

- **Adequacy**, i.e. the extent to which they provide benefits sufficient to prevent old-age poverty and maintain standard of living. The data on pension replacement rates provided in these sections are provided in OECD's *Pensions at a Glance* (2025_[2]). Greater detail and methodology can be found there.
- **Sustainability**, i.e. the extent to which they can be maintained over a foreseeable horizon, with direct implications for the sustainability of overall public finances.
- **Equity**, i.e. the extent to which they redistribute income, and are applied with consideration of different income levels, as well as the extent to which they consider factors such as gender and employment type. The data on pension replacement rates provided in these sections are provided in OECD's *Pensions at a Glance* (2025_[2]). Greater detail and methodology can be found there.
- **Affordability**, i.e. the extent to which they are affordable, and do not impose excessive fiscal burdens or pressures on the public budgets.

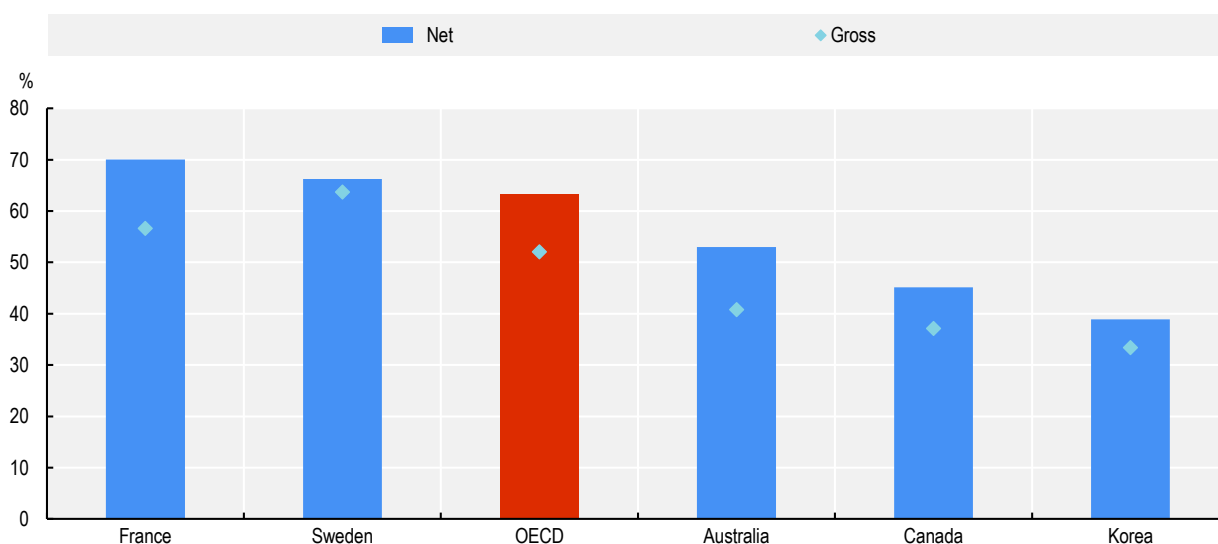
While the framework developed by Holzmann, Hinz and Dorfman was designed to cover a wide range of emerging and developed economies, the four countries studied (Australia, Canada, France and Sweden) have relatively stable political and institutional environments with well-established pension systems, meaning a baseline level of predictability and systemic robustness can reasonably be assumed. Therefore, predictability and robustness were left aside.

Understanding pension adequacy

The pension systems in the four focus countries vary significantly in terms of their ability to replace pre-retirement income. France has the highest net pension replacement rate of the four countries (70%). Sweden also has relatively high net replacement rates (66.3%), while Australia (53%) and Canada (45.1%) have lower replacement rates. Note that these are theoretical replacement rates for future pensioners, and cover only mandatory pensions (OECD, 2025_[2]).

All four countries index their pension levels to price inflation. In Australia, the Age Pension is increased with whichever is higher of the Consumer Price Index and the Pensioner and Beneficiary Living Cost Index. In Canada, the basic pension and the GIS are both price indexed, as are earnings-related pension benefits. In France, earnings-related payment benefits are indexed to prices, as is the value of the minimum pension. In Sweden, the guaranteed pension is price indexed, although indexation of pensions is subject to a balance mechanism (OECD, 2025^[2]).

Figure 5. Net and gross pension replacement rates: Average earners, in percentage



Note: The net pension replacement rate is defined as net value of the pension entitlement relative to individual net earnings, taking account of personal income taxes and social security contributions paid by workers and pensioners. The figures are theoretical replacement rates for future pensioners, based on OECD pension models. The pension models include all mandatory pension schemes for private-sector workers, regardless of whether the schemes are public or private. This includes: 1) The main national scheme for private-sector employees, 2) Schemes with near-universal coverage, if they cover at least 85% of employees, 3) Resource-tested benefits for which retired people may be eligible. In the case of resource-tested benefits, the only asset or income included in the model is from the earnings-related pension. Special schemes (i.e. for civil servants) are excluded. The standard assumption for calculating average wage earnings is based on Sectors B-N of the International Standard Industrial Classification of All Economic Activities (ISIC Revision 4, United Nations). The calculations are based on the earnings of a full-time adult worker (including both manual and non-manual). The exact wage levels used here can be found in Table 7.5 Gross average wage (AW), of *OECD Pensions at a Glance (2025^[2])*.

Source: Adapted from OECD (2025^[2]), Figure 4.4.

Coverage for non-standard cases varies across the four countries. The following provides an overview of the coverage for self-employed workers, unemployed persons, and those looking after children (OECD, 2025^[2]):

Self-employed workers: In Australia, the self-employed receive the Age Pension, and while they are not mandatorily covered by the superannuation scheme, they can opt in. In Canada, the CPP covers both employed and self-employed persons. In France, several occupational schemes exist for the self-employed, although they generally pay a slightly lower pension contribution rate and receive proportionally lower pension entitlements. In Sweden, the self-employed are covered in the same way as employees by the public pension scheme, but they are not mandatorily covered by occupational pensions.

Unemployment: In Australia, there are no credits in the superannuation system for periods of unemployment, although voluntary contributions are possible. In Canada, a generic drop-out rule allows up to 17% of the contributory period with the lowest earnings to be excluded in calculating average earnings for the CPP (15% in the QPP). In France, each completed 50 days of involuntary unemployment attributes one quarter of contributions, up to four quarters per year. These periods do not enter into the calculation of the average reference wage. While this is only for those receiving unemployment benefits, there are also credits for periods of unemployment without these benefits. If a person had contributed to a mandatory occupational plan before unemployment, periods of unemployment enable accumulation of pension points. In Sweden, unemployment benefits count as pensionable income, with the government paying the “employer contribution”.

Childcare: In Australia, there are no specific protections for periods out of work in the superannuation guarantee system, although the government has announced it will pay superannuation on government-funded Paid Parental Leave (PPL) for parents of babies born on or after 1 July 2025. Employers can make voluntary payments for periods of parental leave, and persons can make voluntary contributions. In Canada, years of caring for children under the age of seven with zero or low earnings can be excluded from the CPP/QPP averaging period if it results in a pension increase (although the new CPP puts pension credits into these years rather than excluding them). In France, for children born or adopted since 2010, a credit of six quarters is given to the mother for each of her children in the defined-benefit scheme, whether she continued to work or not during that time. A credit of two other quarters is given to one of the parents for the education of each child. Periods out of work or working part time due to childcare are also credited in public and occupational pension schemes. In Sweden, the public pension scheme credits years for any period where the person has and lives with children aged four or below. Parental benefits paid are considered as pensionable income.

Table 4. Overview of key adequacy features in focus countries

	Net Replacement Rate (Average Earner, OECD Model Calculations)	Indexation	Coverage
Australia	53%	Superannuation and age pension both indexed by the highest of CPI or PBLCI	Self-employed receive Age Pension and can opt-into superannuation. No protections for unemployment or childcare but voluntary contributions possible
Canada	45.1%	Basic pension and GIS, and earnings-related benefits price indexed	CPP covers self-employed workers. Years of low earnings (unemployment, childcare) can be excluded from CPP average earnings calculation
France	70%	Earnings-related benefits and minimum pension indexed to prices	Several occupational schemes exist for self-employed. Periods of unemployment can receive contribution credits, as well as pension points. Credits are also given for caring for children, educating children, and taking time out to look after children.
Sweden	66.3%	Guarantee pension is price indexed, subject to balancing mechanism.	Self-employed are covered by public pension scheme but not mandatorily covered by occupational pensions. Unemployment benefits and parental benefits count as pensionable income.

Sources: (OECD, 2025^[2]).

Understanding affordability

In almost all countries, the cost of contributory pension systems is disproportionately borne by the employers. In Australia, France and Sweden, employer contributions are above the OECD average, while in Canada they are below. In terms of cost to government, expenditure levels on pensions vary significantly, as high as 12.5% of GDP in France and as low as 4.5% of GDP in Australia. Such spending has remained stable across a 10-year period in Australia, while Canada has seen the largest increase of the focus countries, at 22.9%.

Table 5. Overview of key affordability features in focus countries

	Contribution rates	Tax wedge (2024)	Public spending on pensions in 2021, % of GDP
Australia	Super: 12% employer only	29.6% (well below the OECD average of 34.9%)	4.6% (2% decrease over 10 years)
Canada	CPP: 5.95% each for employer/employee. CPP2 adds 4% above ceiling, total below OECD average (Government of Canada, 2025 ^[11]) (OECD, 2025 ^[2])	32.0% (below the OECD average of 34.9%)	6.1% (20% increase over 10 years)
France	Higher employer share in OECD. 27.8% total effective rate, mostly paid by employers (L'assurance retraite, 2025 ^[12]) (Urssaf, 2025 ^[13]) (OECD, 2025 ^[2])	47.2%, (well above the OECD average of 34.9%)	14% (2% increase over 10 years)
Sweden	22.31% total. Occupational pensions are employer-funded (OECD, 2025 ^[2]).	41.5%, (above the OECD average of 34.9%)	10.3% (2% increase over 10 years)

Source for tax wedge data: <https://data-explorer.oecd.org/s/2pk>. Source for public spending data: <https://data-explorer.oecd.org/s/2pl>.

Analysing sustainability

Sustainability outlook varies across the four countries, reflecting differences in pension design:

- In Australia, long-term pension expenditure is expected to remain relatively stable despite population ageing, in large part because the retirement income system increasingly relies on mandatory funded superannuation and because the Age Pension is subject to income and asset tests that limit public expenditure (Australian Government, 2023^[14]).
- In Canada, the earnings-related CPP/QPP is generally considered financially sustainable due to its partially funded structure, regular actuarial reviews and automatic adjustment procedures should financing prove insufficient. By contrast, demographic pressures are expected to have a larger impact on the tax-financed Old Age Security programme, although its costs are projected to remain manageable relative to GDP under current assumptions (Government of Canada, 2022^[15]; Office of the Chief Actuary, 2021^[16]).
- In France, projections point to a gradual deterioration in the financial balance of the pension system, with revenues projected to decline more rapidly than expenditures. While recent reforms have improved the outlook and supplementary pension schemes are expected to remain in surplus, the main public pension scheme continues to face longer-term financing pressures (Conseil d'Orientation pour les Retraites, 2024^[17]; Cour des Comptes, 2025^[18]).
- Sweden's outlook is comparatively favourable due to a combination of automatic balancing mechanisms, life-expectancy adjustments and incentives to work longer, which help align pension liabilities with demographic and economic developments (Pensions Myndigheten, 2025^[19]; European Commission, 2018^[20]).

All four countries, to varying degrees, have mechanisms in place to support pension sustainability. In Australia, several means tests restrict access to public programmes, and these programmes contain incentives to continue working past retirement age. Furthermore, the Age Pension must be regularly assessed in the Inter-generational report. In Canada, the CPP must be reviewed every three years. If it is deemed not to be sustainable, Ministers of Finance must agree on changes to restore sustainability or face suspensions of benefits indexation. In Sweden, an automatic balancing mechanism adjusts pension indexation if pension assets are insufficient to cover liabilities. In France, the COR produces analyses of pension sustainability, although adjustment mechanisms such as those found in Canada and Sweden do not exist, even though they have been under discussion for a number of years.

Table 6. Overview of key sustainability features in focus countries

	Design features supporting sustainability	Assessment of long-term sustainability	Additional comments
Australia	Means-testing, incentives to work longer, sustainability review every 5 years (Services Australia, n.d. ^[21]) (Services Australia, 2024 ^[22])	Pension costs expected to remain stable over 40 years due to shift towards superannuation (Australian Government, 2023 ^[14])	Government review notes that changing trends in home ownership rates and mortgage indebtedness may impact how superannuation is drawn down.
Canada	Triennial review, automatic increase in contribution rate and suspension of indexation if needed (Government of Canada, 2022 ^[15])	CPP seen as sustainable in internal assessments, OAS costs projected to rise but share of GDP may decline if GDP grows adequately (Office of the Parliamentary Budget Officer, 2021 ^[23]) (Office of the Chief Actuary, 2021 ^[16])	Differing views on CPP sustainability between Parliamentary Budget Office and Chief Actuary (Office of the Parliamentary Budget Officer, 2021 ^[23])
France	Oversight by COR and Court of Audit (Conseil d'Orientation pour les Retraites, 2024 ^[17]) (Cour des Comptes, 2025 ^[18])	Overall pension system deficit expected to reach 0.8% of GDP by 2045, although supplementary schemes expected to improve (Conseil d'Orientation pour les Retraites, 2024 ^[17])	Both expenditure and revenue projected to decline, but revenue projected to decline at faster rate (Conseil d'Orientation pour les Retraites, 2024 ^[17])
Sweden	Automatic balancing mechanisms, adjustments for life expectancy, incentives to work longer, introduction of target age (Pensions Myndigheten, 2025 ^[19]) (Riksdag, 2010 ^[24])	Public expenditure on pensions expected to decrease around 14% by 2070 (European Commission, 2018 ^[20]).	Sweden recognised the dependency ratio issue early on, leading to 1998 pension reform with a change in the pension calculating system and incentivising people to work longer (Pensions Myndigheten, 2025 ^[19]).

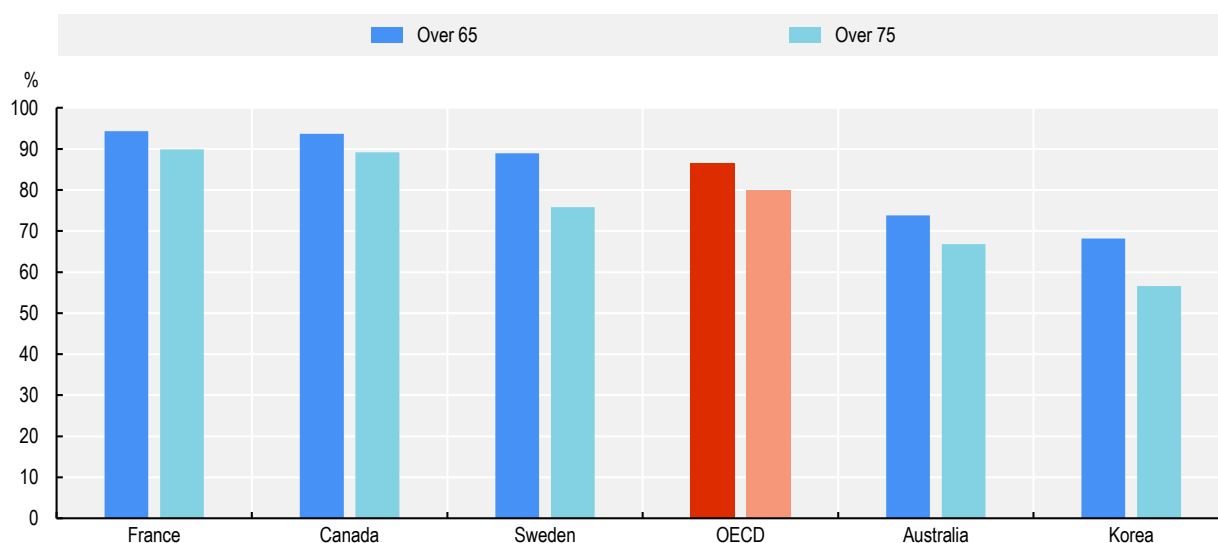
Implications in terms of equity

The discussion on equity below will not cover all the multidimensional aspects that could be potentially involved when considering intergenerational and intragenerational implications. The focus will be more in terms of how the features in pension systems, including some that may come at an additional cost for public finances, may help to reduce poverty for some more vulnerable groups or by gender.

On average, someone over the age of 65 within the OECD can expect to earn 88% of the average income for the total population, while someone over the age of 75 can expect to earn 81%. France and Canada have rates above this average, while Sweden and Australia have rates slightly below it.

Figure 6. Incomes of older people, 2020 or latest available year

Average income by age group in percentage of average income of total population

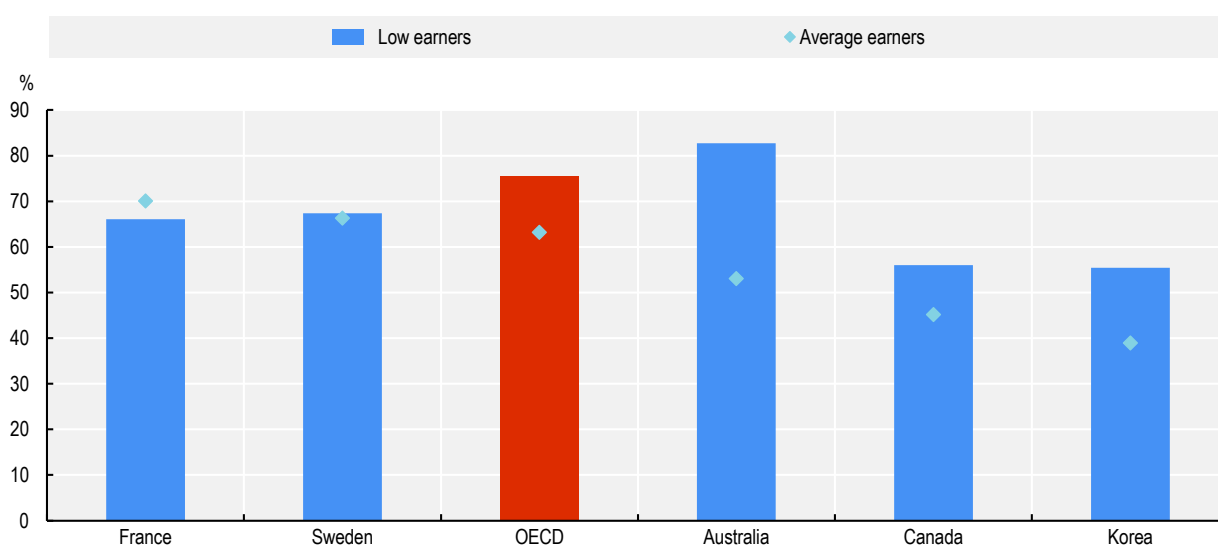


Note: Most recent data are for 2022 except for Canada and Sweden (2023) and Australia (2020).

Source: Adapted from OECD (2025^[2]), Table 7.1.

Low-income individuals generally have higher income replacement rates than average earners. This difference is largest in Australia and Canada. In Sweden and France, the difference in replacement rates between low-income individuals and those earning the average wage is smaller, although these pension systems are generally more comprehensive.

Figure 7. Net pension replacement rates: Low and average earners, in percentage



Source: Adapted from OECD (2025^[2]), Figures 4.4 and 4.5.

Contributory systems tend to exacerbate both income and gender inequalities to a greater extent than non-contributory pension systems, in large part due to their direct relationship to income earned. Across the OECD, women receive monthly pensions that are on average 23% lower than men's as of 2024, a decline from 28% in 2007. Countries with larger gender pension gaps have these predominantly due to differences in employment and wage trajectories between men and women (OECD, 2025^[2]).

Table 7. Overview of key equity features in focus countries

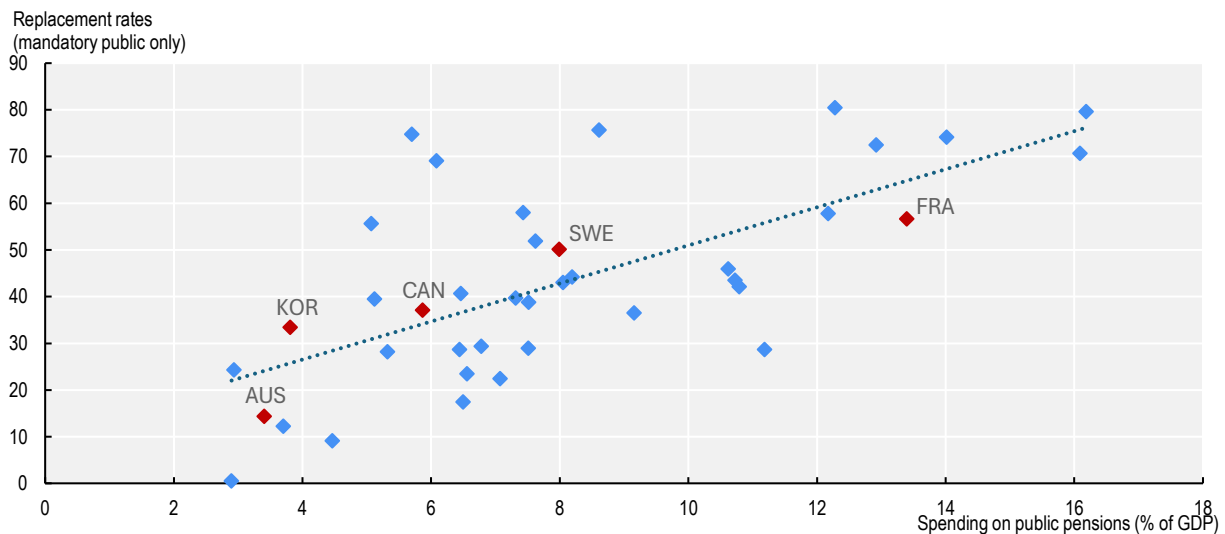
	Impact of pension systems on lifetime low earners	Effects on gender
Australia	Low-income earners receive higher replacement rates than average for basic pension. Perception that superannuation favours wealthy due to its tax treatment (Melbourne Institute, 2023 ^[25]).	Super system seen as poorly suited to needs of women (although this has been mitigated through the removal of the income threshold for mandatory employer contributions) (Melbourne Institute, 2023 ^[25] ; The Australia Institute, 2024 ^[26]).
Canada	Low-income earners have higher replacement rates than average. Voluntary pensions add inequality due to limited coverage (Society of Actuaries, 2018 ^[27]).	Women generally have higher replacement rates, due to lower average lifetime earnings and greater likelihood of receiving survivor-related benefits. CPP2 may widen gap for low earners, potentially disproportionately impacting women (Government of Canada, 2016 ^[28] ; Clavet, El-Attar and Fonseca, 2022 ^[29]).
France	Poverty rate for retirees (8.7%) below general population (14.6%) (DREES, 2023 ^[30]).	Women receive 42% of pensions despite being 53% of retirees, entitlements 40% lower than men's. Private pension access also lower among women (CCSS, 2024 ^[31]).
Sweden	High replacement rates for low-income earners. Elderly poverty rate equivalent to national average (Pensions Myndigheten, 2021 ^[32]).	Women's pensions are around 19% lower than men's, mostly due to occupational pensions (Pensions Myndigheten, 2021 ^[32]).

Resolving trade-offs

The question from a public finance perspective is how to ensure that pension systems perform their key functions across the various dimensions, yet do not result in excessive fiscal burdens on the population and future fiscal risks, remaining financially sustainable over the long term. The question is how some of the trade-offs can be resolved. For example, increasing adequacy or equity often raises costs, increasing the impact on public budgets.

Figure 8 illustrates this. It shows that the replacement rates for public mandatory pensions are generally somewhat correlated to the public spending on pensions as a share of GDP. Out of the case study countries, France has both the highest replacement rate and the highest spending on public pensions, while Australia has the lowest replacement rate and lowest spending on public pensions. As a result, high adequacy rates tend to come at some additional fiscal cost.

Figure 8. Replacement Rates for future pensioners and current Public Expenditure Levels in the OECD



Note: The net pension replacement rate is defined as net value of the pension entitlement relative to individual net earnings, taking account of personal income taxes and social security contributions paid by workers and pensioners. The figures are theoretical replacement rates for future pensioners, based on OECD pension models. The pension models include all mandatory pension schemes for private-sector workers, regardless of whether the schemes are public or private. This includes: 1) The main national scheme for private-sector employees, 2) Schemes with near-universal coverage, if they cover at least 85% of employees, 3) Resource-tested benefits for which retired people may be eligible. In the case of resource-tested benefits, the only asset or income included in the model is from the earnings-related pension. Special schemes (i.e. for civil servants) are excluded. The standard assumption for calculating average wage earnings is based on Sectors B-N of the International Standard Industrial Classification of All Economic Activities (ISIC Revision 4, United Nations). The calculations are based on the earnings of a full-time adult worker (including both manual and non-manual). The exact wage levels used here can be found in Table 7.5 Gross average wage (AW), of *OECD Pensions at a Glance (2025_[2])*.

Source: Adapted from *Pensions at a Glance (2025_[2])*, Tables 4.2 and 8.2.

One aspect here is whether the public expenditure on pensions is financed out of tax expenditure, or out of mandatory contributory pensions as part of earnings-related schemes. While on paper this may appear to reduce direct pressures on public budgets, it may also increase the tax wedge on labour, increasing labour costs and implicitly reducing net wages.

Incentives are another approach. This includes incentives to work longer, which reduce the impact on public budgets by increasing the amount of time individuals pay taxes and pension contributions and reducing the amount of time they receive public pensions. In some cases, this can also come with an increase in benefits. The focus countries are all using such incentives to various extents. It can also include incentives to save more, which can reduce individual dependence on state pensions, and thus the impact on budgets. These are discussed in more detail in Section 3.2 on “Understanding annuities”. However, these incentives usually take the form of tax breaks, which themselves reduce the revenue available to government. While tax expenditures such as these are usually less visible within budgets than standard expenditure, they can represent a significant and often unpredictable cost.

The trade-offs can be understood in either a static or a dynamic way. It can be useful for countries to have transparent, regular reviews in place. For example, the Age Pension in Australia is required to be regularly assessed in what is known as the Inter-generational Report. This paper provides projections on life expectancy and future labour levels, as well as projections for government expenditure. Similarly, the Pensions Advisory Council in France produces a report which examines the financial sustainability of the pension system in the short and medium term. Such reports can also include explicit modelling of trade-offs, helping policymakers understand how increasing sustainability or equity might impact other factors. However, such reports do not necessarily mandate the changes they recommend.

An effective practice is the use of automatic mechanisms. These are mechanisms which are triggered when a particular threshold is reached. Their automatic nature means they avoid the political gridlock risks highlighted in the previous paragraph and improve predictability for both individuals and policymakers. Such a practice is evident in Sweden, where a ratio between pension assets from the public pension reserve funds and liabilities is calculated each year. If liabilities exceed assets, an automatic balancing mechanism is triggered, adjusting the indexation of

both pension entitlements and current pensions. However, such automatic rules can damage equity goals, as reductions in indexation, when applied uniformly, are likely to impact lower-income retirees to a greater extent.

Another key approach is to focus resources on low-income groups. This ensures that government resources do not go towards those who have the capacity to fund their own retirements, and are instead directed to those who need them most. In order to do this, it is important to have targeting mechanisms in place to reduce the cost for public finances. The next section focuses on this.

2.3.2. Key institutional features to trigger adjustments for poverty and/or wealth

Overview of mechanisms to help low-income retirees

Targeted mechanisms to help low-income retirees are a useful way to help support a vulnerable portion of the population while reducing the impact on the budget. All four of the focus countries employ a variety of such mechanisms, set out in Table 8.

Table 8. Overview of mechanisms to help low-income retirees

	Direct income support	Retirement savings support	Tax relief
Australia	- Pension Supplement - Energy Supplement	Super Co-Contribution (government matches contributions up to AUD 500/year) (Australian Taxation Office, 2023^[33])	- SAPTO (reduces income tax owed by low-income seniors) (Australian Taxation Office, 2023^[34]) - LISTO (tax rebate of up to AUD 500 per year)
Canada	- GIS (up to CAD 20 000 for singles, 30 000 for couples) - Allowance (for spouse of GIS recipient) (Canadian Library of Parliament, 2019^[35])	N/A	Age Credit (tax relief for individuals, phased out with income) (Canadian Library of Parliament, 2019^[35])
France	- ASPA (income-tested minimum pension up to EUR 1 034.28/month) (Service Public, 2025^[36]) - MICO (increases basic pension for those who worked with low earnings) - FSV finances non-contributory pension benefits (Capital, 2025^[37]) - Housing allowances available as a supplement.	Various AGIRC-ARRCO solidarity measures (free points for periods of unemployment, illness and parental leave, bonuses for large families) (Service Public, 2025^[38])	Pensioners with low “fiscal reference income” are partially or fully exempt from social taxes (i.e. taxes levied on employer and employee contributions to occupational pension plans) (OECD, 2024^[11])
Sweden	- Guaranteed Pension (residency-based, payments reduce as income increases) (Pensions Myndigheten, 2025^[39]) - Elderly Care Support (ensures minimum living standard after housing costs) - Housing Allowance (covers part of accommodation costs up to SEK 7 500)	N/A	N/A

Most of these systems involve direct income payments, although some aid individuals in saving up for retirement, while others provide tax relief. While the analysis in this section focuses on direct schemes, many other indirect tools can help low-income retirees: reduced prices for public transport, eligibility for subsidised meals from municipalities, free access to certain public services, access to public housing. While in many cases these benefits are harder to quantify, they can represent sizeable additional resources for some of the elderly. This picture also does not consider available long term care services or subsidies, which falls beyond the scope of the current study.

Asset-based mechanisms for determining government assistance

As mentioned above, use of targeted mechanisms can be a useful way to ensure that public finances go towards those who need them most. In most cases, such mechanisms target exclusively on the basis of income. This is a shortcoming, as some households can have low income but high wealth, meaning they are not financially vulnerable but are nevertheless eligible for government programmes, leading to an unnecessary budget impact. This is particularly relevant amongst older populations, where accumulated wealth can lead to large differences in how well-off different households are. The four countries have introduced various mechanisms to take into account the level of wealth for determining government assistance, thereby limiting the use of public funds. However, the approaches differ.

In France, ASPA is a programme aimed at those who are at retirement age and had low income during their life. It is legally defined as social assistance rather than a retirement pension. The maximum amount is EUR 12 144 a year for a single person and EUR 18 853 for a couple, as of 2024. Upon the death of the ASPA beneficiary, the government recovers the sums paid under the ASPA if the net value of the deceased's assets is more than EUR 105 300 (and EUR 150 000 in overseas territories). If the net value of the estate is less than this, no reimbursement is required. This figure is revalued every January based on inflation. The heirs are not required to repay the ASPA from their own assets – the amount repaid is taken only from amounts above these thresholds, and deducts personal debt, outstanding expenses, and funeral expenses up to the value of EUR 1 500. Another French programme with asset requirements is known as the social housing allowance (ALS), where the government provides financial assistance to reduce housing payments. While it is not strictly a retirement scheme, retirees are eligible for it. The amount of social housing allowance for which an individual is eligible is calculated using a variety of factors, including number of dependents living in the household, the amount of rent or residence fee, and resource levels. The value of an individual's financial and property assets (as well as those of other individuals in the household) are considered when the value exceeds EUR 30 000.

In Canada, the federal pension system has a variety of means-tested programmes, although these are generally based on income tests. However, at the provincial level, several asset-based tests exist for welfare. Generally, households cannot have assets in amounts higher than the programme's allowed maximum. However, asset tests usually only consider a household's liquid assets, i.e. those that can be relatively easily converted into cash, such as stock and bonds, while fixed assets such as a primary residence are generally not considered with asset tests (Maytree, 2023^[40]). These asset levels vary from province to province, with different requirements for single parents, couples, those with disabilities, and those considered employable.

In Australia, eligibility for the Age Pension is based in part on an asset test. Assets include any financial investments, home contents, personal effects (furniture, appliances, jewelry, laptops) and vehicles, as well as any real estate, annuities or other income streams (including superannuation pensions and life insurance policies). If the value of an individual's overall assets increases by AUD 2 000 or more for financial assets and AUD 1 000 or more for non-financial assets, the individual must let the government know. A principal home is generally not considered within the assets tests, although it reduces the asset limit for a full pension, as evident from Table 9. One exception is the case of a 'granny flat interest', where an individual pays for the right to live in a specific home for life when the property belongs to someone else (Services Australia, 2024^[22]).

Table 9. Value of asset limits for a full age pension, Australia, AUD

	Homeowner, full pension	Non-homeowner, full pension	Homeowner, part pension	Non-homeowner, part pension
Single	314 000	566 000	697 000	949 000
Couple, combined	470 000	722 000	1 047 500	1 299 500
Couple, separate due to illness, combined	470 000	722 000	1 236 000	1 488 000
Couple, one partner eligible, combined	470 000	722 000	1 047 500	1 299 500

Source: (Services Australia, 2024^[22]).

If an individual feels that they are in a financially difficult situation, but their assets mean they do not receive Age Pension (or only receive a very small amount), they can apply for asset hardship provisions. An applicant is generally eligible if they own assets which they cannot sell or cannot be reasonably expected to sell, and if they cannot borrow against the asset or be reasonably expected to borrow against the asset. Their readily available fund limit must be less than AUD 29 023.80 for someone single, and AUD 43 752.80 for couples.

Housing support in Sweden aims to help residents maintain a satisfactory standard of living. People aged 65 who receive their full national pension can apply for housing supplement. The maximum amount is SEK 6 990 for single people and SEK 3 495 for cohabiting couples. The eligibility calculations for the housing allowance depend on housing costs, income, and assets. For housing costs, the rent (or fees if the home is owned) including heating and water but not electricity, is considered. Different types of income are considered at varying rates – 50% of earned income from work is incorporated into the calculation, but 100% of sickness compensation and 80% of parental leave and unemployment compensation are considered. 15% of assets over SEK 100 000 (SEK 200 000 for couples) is

considered as income for calculation purposes (Swedish Social Insurance Agency, 2025^[41]). People in Sweden applying for this housing supplement apply for elderly support on the same application. This is given based on whether someone has a reasonable standard of living, which as of 2025 is considered to be SEK 7 525 a month, or SEK 6 053 each for cohabiting partners. As with the housing allowance, 15% of assets exceeding SEK 100 000 (SEK 200 000 for couples) are considered when calculating eligibility for elderly support.

Taken together, these eligibility requirements demonstrate how asset requirements can be integrated into government programmes, limiting eligibility for households that have significant assets and thus the impact on public budgets. Programmes that include asset tests take a variety of forms, including pension top-ups, housing support, or general social assistance. The extent to which these programmes consider assets varies. France and Sweden consider all assets above a certain threshold, while Australia provides a more specific definition of what counts as assets, excluding the primary home, and Canada opts to only include liquid assets. In all cases, the incorporation of wealth considerations allows for better targeting of limited public funds.

Encouraging greater labour market participation among older workers

While ensuring pensions are targeted at those who most need them is key, it is equally important to encourage older healthy workers to remain in the labour market whenever feasible. With rising life expectancy and improving health outcomes, many older people are increasingly able to continue contributing to the economy, and do not need to draw from public pension funds for as long. As such, governments can benefit from looking not just at pension reform, but also at how to encourage older people to continue working, and how to foster labour markets which see older workers as valuable assets. This can offer a double dividend, as it can provide additional income for some of the elderly, while increasing the growth potential of the economy as a whole.

Many OECD countries are increasing both statutory and early retirement ages, thereby increasing the amount of time that people work (and pay taxes) and reducing the amount of time people are eligible for public pensions – in other words, both increasing government revenue and reducing expenditure. There is evidence to suggest countries that have raised retirement ages have seen increases in employment (Morgavi, 2024^[42]). For example, in the Netherlands, increases in statutory retirement age from 65 in 2012 to 66 years 4 months in 2019 led to a significant increase in the employment rate (Rabaté, Jongen and Atav, 2024^[43]), while in Japan, increases in the pensionable age for the Employees' Pension Insurance from 60 to 65 (for women, this will reach 65 in 2030) led to a 7-8 percentage point increase in employment amongst affected individuals (Nakazawa, 2022^[44]). Similar effects have been witnessed in France too, which had a low employment rate among elderly people in the past.

However, in many countries, the average retirement age often remains below the statutory retirement age due to pension systems allowing early exit pathways. It can therefore, in some cases, be beneficial to reduce opportunities for early retirement. This can be done in several ways, including increasing the number of contributory years required to receive a full pension, or introducing penalties or other disincentives to retire early. For example, Belgium has recently introduced a system where those who retire early see progressive reductions in pension levels, and those who retire after statutory retirement age see progressive increases, up to 5% each way. Other countries, such as Ireland, allow for greater flexibility in combining a partial pension with work (OECD, 2025^[2]) (OECD, 2026^[45]).

Another key challenge facing older workers is a reduced amount of job opportunities. In 2022, 9.5% of employees aged 55-64 were newly hired, compared to 15% of workers aged 35-44 (OECD, 2025^[46]). It can therefore be useful for countries to monitor the situation of older workers and introduce measures aimed at improving employment quality and stability. For example, Austria has recently introduced a pension reform that explicitly recognises the difficulties older people often face in gaining and maintaining employment. To this end, they plan to increase monitoring of older workers' labour market situations, and send companies targeted information to help them provide training for older employees and ensure they remain healthy (OECD, 2026^[45]).

This is also an area where Korea has put several measures in place, as set out in Box 1.

Box 1. Initiatives in Korea to increase old-age employment rates

Faced with relatively high old-age poverty rates as compared to the OECD average (Figure 1) Korea has made several efforts to increase employment rates and therefore reduce poverty rates amongst the elderly. Some of their initiatives to this end include:

- The Ministry of Employment and Labour has a subsidy system in place to encourage small and medium-sized enterprises to extend employment for workers who reach retirement age. The subsidy is KRW 900 000 (around EUR 500) per worker per quarter, paid for up to three years, with a maximum of 30 workers. To be eligible for the subsidy, the enterprise must have extended the retirement age by at least one year, abolished it entirely, or developed an appropriate reemployment system (Ministry of Employment and Labour, 2025^[47]).
- The Older Worker Employment Subsidy, introduced in 2022, is paid to employers whose number of workers over the age of 60 rises above their previous baseline, supporting both retention of incumbents and faster hiring of older jobseekers (Ministry of Employment and Labour, 2022^[48]).
- The government has proposed career development services, giving middle-aged workers access to career planning support in anticipation of their old age, as well as greater investment in reskilling and upskilling, and provision of services including career redesign, tailored vocational training, and job placement assistance (Ministry of Employment and Labour, 2024^[49]).

2.4. Key considerations to preserve fiscal sustainability

When reviewing options for preserving the fiscal sustainability of old-age pension spending, countries have the option to adopt means-testing or clawback systems even for first tier public pension programmes, as seen above. In the context of ageing, such mechanisms can be useful in targeting public spending towards lower-income individuals. There is also the possibility for countries to take broad perspectives in terms of resources for the elderly in old age. Such means-testing can incorporate assets as well as income, provided that the individuals have the option to liquidate these assets. While generally the principal residence is excluded from asset calculations to protect housing stability, the results show that there are options for government schemes to encourage individuals to derive liquidity even here, either through downsizing incentives, as in Australia's case, or reverse mortgages and housing-based annuities (see next section). A broader approach could also take into account imputed rents, but this remains a sensitive policy issue and has not yet been considered in the countries surveyed.

Systems that combine an earnings-based pension system with solidarity mechanisms can partly reduce the pressure on public finances as such, but they have implications for the overall tax and social contributions wedge. This kind of hybrid system is seen in France and Sweden. As pressure on public pension systems increases, there is the possibility to focus the use of tax revenue for means-tested programmes for low-income retirees, while funding the rest via contributions.

The experience from some of the countries also highlights the value of linking benefits more explicitly to life expectancy and labour market trends. This practice, seen in Sweden, significantly contributes to the Swedish pension system's sustainability, despite the fact that Sweden has experienced ageing as a society earlier than many other OECD countries. An alternative is to perform regular actuarial assessments to help adjust the key parameters of pension systems to ensure long term sustainability.

Pension programmes can also include an invested component, as seen in Australia, Sweden, Canada, and to a very limited extent in the case of France. Countries also offer a variety of funding approaches, so that different risk appetites can be catered to, with a variety of drawdown options. These can provide a complement to pay-as-you-go systems in order to reflect heterogeneous preferences among the population.

Well-designed tax incentives can be highly valuable in encouraging private savings. Offering individuals a good level of flexibility and choice is also important. However, in order to incentivise pension savings for low-income workers, extra policies are likely needed. One such option is government top-ups, such as those offered in Australia. These should be means-tested to ensure targeted spending, and could even be conditional on employment-related income, ensuring that public funds go towards those actively engaged in the workforce.

3 Exploring opportunities for mobilising wealth: Annuities

3.1. Introduction

Mobilising wealth to generate income throughout retirement represents one potential policy lever to alleviate pressures on public finances. This could be used to ensure that older people with some financial assets but low income could find ways to generate some additional income, thus relieving fiscal pressures on public finances in the context of ageing societies. Annuities represent one important financial tool to help individuals mobilise their accumulated assets into lifelong income streams. In theory, the appeal of life annuities is clear: they allow retirees to protect themselves against the risk of outliving their assets, by exchanging these assets for a lifelong stream of guaranteed income.

Provided that some wealth exists and can be tapped into, wider use of annuities could alleviate pressure on public pensions by ensuring that private retirement savings can provide income flows to retirees during their entire life. Encouraging annuitisation can thus help maintain pension adequacy and lessen the fiscal burden of ageing populations, since annuitants are less likely to run out of funds and require public assistance, thereby reducing expenditure risks for government budgets.

Annuities provide protection from outliving one's savings, protecting individuals against longevity risk. Uptake of annuities also means this risk is transferred to the private sector, reducing the potential financial burden of longevity risk on governments. Previous research (Brown and Warshawsky, 2000^[50]) has found that annuities effectively balance longevity and adequacy risks, as without annuities, individuals have to either risk consuming too much early in retirement and facing a future period with no income, or risk consuming too little and dying with assets that could have been used to increase quality of life when alive. Earlier OECD work has highlighted that guaranteed lifetime income products can complement public pension systems by helping individuals manage longevity risk and finance spending needs in retirement (Antolín, 2008^[51]). However, recent OECD work has also highlighted that the appropriate degree of annuitisation will depend on the broader retirement-income system and individual circumstances. Flexibility remains important and full annuitisation of retirement savings may not be optimal in all cases (OECD, 2024^[52]).

Despite their significant theoretical benefits, uptake of annuities remains relatively low, even in countries that have had relatively mature markets. This is often referred to as the annuity puzzle – the discrepancy between the economic rationale for buying annuities to protect against the risk of running out of money in old age, thus hedging against so-called longevity risk, and the fact that, in practice, relatively few households buy annuities. There are several reasons for this discrepancy. On the demand side, consumers often hesitate to give up liquidity, and find annuities complex and expensive. Furthermore, individuals may exhibit loss aversion, perceiving the conversion of a lump sum into an irreversible income stream as a loss of control over their assets, or may suffer from myopia, placing greater weight on immediate liquidity needs than on protection against longevity risk.

On the supply side, insurers face longevity and market risks in providing annuities: if people live longer or investment returns fall short, the insurer bears the loss. Managing these risks requires prudent regulation and often leads to conservative product designs. Persistently low interest rates in the past decade have also made annuities less attractive, posing a challenge to market development.

While annuities provide valuable protection against longevity risk, full annuitisation of retirement wealth is not necessarily optimal in all circumstances. Retirees may wish to retain access to a portion of their assets to meet unforeseen expenditures, finance long-term care needs, maintain precautionary savings, or leave bequests. Furthermore, the advantages of private annuitisation depend on the wider retirement-income system. In countries where public pension systems already provide relatively high replacement rates, the marginal benefit of additional private annuities may be smaller than in systems where retirement income depends more heavily on private savings. Nevertheless, in the context of population ageing and increasing fiscal pressures, private annuities can still serve as a complement to public pensions by diversifying retirement income sources and reducing future dependence on publicly financed benefits.

However, governments have several options and have often developed strategies to stimulate annuity markets, with the goal of harnessing annuities as a means for elderly asset mobilisation. These strategies can complement broader budgetary planning by reducing the extent to which retirement income adequacy depends on public spending alone. The following sections review the experience of annuity markets in six OECD countries – Denmark, France, Germany, Italy, the United Kingdom, and the United States – examining how annuity products are designed and regulated, how demand is promoted, how risks are managed, and what lessons have emerged in each case. The goal is to shed light on the available options that exist to further promote more mature and responsive annuity markets as part of broader strategies to mobilise financial assets as part of diversified multipronged retirement systems.

3.2. Understanding annuities

This section not only discusses some of the implications of annuity markets, as a tool to ensure complementary income for the elderly, but also the annuity options that are often integrated into various pension plans.

3.2.1. Product Design

Annuities in the private sector are generally offered by insurance companies, where participants either pay a certain amount into an insurance policy at regular intervals or purchase the annuity with a single payment using assets accumulated in a pension plan or life insurance policy. At retirement, they receive regular, predictable income for the rest of their lives. However, within this, a wide variety of annuity products tend to be offered. In France and the United Kingdom, these can include annuities with constant payments, those linked to inflation, and those which start at a lower rate and increase over time, or vice versa. While the standard form of an annuity generally stops when an individual dies, some companies also offer so-called reversion annuities, where a certain proportion of an annuity continues to a spouse or other beneficiary after death (generally leading to a lower rate of annuity payout during life), or annuities where payments are made for a minimum guaranteed period regardless of when the annuitant dies. Those with health conditions or lower life expectancy are also in some cases able to receive annuities with higher payouts (AgeUK, 2025^[53]; La finance pour tous, 2025^[54]). From a budgeting perspective, these latter examples have greater capacity to reduce dependency on public systems.

In the United States, the market is arguably even more complex. Insurance providers also offer a range of fixed lifetime annuities, inflation-indexed annuities, deferred annuities and unit-linked annuities, also known as variable annuities. This final type of annuity can include what are known as ‘riders’, i.e. optional add-ons that prospective annuitants can buy, generally at an extra cost. One relatively common rider is the Guaranteed Lifetime Withdrawal Benefit, which essentially functions as a cross between a variable annuity and a fixed annuity, i.e. the annuity amount varies with the market but ensures a minimum level of guarantee. Another such optional add-on is a reversion annuity, where an annuity is also paid to the surviving spouse. Germany has also seen innovative variants created, including variable annuity-like products with unit-linked investments but with guarantees at the payout stage, and deferred annuities combined with programmable withdrawals. Generally, there is a trade-off between flexibility and costs, with more flexible annuity products having higher costs (OECD, 2016^[55]).

Several countries have set up their pension system in such a way that a significant share of private retirement savings is already in annuity-form contracts. For example, in the early 2000s the German government introduced the Riester, a private pension plan into which the individual pays, and towards which the government then contributes (a basic allowance of EUR 175 per year and a child allowance of EUR 300 for children born after 2008 and EUR 185 for children born before 2008). Riester pensions are only available to individuals who are actively compulsorily insured

in a pension system. To receive the full subsidy, at least 4 percent of gross annual income from the previous year must be paid into the Riester contract each year. Their gross contributions, including the subsidy, can be deducted from income tax generally up to EUR 2 100. From a technical point of view, the government subsidy can be seen as an advance on the subsequent tax relief (OECD, 2024^[1]). At retirement, the individual then mandatorily receives an annuity from Riester savings, unless the annuity payment would be too low, in which case they can withdraw a portion of the capital in one lump sum at the start of retirement (Klotz, 2025^[56]). While, from a budgetary perspective, the subsidy and tax benefits represent a cost to the government, this can potentially be made up through greater uptake of privately funded pensions (Die Versicher, 2025^[57]).

Italy also includes annuity offerings within its complementary pension system (*previdenza complementare*). The typical setup is through pension funds, into which the member makes contributions which are then invested in financial markets. These funds can be based on frameworks established by national, sectoral or company bargaining (known as *fondi negoziali* or *fondi chiusi*), established by banks and insurance companies independent of employment, or based on life insurance contracts (known as *Piani Individuali Pensionistici*, PIPs). Upon retirement, Italian law allows the worker to take up to 50% of the fund's balance as a lump sum, while the remainder must be converted into an annuity (*rendita vitalizia*). Similar to the Riester, the exception is when an individual has a very low level of savings in their fund, in which case the individual can request 100% in capital. However, starting from July 2026, further options will be included to offer more flexibility, including by offering flexible withdrawals, and annuitisation will no longer be mandatory. Funds must allow transfer to another pension scheme linked to a new job, and full redemption if unemployment lasts longer than 48 months. In the event of death before retirement, the accrued amount is paid to heirs or named beneficiaries (Normattiva, 2005^[58]; Unipol, 2025^[59]; COVIP, 2024^[60]).

In France, complementary retirement savings plans also offer annuity options, such as the Plan d'Épargne Retraite (PER), introduced in 2019 to unify various private pension schemes. PERs can pay out lump sums, annuities, or programmed withdrawals (or a mix), depending on the option chosen.

In addition to the specific complementary pension schemes, private annuity markets also exist in Germany and Italy. In Italy, this can include single or joint annuities (with the latter reversible to spouse) as well as options for guaranteed periods. Some insurers also offer immediate life annuities, (*rendita vitalizia immediata*) for those wishing to buy their annuity with a lump sum, while others offer certain guarantees on return of capital. In Germany, many schemes also offer profit sharing (*Überschussbeteiligung*), in cases where an insurance company generates higher returns than are required to cover the minimum interest guarantees. This can apply to any relevant insurance contract, not just annuities.

Danish quasi-mandatory occupational pension plans give the member a choice between three payout types at retirement: a life annuity (*livrente*), which provides the recipient with regular monthly payments from the day they retire until they die, an instalment pension (*ratepension*), which is paid in monthly instalments for a specified agreed period of between 10 and 30 years, and age savings (*Aldersopsparing*), also known as old-age insurance (*aldersforsikring*), which individuals can choose to withdraw as a lump sum, leave in savings for up to 20 years, or have paid out in instalments. Prior to 2013, another option was a capital pension, which was paid out in a lump sum, but this was abolished. Denmark also offers the Danish Labour Market Supplementary Pension (ATP), which provides a lifelong pension from the statutory pension age in the form of a guaranteed annuity. Pension rights are accrued in proportion to what individuals contribute.

Danish annuities are generally deferred annuities with guarantees: contributions during working years purchase an annuity that begins at retirement. These contracts often guarantee a minimum interest rate and provide bonus potential. A notable example of such a product is the ATP Lifelong Pension (*ATP Livslang Pension*), which essentially functions as a national fund – participation is mandatory for those working more than nine hours a week. The features of ATP investment strategy mean that members will always get the pensions promised, regardless of market performance. They then highlight potential for higher returns dependent on the bonus capacity. The ATP Lifelong Pension pays out for an entire lifetime, regardless of the age one ends up living up to (Hymans Robertson, 2024^[61]).

The following table provides an overview of the different features of annuity markets in the case of the focus countries. While this paper does not discuss pension issues directly, it does aim to shed light on annuity design. Given that annuities are frequently integrated as options within pension plans, the table therefore considers both stand-alone annuity products and annuities where they are related to pensions, which are more common.

Table 10. Overview of annuity product design features in country cases

	Types of annuities/products	Annuity Provider	Payout options/rules
Denmark	Life annuities, instalment pensions, age savings products, deferred annuities with guarantees	Quasi-mandatory occupational pension schemes, ATP provides guaranteed lifelong annuity	Choice between lifetime annuity, fixed-period instalments, or lump sum / paid out in instalments
France	Constant, inflation-linked, and escalating/de-escalating annuities, reversion annuities, guaranteed-period annuities	Complementary retirement savings plans also offer annuity options, i.e. PER.	Choice between lump sums, annuities, programmed withdrawals, or combinations
Germany	Deferred annuities, variable annuity-like products with guarantees, annuities with programmable withdrawals	Riester pension system: subsidised private pension with mandatory annuitisation (unless annuity payment too low)	Mandatory conversion into annuity in Riester (with limited lump-sum exception)
Italy	Immediate life annuities, single and joint (reversible) annuities, guaranteed-period annuities	Complementary pension system, annuity conversion required for part of savings	Up to 50% lump sum allowed, remainder must be annuitised, 100% lump sum allowed if savings are very low
United Kingdom	Constant annuities, inflation-linked annuities, annuities with increasing or decreasing payments, reversion annuities, annuities with guaranteed periods, enhanced annuities for individuals with lower life expectancy	Offered mainly by insurance companies, can be purchased via pension savings or life insurance	Regular lifetime income, payments typically cease at death unless reversion or guarantee options apply
United States	Fixed lifetime annuities, inflation-indexed annuities, deferred annuities, and variable (unit-linked) annuities	Offered by insurance providers	Insurance providers offer variety of different types of annuities.

Source: OECD author's elaboration.

3.2.2. Recent annuity market trends

While consistent data on annuity take-up is scarce and overall fragmented, the available evidence tends to support the view that annuities remain a fringe option for securing flows of income for the population in general. As evident from Table 11, people with annuities rarely make up more than 15% of the population. The exceptions are Denmark and Germany, where annuities are the default disbursement approach for certain pension schemes. This suggests that as it currently stands, among the focus countries, annuities only represent some form of a supplement.

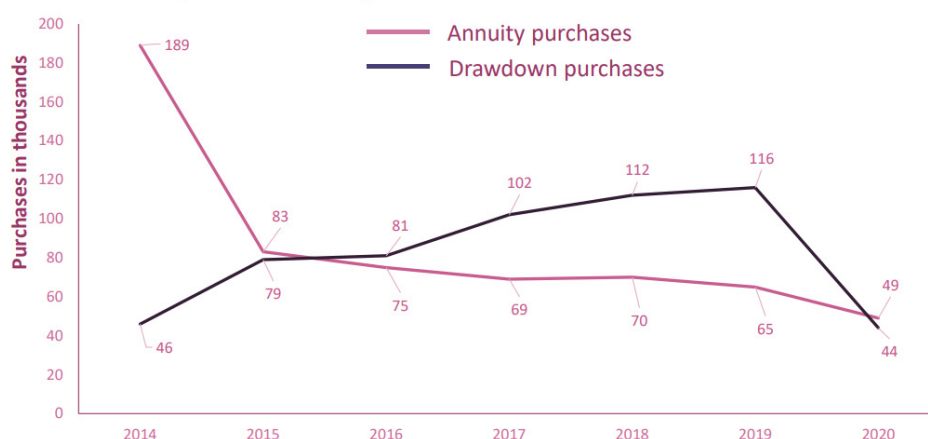
Table 11. Use of annuities in focus countries

	Use of annuities	Sources
Denmark	In 2021, there were approximately 4.8 million pension scheme members within the ATP pension system. Denmark pays a monthly pension by default except below a threshold of DKK 3 450. As the average ATP pension is DKK 16 600, this amounts to very few people.	Finnish Centre for Pensions ATP Livslang Pension
France	12.7 million people hold a PER. While withdrawal type data is not available, only 25% said they preferred to withdraw it as an annuity, with 43% preferring a mixed withdrawal and 32% a lump sum withdrawal.	IPSO Ministère de l'Économie et des Finances
Germany	In 2023, 916 131 people took their Riester as an ongoing payment, while less than 70 000 took the offered partial capital payment. Note that this figure also includes disability benefits	Federal Ministry of Finance
Italy	In Italy, total annuities between 2020-2022 were 8 300 – less than 3 000 a year – out of the 1.83 million people who became eligible for payout. This means the propensity to annuitise (i.e. portion of people who choose to convert their pension into a life annuity) is 0.46%.	National Insured Company Association
United Kingdom	13% of over 50s have an annuity. In 2023-2024, 9% of pensions plans accessed were used to purchase annuities.	Financial Services Compensation Scheme Financial Conduct Authority
United States	One survey has 4.7% of households reporting holding an annuity. However, this figure varies significantly: Another survey from a centre focused on retirement research cites this figure as 12%.	Retirement Income Institute Centre for Retirement Research

Prior to 2015, the United Kingdom had one of the world's largest immediate annuity markets, driven largely by the effective compulsion to annuitise pension savings. However, following legislative changes that removed the requirement to annuitise, annuity purchases dropped sharply, as shown in **Error! Not a valid bookmark self-reference..** Despite this long-term decline, the latest data from 2023/24 indicates a resurgence in interest, with

annuity sales rising by nearly 39%, from around 59 000 to approximately 82 000 contracts (House of Commons Library, 2019^[62]; FCA, 2024^[63]).

Figure 9. Annual UK annuity and drawdown purchases from ABI members (in thousands), 2013-2020



Source: (Pensions Policy Institute, 2021^[64]).

In Italy, members of supplementary pension funds (which already only represent 37% of the workforce) generally demonstrate a preference for receiving the accumulated sums in the form of capital. According to the COVIP 2023 annual report, of the 164 000 pension benefits requested, almost all were in the form of capital, with only around 3 800 transformed into annuities. This preference for lump-sum withdrawals may reflect the relatively modest balances accumulated in these funds, with the average capital per capita standing at EUR 17 420 for contractual occupational funds, EUR 17 150 for open funds and EUR 13 860 for PIPs (COVIP, 2023^[65]).

In the United States, the assets held as annuities outside of retirement accounts grew from USD 1.4 trillion in 2009 to USD 2.1 trillion in 2019. By contrast, annuities are much less common within retirement accounts. This was in large part due to a lack of offerings arising from liability concerns: as of 2017, only 12% of defined contribution plans offered annuity options, whereas 86% offered lump sums (US Bureau of Labor Statistics, 2018^[66]). The use of unisex mortality options in annuity pricing can make the resulting benefits less attractive for men. While lump sum offerings can also support people in retirement, they are less likely to support someone for the rest of their lives, particularly as average ages of death rise. As such, those who initially take on lump sums may rely on public support more than those with annuities, increasing pressure on public budgets.

In France, individual life insurance contributions stood at EUR 12.4 billion at the end of 2023. While life insurance can be taken out for a variety of reasons, a significant motivation for many is retirement. However, in most cases people tend to prefer to take out savings in the form of life insurance as lump sums rather than annuities. As discussed above, this creates greater likelihood of dependency on public systems and therefore increases pressure on public budgets.

In Denmark, the ATP is mandatory. It pays a lifelong guaranteed pension to members once they reach retirement age, and thus can be considered as equivalent to an annuity. Private schemes have also seen growth.

In Germany, while Riester contracts generally require annuitisation unless the pension is sufficiently small, it is possible to withdraw a one-time payment of up to 30% of the total Riester capital at the beginning of the payout. In 2023, only 67 860 people opted for this option, while 916 131 took their Riester payout as ongoing payment from the beginning. A further 90 284 received a one-time settlement due to a small pension (German Pension Insurance, 2025^[67]; Federal Ministry of Finance, 2025^[68]).

As a complement to the analysis above, which focuses on the focus countries, the Korean case offers a concrete illustration of how an annuity market can function in practice. This example can be useful to highlight both product design features and the challenges associated with low uptake in practice. The following sections will discuss some of the available options to address these issues.

Box 2. Annuity design and uptake rates in Korea

Annuity design

In Korea, employers must either provide a severance pay plan or a retirement pension plan to their employees. Retirement pension plans, where chosen, can be withdrawn either as lump sums or as annuities. The taxation of pension income depends on the source of the originating contribution and whether the individual chooses a lump sum or an annuity. If pension income from an employer contribution is taken as an annuity, the tax payable is 70% of the tax that would be payable on a lump sum, or 60% if the pensioner's entitlement exceeds 10 years. If pension income started as an employee or individual contribution, and is taken as an annuity, then the tax rate varies between 3.3% and 5.5% depending on the age of the annuitant. This means that the tax benefit from taking an annuity compared to a lump sum is between 11% and 13.2%.

Regulations specify that mortality tables used by pension providers must be credible and must meet certain specifications as to the size of the supporting data and the time of collection. Mortality tables are the responsibility of the Korean Insurance Development Institute, and the tables used for annuities account for expected future mortality improvements and include additional safety margins.

Individuals can receive annuities from the age of 55 and need to have participated in the plan for at least 10 years. Annuities must be paid out for at least 10 years. Withdrawal options include a lifetime annuity, a periodic annuity and annuity certain. Only the lifetime annuity provides longevity insurance, while the others mean individuals risk outliving their assets.

Uptake of annuities

In 2018, more than 95% of those entitled to benefits chose a lump sum payment. Previous analysis has suggested that lump sums are often preferred to pay off mortgages. Those with larger pension pots are more likely to opt for annuities, likely due to the tax advantages of doing so. Research on consumer behaviour in Korea suggests that individuals generally do not seek help from financial professionals on retirement planning. OECD (2022^[69]) suggests that many of those surveyed also stated they would be willing to purchase a financial product providing guaranteed lifetime income. Fostering the use of financial professionals could therefore be used to help explain how annuities work and how they can be purchased.

Source: (OECD, 2022^[69]).

3.3. Mechanisms for encouraging demand, managing risk and protecting consumers

3.3.1. Demand encouragement

Tax incentives

Tax treatment of retirement savings during accumulation can help shape annuity demand at retirement. Most OECD countries apply some variant of deferred taxation in which contributions and investment income are relieved and benefits are taxed, but there is significant within-country variation by plan type, voluntariness, and source of contributions. Only a small set of countries explicitly tilt the tax system towards annuities by favouring them over long programmed withdrawals or lump sums. This creates a policy gap: incentives are strong for building up savings, yet comparatively rare for nudging those savings into guaranteed income (OECD, 2024^[52]). While some countries, such as Italy and Germany, make use of strict annuitisation rules alongside favourable tax treatment, others, such as the United Kingdom, have shifted towards greater individual choice. Others balance annuity options with alternatives that allow lump-sum withdrawals.

While tax incentives can encourage annuitisation, they also come at a cost for public finances through revenue foregone. Their desirability therefore depends not only on their capacity to increase uptake, but also on whether the additional retirement income security generated justifies the public expenditure involved. OECD (2018^[70]) finds that financial incentives can be effective in promoting retirement saving, although their fiscal cost varies considerably

across countries and needs to be considered in light of broader demographic and fiscal conditions. Where governments provide financial incentives for retirement savings, consideration should be given to the form in which retirement wealth is ultimately withdrawn. Furthermore, the value of annuity-related tax incentives can be assessed not only against the additional uptake they generate, but also in terms of whether the additional uptake is sufficient to justify the associated fiscal cost.

In Germany, to receive the subsidy discussed in the previous section, the sum of the tax-deducted member contributions and the subsidies must be at least equal to 4% of their previous year's annual income before taxes (up to a maximum of EUR 2 100) and is reduced pro-rata below this. Individuals must also use the funds for retirement income, and if they withdraw at retirement, at least 70% of the accumulated capital must be converted into an annuity (taxed as income at the marginal rate) (COVIP, 2024^[60]; Die Versicher, 2025^[57]; OECD, 2024^[11]). From a public finance perspective, this can be seen as a balancing act: while these subsidies and tax deductions are of course a cost to the budget, the relative cost is often minor compared to the incentivised effort in terms of greater savings.

In Denmark, as of 2024, contributions to ATP and occupational pension plans paying life annuities are deductible from income tax, although they remain subject to labour market tax. When receiving payment, the individual pays personal income tax but does not pay labour market tax. When compared to the capital pension, where there is no tax relief for contributions and there is a 40% tax on disbursement of the payment, the incentive mechanism is clear (Skat, 2025^[71]). However, to ensure individual flexibility, Denmark promoted new schemes alongside the abolition of the capital pension that still gave people the option to take out their savings as a lump sum if they so wished. While capital options do potentially risk greater impacts on public budgets, as discussed above, ensuring consumer flexibility is also important from a political support perspective. Employer contributions to these schemes (*Aldersopsparing* and *Aldersforsikring*) are not considered as taxable income to the employee, but they have lower contribution levels, DKK 9 400 (USD 1 500) as of 2025, rising to DKK 61 200 in the last seven years before retirement.

In Italy, one of the main sources of funding for supplementary pensions is known as TFR. This is a mandatory deferred compensation scheme where a portion of an employee's annual salary is set aside to be paid out to the employee when the employment ends (regardless of how). TFR contributions are paid into occupational pension plans, although if people opt out, then the TFR keeps its initial purpose and can be accessed when employment ends. While pension contributions are generally exempt from personal income tax up to EUR 5 146.57 a year (which applies to the sum of employee and employer contributions), TFR contributions are excluded from this limit and are thus entirely exempt from personal income tax. Furthermore, social contributions are not levied on TFR contributions (OECD, 2024^[11]).

Several countries also have incentives in place for private annuities, even in cases where public sector systems are in place, thus allowing greater flexibility. This approach also incentivises greater development of private options, which can shift financial pressure away from public budgets. In Germany, only a portion of private annuities are taxed as income. For life-time annuities coming from private pension insurance, only returns on investment are taxed at the individual's marginal rate of income tax. This is determined by the age when the annuity starts (for example, starting at age 65 leads to 18% of the annuity being taxable). In the French system, annuities paid by PER from assets derived from company savings are partially taxed at the individual marginal income tax rate. The taxable share varies according to age, and can be as low as 30% if the annuity is claimed from age 70 (OECD, 2024^[11]; Mainpost, 2025^[72]; La finance pour tous, 2025^[73]; VZ, 2025^[74]; Brookings, 2019^[75]).

In many countries, simplicity and fairness can be major obstacles to the use of financial incentives. Incentive rules remain complex in many countries, parameters are not always updated regularly, and the distribution of tax relief tends to favour middle and high earners unless complemented by flat-rate credits or subsidies. Generally, countries align with the OECD guidance that tax rules should be stable and common to all retirement savings plans, and that countries should consider demographic trends before introducing new retirement savings plans with financial incentives. However, they could benefit from simplifying incentive designs and rebalancing support towards lower earners (OECD, 2024^[52]).

Table 12. Overview of tax incentives for focus countries

	Tax incentive: Contributions	Tax incentive: Payout
Denmark	Life annuities are not subject to limitations on their tax exemption (for income tax, not labour market tax).	Life annuities (alongside programmed withdrawal and pension income) not subject to labour market tax (but subject to income tax).
France	None specific to annuities.	For voluntary savings/mandatory savings: taxed at the individual's marginal rate of income after a 10% deduction. For assets from company savings: only a proportion is subject to income tax (between 30% and 70% depending on age of claimant).
Germany	<i>Riester</i> gross pension contributions (including the subsidy) can be deducted from income tax up to EUR 2 100.	<i>Riester pensions</i> are normally paid as annuities unless too small. In this context, only a proportion of the pension is liable for taxation (varying depending on age). For private pension insurance annuities, only returns on investment are taxed at the marginal rate, while income % is determined by age pension is received (i.e. 18% at 65 years old).
Italy	No limitation on tax exemption of contributions to TFR (which must be at least partially withdrawn as an annuity).	None specific to annuities.
UK	None specific to annuities.	None specific to annuities.
United States	None specific to annuities.	None specific to annuities.

Source: (OECD, 2024^[1]).

Other approaches to increasing annuity uptake

One approach to increase annuity uptake is to incorporate annuity schemes into existing retirement schemes, making them the default option when employees are enrolled in their company's retirement schemes. This approach has been effective in incentivising people to save during accumulation for an annuity even if it has some adverse consequences (OECD, 2016^[55]).

Use of this approach is also evident in Germany, where annuities within occupational pensions are prevalent. In Italy, since 2007, employees can choose to leave the TFR with their employer or redirect it into a supplementary pension fund. It must be paid out at least partially (minimum 50%) as an annuity, unless the annuity amount falls under a particular threshold. Due to what is known as the silent consent mechanism, if a worker does not actively choose whether to transfer their TFR to a complementary pension fund or keep it with an employer, it automatically gets allocated to the former (Normattiva, 2005^[58]). This has the capacity to increase annuitisation rates and therefore potentially reduce pressure on public budgets. In France, the PERCOL and PERO plans are offered by employers.

In the United Kingdom prior to 2015, annuities were mandated. However, as of 2015, the annuity market in the United Kingdom was under public pressure. Retirees felt they were locked into low-paying contracts and that any gain went to insurers if they died early, unless they paid for additional features, such as a guarantee period. The requirement also meant that insurers could offer uncompetitive rates to their members at retirement. As such, the government overhauled the regulations around annuities to provide retirees with greater flexibility around their payout options. As evident from Figure 9 above, this increase in flexibility has led to a significant decline in demand for annuity purchases.

In the United States, only a relatively small proportion of the population can define annuities accurately, and when they can, they generally do not understand how the product works and how to benefit from it (The News Tribune, 2025^[76]). This can make people feel they are at the mercy of a product they are not able to understand, reducing uptake. This complexity means that mechanisms to provide guidance and decision support to consumers, as well as efforts to clarify annuity products, are valuable. These are discussed in greater detail in the "Consumer Protection" section. Innovations such as the Guaranteed Lifetime Withdrawal Benefit, an American annuity add-on helping protect consumers against market variability, can be useful in providing annuity-like guarantees in a form where consumers retain a greater level of control, and thus find more acceptable. However, as such products are complex to understand, it is important that they are accompanied by increased efforts to provide guidance (Center for Retirement Research, 2024^[77]).

In cases where annuities are linked to occupational pensions, fear of the unknown can also be an issue on the employer side. This includes liability concerns, in terms of the extent to which an employer could bear responsibility for annuities in cases where an annuity provider fails to meet its obligations. In the United States, the 2020 SECURE Act introduced several changes to mitigate this in order to incentivise the use of annuities in 401(k) and 403(b)

pension plans. These include protections for employers concerned about potential liability if an annuity provider fails to meet its obligations (provided they followed certain guidelines), and providing employees with the option to transfer their annuity investments to another retirement plan if their current plan discontinues the annuity option. The SECURE 2.0 Act of 2022 provided several further changes, most notably simplifying processes for those who held both an annuity and another retirement fund, making benefit calculations easier and preventing penalties. (TIAA, 2021^[78]) (Retirement Income Institute, 2023^[79]).

Table 13. Overview of other mechanisms that may support access and uptake

	Denmark	France	Germany	Italy	United Kingdom	United States
Default Mechanisms	New Pension Scheme (2009) set defaults, including annuity options	PERCO plans offered by employers, simplified access	Annuities integrated in occupational pensions	TFR auto-allocated to pension fund; capital-protected default	Pre-2015: annuities de facto mandated by high lump sum tax	SECURE Acts promote annuities in employer plans
Flexibility	Choice of annuity, term/lump sum, add-ons for spouse/children	Flexible drawdown via PER/life insurance	Multiple pension types, tax rules vary by age	Options like RITA; perception of rigidity, but tax rules allow choice	Full access from 2015, contract reversibility	Products like GLWB offer annuity-like guarantees with control

3.3.2. Risk management

Solvency mechanisms for insurance companies

Solvency mechanisms are necessary to protect consumers. This is particularly notable when the risk is relevant to pension products, as in the case where an insurance company fails, the government might end up being liable for part of the losses, hence creating implicit fiscal risks. Solvency requirements increase the probability that the insurance company will be able to weather unexpected events.

For countries within the European Union (EU), many solvency risks are managed at EU level. Most notable is Solvency II, which entered into force in January 2016. It contains requirements that insurers hold enough capital to withstand significant risks, with these requirements tailored to the actual risk profile of each insurer. It also requires that insurers conduct regular internal assessments of their risk exposure and capital adequacy. Capital requirements must also account for longevity risk, i.e. the risk that annuitants live longer than expected, as well as market-based risks. Outside the EU, in the United Kingdom, a version of this legislation, known as Solvency UK, also imposes strict capital requirements to ensure insurers can withstand adverse scenarios. In the United States, every state has an insurance commission that sets solvency standards (now largely synchronised via models from the National Association of Insurance Commissioners). Insurers must maintain reserves based on conservative mortality tables and interest rate assumptions, and they undergo regular actuarial reviews.

Some European countries have their own requirements. For example, German life insurers traditionally offered relatively high guaranteed returns on long-term contracts (up to 4% in the early 2000s for older policies), which became burdensome as bond yields fell. To ensure they could fulfil annuity promises, regulators required insurers to build additional reserves (*Zinszusatzreserve*) when actual interest rates fell below the guaranteed rates on their books. This policy compelled firms to set aside billions in extra reserves.

While not a requirement per se, ATP in Denmark maintains a large hedging portfolio to back pension guarantees, and takes a highly proactive approach, ensuring that for any major change in interest rates or longevity assumptions, assets move to offset the liability change. For example, in 2018, ATP added DKK20 billion to its hedging portfolio because new data showed Danes lived even longer than previously thought (BaFin, 2018^[80]; IPE, 2018^[81]).

Many countries also make use of pooled protection funds. For example, French providers must contribute to a national guarantee fund (*Fonds de Garantie des Assurances de Personnes*) that protects policyholders if an insurer fails, while Germany has an industry protection fund called Protektor for life insurers. The United States has a backstop in the form of State Guaranty Associations. If an insurer fails, other insurers (via a state pool) will cover annuity policyholders' losses up to certain limits (often around USD 250 000 per annuity contract). As above, these measures reduce the risk of government intervention and its consequent impacts on public budgets. However, these nevertheless represent a contingent liability risk for governments, particularly in cases where a failure exceeds the protections in place and a government is compelled to step in.

Balancing between risk and return

Capital requirements are important, with minimum solvency standards needed to ensure that longevity risk is mitigated. However, the combination of the strict capital requirements within the European Union and the era of low interest rates saw the appeal of annuities drop significantly due to their low return. From a public finance perspective, this highlights a need to ensure capital requirements are high enough to mitigate implicit contingent liability risks. In other words, an insurer failure could increase reliance on publicly financed support among affected retirees, or create political pressure for government to step in with public funding. For example, in Denmark, low interest rates led to growth of higher-risk non-guaranteed products. ATP has been responsive to this, increasing allocations to higher risk assets from 20% to 40%, and then reducing them again just before retirement (ATP, 2025^[82]). In the United Kingdom, Solvency UK has allowed insurers to increase their returns by allowing more types of assets, including less safe but higher-yield assets, but counters this by requiring higher capital levels to be set aside for riskier assets (Skadden, 2023^[83]).

In Germany, a guarantee is provided during the accumulation period: the providers of the Riester contribute to what is known as the contribution guarantee (*Beitragsgarantie*), meaning that at the start of retirement, the individual's savings contributions and the state subsidies must be the minimum available for payout (Klotz, 2025^[56]). However, the maximum guaranteed interest rate has fallen from a peak of 4% in 1999 to as low as 0.25 percent, leading to a much less appealing rate of return. Recently, the government acknowledged shortcomings in the Riester model (and has been evaluating reforms – sometimes dubbed “Riester reform” or “Riester 2.0”. Proposals on the table include relaxing the 100% capital guarantee to allow higher returns, which could indirectly affect annuity payouts by allowing more growth before annuitisation (Klotz, 2025^[56]; BPB, 2024^[84]; Handelsblat, 2025^[85]).

Another approach is to share some of the risk with the annuitants by offering a low guaranteed income on annuity reserves and then credit bonuses based on actual investment performance and mortality experience. If investment returns are lower than expected (or if longevity improves more than expected), the bonus rate can be smaller (or even zero), limiting the insurer's liability beyond the guaranteed base. Conversely, in good years, higher bonuses raise annuity payments. This allows investors to take a more aggressive investment approach, leading to potentially more appealing returns, without exposing themselves to excess risk. Such profit-sharing schemes exist in France for life insurance and retirement-related contracts. For example, Section 5 of the *Code des assurances* sets out that Insurers and certain retirement funds must allocate a minimum share of profits to policyholders. This is calculated considering insurance premiums, investment income, and reinsurance results (Légifrance, 2026^[86]). In Denmark's ATP, members receive a combination of a guaranteed pension income stream and bonuses, varying depending on the size of the asset pool relative to projected liabilities (Hymans Robertson, 2024^[61]).

Table 14. Overview of risk management approaches in focus countries

	Solvency Mechanisms & Protection Arrangements	Risk-Return Balancing Features
Denmark	Subject to Solvency II. ATP maintains hedging portfolio to back pension guarantees, moves assets to offset the liability changes.	Responding to low interest rates, ATP increased contributions to higher risk assets from 20% to 40%, and reduced again just before retirement. Members receive a combination of a guaranteed pension income stream and bonuses.
France	Subject to Solvency II. French providers must contribute to a national guarantee fund that protects policyholders if an insurer fails.	Code des assurances sets out that insurers must allocate a minimum share of profits to policyholders.
Germany	Subject to Solvency II. Regulators required insurers to build additional reserves when actual interest rates fell below guaranteed rates. Industry protection fund in place.	At the start of retirement, the individual's savings contributions and the state subsidies must be the minimum available for payout.
United Kingdom	Subject to Solvency UK.	Solvency UK allows for increased investment in higher-risk higher-return assets, but limits them and requires higher capital requirements for such investments.
United States	Every state has an insurance commission that sets solvency standards. Insurers must maintain reserves and undergo regular actuarial reviews. State Guaranty Associations act as a backstop.	New requirement system, in place as of 2026, allows for calculating of reserves based on specific products, ensuring reserves are not disproportionate to the level of risk entailed.

Sources: cited in text above.

In the United States, insurance regulators are set to complete a significant update to annuity reserve requirements. The new system, rather than using standardised formulas to calculate required financial reserves, allows companies to calculate reserves based on their specific products, risks and economic scenarios. This gives insurers more flexibility to invest and pursue returns, although they must hold more capital when risks increase (Skadden, 2025^[87]).

3.3.3. Consumer protection

One reason for the annuity puzzle and the low uptake mentioned above is the complexity of annuity products. For consumers, assessing whether to annuitise, how much to annuitise, and which type of annuity to select requires understanding long-term trade-offs between long-term protection, investment risk, inflation risk, liquidity constraints and, for couples, survivor benefits. These decisions are difficult for many individuals, and without accessible guidance they can lead to disengagement, reliance on rules of thumb, or decisions that do not align with their best interests (Brookings, 2019^[75]). This complexity represents a risk to the consumer, which in turn can lead to lower uptake, and thus greater reliance on social safety nets funded through public budgets. Consumers therefore should be aware of their options, and have access to unbiased and comprehensible advice and information on the annuity products available to them, as well as any drawbacks (OECD, 2016^[55]).

The importance of financial consumer protection was acknowledged at G20 level in the first version of the G20/OECD High-Level Principles on Financial Consumer Protection adopted by the OECD council in 2012 and subsequently revised, endorsed and approved in 2022 (OECD, 2022^[88]). These principles highlight that it is important for people to have support to make informed decisions and have appropriate protections in place. They emphasise proportionate regulation, effective oversight, high standards of disclosure and transparency and a strong focus on fair treatment and aim to work in the best interest of the consumer. These principles are reflected in many of the practices that countries undertake regarding annuities. They are complemented by the OECD Recommendation on Consumer Protection in the field of Consumer Credit (OECD, 2019^[89]), which calls for a supervisory framework and oversight, as well as equitable and fair treatment of consumers, for disclosure and transparency, financial education and awareness as well as responsible business conduct, and the Recommendation on Financial Literacy, which highlights that adherents should promote awareness and understanding of financial products and services, and empower individuals to evaluate the products, services and providers available to them (OECD, 2020^[90]).

Disclosure and transparency

Transparent disclosure rules aim to reduce information asymmetries and help individuals understand the products offered to them. Clear, comparable information improves consumers' ability to understand the costs and risks involved when taking on an annuity. Without such requirements in place, individuals may misinterpret the long-term implications of their choices or fail to compare alternatives, leading to unfavourable financial situations.

Most countries require annuity providers to supply consumers with key information on the fundamental benefits, risks and terms of annuity products. In the United Kingdom, under the Financial Conduct Authority's 2023 consumer duty, providers must act in the customer's best interests and demonstrate good consumer outcomes (FCA, 2025^[91]). In the United States, the 2020 SECURE Act requires retirement plan statements to include lifetime income illustrations, i.e. display the equivalent monthly annuity income that the participant's current balance could generate, showing how much monthly income an employee could expect if their current savings were used to purchase an annuity (TIAA, 2021^[78]).

In France, life-insurance-based annuities are subject to detailed disclosure rules covering guaranteed amounts, profit-sharing mechanisms, fees, and the obligations of each party. In Italy, supplementary pension annuities are typically delivered by insurance companies under agreements with pension funds. Regulation requires disclosure of conversion coefficients, annuity options, and guarantees, as well as the use of certified demographic tables. Both the Institute for Insurance Supervision (IVASS) and the Pension Fund Supervisory Commission (COVIP) oversee these arrangements, with mandatory standardised communication templates designed to support informed decision making (Fondo Telemaco, 2025^[92]; Normattiva, 2005^[58]).

Guidance, financial advice and decision support

The availability of guidance and decision support is valuable in helping consumers frame complex trade-offs, interpret long-term financial projections, and understand how annuities can fit into their overall retirement strategies. Without such support, individuals may rely on heuristics or make choices that do not fully align with their needs. Several countries also provide decision-support tools to help individuals understand annuities and broader income-retirement choices, in line with the recommendations and high-level principles highlighted above.

The manner in which countries provide these tools varies. Some countries do so by providing online services to aid individuals in understanding annuities. The United Kingdom's Financial Conduct Authority offers [Pension Wise](#), a service offering impartial guidance on pension options through free online appointments. In Denmark, ATP provides an online portal showing accrued pension rights and projected benefits, while the website *PensionsInfo* allows individuals to see their potential pension payouts based on their current plans, and simulate different scenarios depending on when they retire and what plan they choose (ATP, 2025^[93]; PensionsInfo, 2025^[94]). In Germany, Riester contracts must annually inform annuitants about contributions, capital formed, income and costs, and spread the closing costs (i.e. the costs of brokering the contract) over at least five years (Die Versicher, 2025^[57]).

To be able to provide unbiased advice to people considering an annuity, France introduced the Financial Investment Advisor (CIF in French) position. CIFs are authorised to provide investment advisory services, including for life insurance-related products. They are required to ask detailed questions to the consumer about their investment experience, risk tolerance, and ability to bear losses, and provide a statement of suitability (Service Public, 2023^[95]) (AMF, 2018^[96]).

Table 15. Overview of consumer protections and disclosure requirements for annuity products, focus countries

	Approach
Denmark	ATP provides portal to project pension benefits
France	Life insurance annuities subject to disclosure rules. CIFs provide investment advisory services.
Germany	Riester contracts must disclose variety of information to annuitants.
Italy	Supplementary pension annuities require disclosure and presentation of options.
United Kingdom	FCA requires providers to demonstrate good consumer outcomes. Also offers guidance through appointments.
United States	SECURE Act requires income illustrations for retirement plans.

Note: this table offers an overview of selected existing relevant consumer protections for annuity products.

3.4. Conclusion

Despite their benefits, annuities remain, in many cases, an underutilised tool for converting private savings into lifetime income. The benefits that arise are often not clear to consumers, due to difficulties in evaluating uncertain future outcomes and concerns around loss of control (Brookings, 2019^[75]). Hesitancy also arises on the supply side, where insurers face longevity risks. Despite these challenges, annuities present interesting opportunities for providing complementary income for elderly populations with assets.

Various mechanisms exist to increase annuity demand, without necessarily removing consumer choice. Tax incentives are the most widely used tool, taking the form of tax deductions, reduced rates and deferred taxation. Several countries also use default mechanisms, such as automatic enrolment into annuity-based pension systems. Such systems can take the form of embedding annuities into occupational or national schemes, as seen in Denmark and Germany. This generally leads to higher annuity coverage than in cases where annuities are only part of a large and fragmented market. However, excessive rigidity can generate backlash, as seen in the United Kingdom (Pensions Policy Institute, 2021^[64]). Flexibility, through hybrid products or partial lump-sum withdrawals, can help provide the benefits of annuities while maintaining consumer confidence.

Consumer trust is a necessary factor in increasing annuity uptake, even if it is not always sufficient. Regulations that enforce transparency amongst annuity providers, mandate standardised and accessible information, and guarantee access to impartial advice, as seen in Germany, the United Kingdom and Denmark, can be crucial to building confidence. Digital tools such as simulators and pension dashboards can further help individuals navigate the often-complicated landscape of annuity products, and understand the trade-offs involved.

On the supply side, regulators face the challenge of balancing solvency requirements with the need to ensure sufficient returns. Within Europe, Solvency II capital requirements have helped protect consumers, but have reduced returns. Some countries have adapted by allowing partial risk-sharing and bonus mechanisms to help offer increased income without undermining financial stability. Such innovations can play a strong role in increasing the demand for annuity products while maintaining stability.

Consideration of capital requirement levels is also important. Lack of strict guarantees may create implicit contingent liabilities from a public finance perspective. If an insurance company faces an unexpected crisis and is not able to provide the income it has promised, the government may be politically compelled to step in and provide support on its behalf. This can present a fiscal risk for public finances. However, excessively strict requirements can reduce returns significantly. This can reduce the interest for citizens to buy annuities.

This highlights significant challenges, beyond the scope of this paper, that need to be resolved if annuities are to be considered as a meaningful supplemental vehicle for channelling income throughout retirement.

4 Opportunities for mobilising wealth: Reverse mortgages

4.1. Introduction

Mobilising wealth to generate income throughout retirement represents one potential policy lever to alleviate pressures on public finances. From a budgeting perspective, greater use of private housing wealth can reduce demands on publicly financed retirement-income and long-term care programmes, influencing medium-term expenditure trajectories. This positive impact on public financial sustainability is well documented in the literature on the topic (Di Lorenzo et al., 2025^[97]; Rania, 2025^[98]; Lee, Kung and Liu, 2018^[99]).

This section considers reverse mortgages as an important tool to mobilise housing wealth, a specific and important asset class, into flows of income that can support retirement. Reverse mortgages are one example of a home equity release product, which allows homeowners to access and use their equity. While some home equity release products use a sale-type model, meaning they involve a full or partial sale of home equity, reverse mortgages are a loan-type model, where the loan is given using the home as collateral (OECD, 2024^[52]). As such, they allow homeowners (typically those at or nearing retirement age) to convert part of the equity in their home into cash and/or income, without having to sell the property or make regular loan repayments. Unlike traditional mortgages, where the borrower makes monthly payments to the lender, in a reverse mortgage, the lender makes payments to the borrower. These can take the form of a lump sum, regular income payments, a line of credit, or a combination of these.

Generally, this loan, along with any accumulated interest and fees, does not need to be repaid until a triggering event occurs – usually the sale of the home, the borrower's death, or the borrower permanently moving out of the property. At this point, the lender usually sells the home and uses the proceeds from this to repay the loan. If the sale value exceeds the outstanding debt, the remaining equity belongs to the borrower, or their named heir. In many cases, if the outstanding debt exceeds the sale value, the lending institution must take on the difference. This is known as the no negative equity guarantee (NNEG), and helps ensure that the reverse mortgage protects borrowers from negative equity outcomes.

The flexibility of reverse mortgages means they can have a wide variety of uses. Many individuals use them as a way to pay off or manage existing debts, while others use them to finance an early retirement. In the United States, research has found that the largest reverse mortgage provider has high penetration amongst low-income groups, and in particular surviving spouses (OECD, 2024^[52]). This suggests that when targeted well, reverse mortgages can ease budgetary pressure by stabilising incomes in vulnerable groups.

This section takes a cross-country comparative approach to understand the potential for reverse mortgages to contribute to retirement income, and provides an overview of the functioning and market trends of reverse mortgages. It focuses on the practices of seven different countries – Australia, Canada, France, Italy, Sweden, the United Kingdom and the United States. While some of these countries, such as the United Kingdom and the United States, have strong reverse mortgage markets, others, such as Italy, Sweden and Australia, have smaller but growing ones, and others still, such as France and Canada, have had less successful experiences. By examining these diverse national contexts, the paper seeks to identify the key conditions under which reverse mortgages can function as a safe, effective, and sustainable financial tool to provide income during retirement.

The section starts by examining how reverse mortgages function in seven countries. This involves examining the different types of reverse mortgages and providing an overview of market trends. The analysis then focuses on borrower eligibility and requirements, payment options, repayment triggers, related costs, and consumer protections. This helps to identify some directions that can be explored to create favourable conditions for developing reverse mortgage markets. This could help address the core question of this section: how can governments help homeowners take advantage of the equity tied up in their homes to help increase their liquidity in old age?

Box 3 below presents the case of Korea, complementing the subsequent analysis through an illustration of a state-backed reverse mortgage scheme, highlighting both the potential and challenges of such an approach.

Box 3. Reverse mortgages in Korea

Korea runs a targeted, state-backed reverse mortgage programme known as the Home Pension Programme, introduced in 2007. An older person can receive a pension benefit either for a set duration or for life. An applicant must be at least 55 years old and own a house whose value does not exceed KRW 1.2 billion.

For the set duration option, up to 45% of the reverse mortgage payment can be withdrawn as a lump sum, while for the lifetime amount, it is paid as a monthly pension received for life, for both the homeowner and their spouse. It can be either a flat rate throughout or be higher for the first ten years and then be reduced to 70% of the value. Upon sale, any surplus after settlement of the debt goes to heirs, while any shortfall is absorbed by the Korea Housing Finance Corporation, which was established as part of the Act that introduced the programme.

The programme has not seen significant success, with only around 1% of those aged 60 or over taking on a reverse mortgage as of 2018. 2026 analysis finds that regions with longer life expectancy exhibit higher participation, suggesting that longevity expectations are a key driver of demand.

Source: (OECD, 2022^[69]; Kang and Park, 2026^[100]).

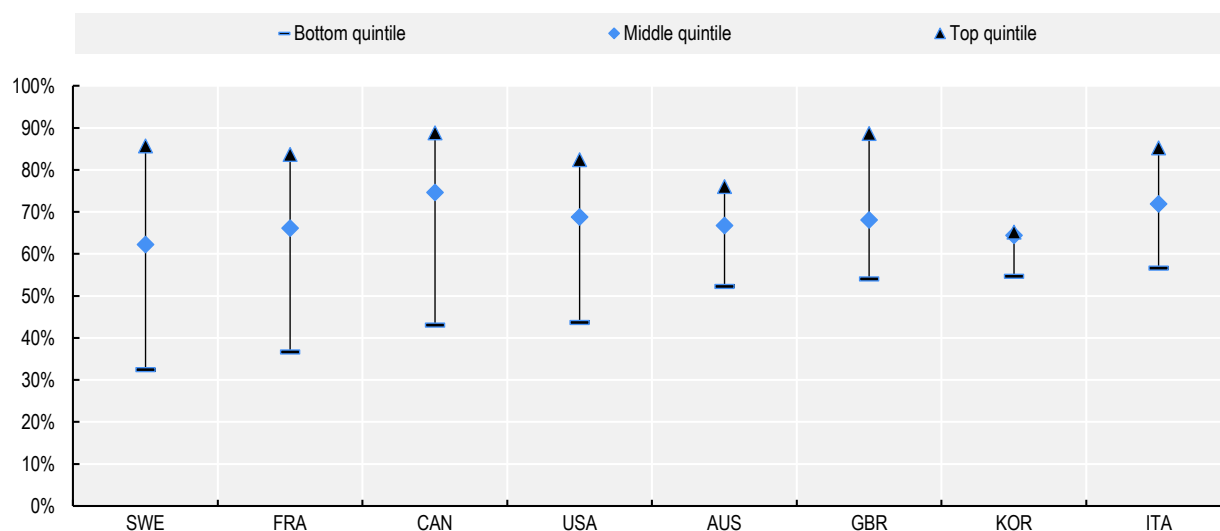
4.2. The potential for mobilising housing assets

4.2.1. Housing assets are widely held, including among low-income households

Home ownership levels are high in many developed countries, as indicated in Figure 10. This includes amongst lower income groups: in countries such as Canada, the United States, Australia, the United Kingdom, Korea and Italy, home ownership rates exceed 40% in the bottom quintile. As home ownership increases with age, these figures are likely to be even higher when focusing specifically on the proportion of the population nearing retirement. Taking a budgeting perspective, these widespread ownership rates, particularly amongst lower-income groups, represent a potentially significant asset base able to mitigate pressures on age-related public spending.

Figure 10. While home ownership rates increase across income quintiles, in many countries they are high even among lower-income groups

Home ownership levels, 2020 or latest available year



Note: Quintiles refer to income quintiles.

Source: https://housingpolicytoolkit.oecd.org/4.H_invest.html.

In fact, one of the functions of housing assets is to provide financial protection in old age, as homeowners do not have to pay any rent. This avoided rent can be seen as a form of income, known as imputed rent. However, most countries do not tax it or include it in official measures of financial income, meaning it does not constitute part of the financial considerations within the budget.

However, there is potential to move even further and to transform housing wealth into additional flows of incomes. Often, housing wealth remains an underused asset to help alleviate the risk of poverty in elderly populations. From a public finance perspective, greater mobilisation of housing wealth could ease pressures on publicly financed social assistance programmes. However, this needs to be achieved in a way that does not generate new fiscal risks or implicit guarantees, and that is supported by relevant regulatory frameworks and consumer protections.

The scope for reverse mortgages varies across countries and may evolve over time. Their potential depends both on aggregate home ownership rates and on the extent of outright ownership, since households with significant outstanding mortgage debt have less equity to mobilise. In the short term, this should be less of a concern as the opportunity is to mobilise the current housing wealth owned by elderly households. In the longer term, younger and lower-wealth households may face increasing barriers to entering home ownership, due to rising house prices and higher borrowing costs. Options exist to ensure future pools of retirees are able to rely on housing wealth as well (Cournède and Plouin, 2022^[101]).

While this section of the paper focuses on reverse mortgages, other equity release mechanisms can also help older homeowners increase their financial resources without requiring additional pressure on public budgets. However, examining all of these instruments in depth would be beyond the scope of this paper. Reverse mortgages are used here as a focused example of how private mechanisms can supplement retirement income for vulnerable groups while keeping fiscal costs low.

The other options include:

- Home reversion, where a homeowner sells a portion or all of their home equity to a third party in exchange for either a lump sum or periodic payments.
- Sell-and-rent-back scheme, involving the sale of a home while retaining rights to reside in it by paying regular fees to the new owner.
- Simply downsizing to extract some of the financial value of the home.

The key differences between home reversions and reverse mortgages are discussed in Box 4. For a more in-depth analysis of home equity release options, see OECD 2024 Pensions Outlook (OECD, 2024^[52]).

Box 4. Reverse mortgages vs home reversions

The key distinction between reverse mortgages and home reversions lies in the role the home plays in the transaction. While for a reverse mortgage, the house is used as collateral when taking out the loan, in a home reversion the house is sold to the buyer, although the original owner retains the right to live in the house until their death. Table 16 provides an overview of the main differences between these two products.

The key benefit of the reverse mortgage over a home reversion is the fact that the retiree does not need to completely lose the value of their home. When the property is sold under a reverse mortgage, if the value of the property is greater than the amount of loan debt, the difference goes to the heirs, and if it is less, the difference is covered by the lender (in cases where a no negative equity guarantee is in place). Furthermore, as the house remains the property of the borrower, if they or their heirs have enough liquidity to pay off the loan, they can keep the house. On the other hand, in a home reversion the ownership of the property transfers to someone else. Once the original owner has passed away, all rights pass to this person.

However, home reversions also present some advantages. The risks the lender must take on in a reverse mortgage lead to higher interest rates than in traditional mortgages. Furthermore, the amount loaned in a reverse mortgage is always lower than the value of the property, while for a home reversion, the total figure is generally closer to the value of the property (factoring in the age and health of the owner). This means that the total amount received in a reverse mortgage is generally lower than that received via a home reversion.

Table 16. Overview of key distinctions between home reversion and reverse mortgage

	Home reversion	Reverse Mortgage
Is it a loan?	No – it is a sale with reserved rights	Yes – it is a loan secured by property
Right to live in home	Yes – seller retains lifetime use	Yes – borrower lives there until death or move-out
Ownership of home	The buyer, automatically upon seller's death (although ownership can be partial)	Generally, lender sells property to recover the loan, or heirs of the borrower sell the home and repay the lender. Borrower can retain the home if they pay off the loan another way
Inheritance for heirs?	Generally no – yes if partial but can require sale	It depends – if borrower or heirs repay the loan another way, they can keep the home. They also receive any difference between loan amount and house value upon sale
Who are the buyers/lenders?	Anyone, organisation or individual, can purchase a home via a life annuity sale	Only approved financial institutions are able to offer reverse mortgages
Market presence	Common in Italy (<i>nuda proprietà</i>) and France (<i>vente en viager</i>), less common in anglophone countries and Sweden	Common in anglophone countries. More limited market presence in France, Italy, and Sweden

Sources: (OECD, 2024^[52]; Il Sole 24 Ore, 2024^[102]; 119e Congrès des notaires de France, 2023^[103]; Settanni and Ruggi, 2020^[104]).

4.3. Overview of reverse mortgages

4.3.1. Types and names of reverse mortgages

Reverse mortgages can be both privately and publicly provided, depending on the country. In the United States, both exist – private sector mortgages, often known as proprietary reverse mortgages, are offered by a variety of private sector bodies. Official government guidance highlights that these are generally more suitable for upper-income borrowers, as they are not federally insured. However, the most common route in the United States is known as a Home Equity Conversion Mortgage (HECM), run by the Federal Housing Administration. This is the only programme insured by the federal government (HUD, 2011^[105]), although its providers are nevertheless private. As it is publicly insured, it creates greater negative risks for government budgets, and thus has many more limitations and requirements than fully private reverse mortgages. In Australia, reverse mortgages are provided through the Home

Equity Access Scheme, which is managed by the Department of Social Services, although there are also a variety of private options (HUD, 2011^[105]).

In other countries, reverse mortgages are exclusively found in the private sector, although these are often tightly regulated. In Canada, for example, the two main organisations offering reverse mortgages, HomeEquity Bank and Equitable Bank, are both privately owned. While these two have differences (for example, different minimum home value requirements and different interest rate offerings), they are both supervised by the Financial Consumer Agency of Canada's Financial Consumer Protection Framework, ensuring they provide appropriate consumer protections. Likewise, in Sweden, the largest provider of reverse mortgages, *Svensk Hypotekspension*, is a private company owned by specialist bank group NOBA, but is regulated by the Swedish Financial Supervisory Authority (Government of Canada, 2025^[106]; *Svensk Hypotekspension*, n.d.^[107]). This regulatory oversight helps reduce the potential need for government interventions or bailouts, thereby containing potential risks to public finances.

Some countries have specialist regulation or standard setting in place specifically for reverse mortgages. In the United Kingdom, a wide range of private banks and insurance companies offer reverse mortgages. These are regulated by the Financial Conduct Authority, and furthermore many of them adhere to standards set by the Equity Release Council, an industry body (for which membership is voluntary) that sets minimum product standards for adhering members for a set of equity release products including reverse mortgages. In Italy, the current legislative guidelines for the *Prestito Ipotecario Vitalizio* (PIV), the Italian term for reverse mortgages, have been in place since 2015 (although the product itself has existed since 2005), including regulations on loan amounts and interest rates (Normattiva, 2015^[108]; Equity Release Council, 2025^[109]). In France, Article L315-1 to L315-23 outline the terms of the *Prêt Viager Hypothécaire* (PVH), the French term for a reverse mortgage. These regulations include requirements regarding what lenders must include in the loan offer (Légifrance, 2016^[110]). As above, such regulations both protect consumers from potentially predatory practices and reduce potential pressures on public budgets from unexpected defaults.

While the rest of this study will use the term 'reverse mortgage' for all countries to avoid confusion, it is worth noting the variation in these terms. Table 17 summarises the different terms used in different countries, and where relevant their translations.

Table 17. Terms used for 'reverse mortgage' in focus countries

	Term used for reverse mortgage
Australia	Reverse Mortgage
Canada	Reverse Mortgage
France	<i>Prêt Viager Hypothécaire</i> (PVH), translating to "lifelong mortgage loan"
Italy	<i>Prestito Ipotecario Vitalizio</i> (PIV), translating to "lifelong mortgage loan"
Sweden	<i>Hypotekspension</i> , translating to "mortgage pension"
United Kingdom	Lifetime Mortgage or Equity Release
United States	Reverse Mortgage

4.3.2. Market trends

Overall, reverse mortgages represent only a small fraction of the mortgage markets in the countries for which data were available.

In the United States, between 2000 and 2008, annual HECM endorsements increased significantly from fewer than 10 000 loans to more than 100 000, a growth fuelled by factors such as low interest rates, rising home values, high loan limits, and increased liquidity. However, even at this peak level, reverse mortgages represented a very small proportion of total housing transactions, which generally stand at between 4 million and 6 million a year. Following the housing market collapse in 2008, annual endorsements declined, reaching a range of 30 000-40 000 loans by 2019. This collapse also had a budgetary impact on the programme. The number of terminated loans within the programme was highest in 2007 and 2008, and in both years 53% of these loans terminated with a loss. However, the implementation of stricter borrowing limits and more consistent appraised home-value verifications led to a turnaround, with 80–90% of post-2013 loans producing gains rather than losses, even though the demand decreased slightly due to these stricter rules (HUD, 2022^[111]; YCharts, 2025^[112]).

The borrower profile in the United States has traditionally been described as “house rich and cash poor,” with lower-income borrowers once dominating the market. Similarly, in Sweden, reverse mortgage borrowers typically have lower-than-average pensions, making it difficult for them to secure standard bank loans. This suggests the promising potential of reverse mortgages to alleviate budgetary pressure through a reduced need for low-income support programmes. However, there has been a shift toward an increased share of higher-wealth borrowers owning homes valued at over USD 300 000, even though many still experience constrained incomes (HUD, 2022^[111]). Furthermore, even among homeowners converting their home equity, use of the HECM is very low compared to options that allow for immediate cash – in 2020, for example, the HECM figure stood at 42 836, compared to 442 454 cash-out refinances (Kaul and Zhu, 2021^[113]).

The United Kingdom equity release market has seen similar levels of growth, from a low of GBP 900 million (USD 1.2 billion) in 2010 to more than GBP 5 billion (USD 6.5 billion) in 2022. While this includes both reverse mortgages and home reversions, reverse mortgages account for the majority of the value (Equity Release Council, 2024^[114]).

Italy’s initial reverse mortgage offering, established in 2005, had very low take-up, but has gradually developed since 2015. Australia has also seen burgeoning growth in its reverse mortgage market, although figures are still relatively low. As of 2021, the market (excluding the Home Equity Access Scheme) stood at AUD 3.6 billion (USD 2.3 billion), five times larger than it had been in 2019. In more recent years, the government’s Home Equity Access Scheme has seen significant growth, with total fund value rising from AUD 138 million in June 2022 to AUD 240 million in June 2023 alone (Il Sole 24 Ore, 2024^[102]; Settanni and Ruggi, 2020^[104]; HousingWire, 2021^[115]; SeniorsFirst, 2023^[116]).

In Sweden, much growth has been concentrated in the most recent years. There are two reverse mortgage lenders in Sweden, with one *Svenk Hypotekspension*, dominating the market. Their total credit volume has risen from SEK 2 billion (USD 200 million) in 2014 to just under SEK 10 billion (USD one billion) in 2023.

Only 2.1% of Canadian households report planning to obtain a reverse mortgage as a source of income upon retirement as of 2014, perhaps in part due to relatively strong public pension coverage. However, a Canadian survey found that 80% of respondents had house equity greater than their accumulated non-housing wealth, suggesting that the target socioeconomic demographic for reverse mortgages is numerous, and thus that Canada could be a strong potential market.

In France, between 2010 and 2019, the total loan market was EUR 350 million (USD 390 million), and as of 2023 no bank has offered it as a product (Choinière Crèvecoeur and Michaud, 2021^[117]; Cibfinance, 2024^[118]). The market thus remains very small, particularly when compared to the more established ‘vente en viager’ (a type of home reversion – see Box 5) – in 2024, there were 5 500 house sales under this system, with an average value of EUR 295 000, leading to a total market of EUR 1.6 billion in 2024 alone (Viagimmo, 2024^[119]). This is still a relatively small share of the overall housing market, with around one million transactions per year.

4.4. Supervisory, legal and regulatory mechanisms

4.4.1. Borrower eligibility requirements and conditions

One of the most significant benefits of reverse mortgages is the reduced credit requirements they present relative to conventional loans. While for conventional loans, lenders typically require proof of stable income, strong credit background, and evidence of ability to meet payments, for reverse mortgages this is rarely the case (in part because monthly payments are not needed, and in part because the home itself acts as collateral). As such, they are an option for retirees who might otherwise be excluded from other forms of credit, reducing reliance on public financial support and potentially lowering future pressures on government budgets. Of course, these lower credit requirements mean that those who take on reverse mortgages may be at greater risk of defaulting, for example by failing to pay property taxes or insurance premiums, or by not observing requirements such as using the home as a principal residence or failing to keep the home in good repair.

However, as Table 18 indicates, there are several other strict requirements. As the product is intended for older people, there are generally strict age minimums. In some cases, these are regulated and thus are consistent across different providers, while in other more decentralised systems such as the United Kingdom, they can vary. Generally, public schemes, such as the Home Equity Access Scheme in Australia and the HECM in the United States, have higher age minimums. This is generally to align with other social security retirement benefits offered, although it also

helps manage the risks associated with loan longevity and interest accumulation in situations where there is a greater risk of negative impact on public budgets (Services Australia, 2023^[120]).

Reverse mortgages generally require the house used as collateral to have a minimum value (apart from France and the United States), although this figure is generally significantly lower than the average house price in the country, thus allowing lower-income homeowners to have access to the scheme. Furthermore, in most cases countries require that this home be the primary residence of the borrower, helping reduce the risk of property neglect or depreciation.

Some countries have further requirements. The HECM in the United States requires that the borrower cannot owe any federal debt. While for many reverse mortgages housing insurance is not a requirement, for the Australian Home Equity Access Scheme, 90% of the building must be insured. Similarly, insurance is mandatory for reverse mortgages taken out in Italy. Such measures protect both the borrower and the broader financial system, mitigating potential public budget exposure in the event of defaults or losses.

Table 18. Overview of borrower eligibility requirements

	Age Minimum	House Value Minimum	Must house be owned outright?	Must house be primary residence?	What is the maximum value that can be taken out as a loan?
Australia	60 (67 for Home Equity Access Scheme)	AUD 600 000 (USD 370 000)	Yes (Unless through the Home Equity Access Scheme)	Yes (Unless through the Home Equity Access Scheme)	20% at aged 60, rising by about 1% a year. 150% of the maximum public pension rate for the Home Equity Access Scheme
Canada	55	CAD 150 000-250 000 (USD 106 000-176 000), depending on provider	Yes	Yes	55% of house value
France	60	No minimum	Yes	No – can be primary, secondary, or rental use with lender's consent	60% of house value
Italy	60		Yes	Yes	EUR 300 000-400 000 (USD 330 000-440 000), depending on provider
Sweden	60	SEK 500 000 (USD 50 000) for a condo, SEK 900 000 (USD 90 000) for a villa/holiday home	Yes - although the mortgage can be paid off with the reverse mortgage	No	SEK 9 000 000 (USD 904 000)
United Kingdom	At least 55 – some lenders have higher minimums, and some have a maximum	GBP 70 000 (USD 89 000)	No, but most lenders require at least 50% paid off	Yes	Generally 60% of house value, although varies depending on provider
United States	62 for HECM, 55 generally	No minimum	No, but the mortgage balance must be low enough to pay off at closing	Yes	USD 1 209 750

Countries also generally have rules in place to determine how much a homeowner can borrow with a reverse mortgage, commonly expressed as a loan-to-value (LTV) ratio, i.e. as a maximum percentage of the home's value. Unsurprisingly, the higher the borrower's age, the higher the permitted LTV. While maximum LTVs vary, they are generally between 15% for younger borrowers and up to 50% for older ones (OECD, 2024^[52]).

However, age is not the only factor. For example, in the United States, the area in which the person is borrowing can also influence LTV, while in the United Kingdom life expectancy can have an impact. In Australia, LTV for the Home Equity Access Scheme is related to the Age Pension, where the sum of the public pension and loan payments must be below 1.5 times the maximum rate for the public pension (OECD, 2024^[52]).

4.4.2. Disbursement/payment plan options

A further major advantage of reverse mortgages is flexibility. While borrowers can choose to receive their loan as monthly or occasional payments, they are not obliged to – in most countries, if they so choose, they can receive their loan as a lump sum and have no restrictions on how they spend it. The United States' HECM programme has in the

past reviewed how borrowers use HECM money, and found that it is commonly used for refinancing an existing HECM, pursuing a personal project, and a variety of other pursuits, while similar research in Italy found that one of the most common reasons was to cover extraordinary expenses (HUD, 2011^[105]; Euvis, 2007^[121]). This flexibility can also be valuable from a budgeting perspective, as the greater ability of retirees to be able to manage liquidity needs independently reduces the likelihood that they will need to rely on government support. However, it also comes with risks: lump-sum disbursements can be spent quickly or invested poorly, leaving borrowers with insufficient funds later in retirement. As such, while flexibility is an important advantage, retirees need to plan how to use the funds to ensure sustainable support throughout retirement.

Similar situations are found in other countries. In Canada and the United Kingdom, the borrower can receive their funds either all at once or spread out as regular monthly deposits. In Australia, where the home equity access scheme is entirely a government programme, the borrower can receive a fortnightly amount, a lump payment, or a combination of the two, although the Home Equity Access Scheme allows a maximum lump sum of 50% of the public pension benefit over one year (OECD, 2024^[52]). Similarly, in Sweden, the reverse mortgage system offers payout options of a lump sum (the most common), a monthly payment over up to 15 years, where interest is only charged on the amounts already drawn, and a flexible payment, where parts of the granted loan amount can be drawn as needed over a maximum of five years. In France, lender options vary depending on the lending institution, but generally they allow both lump sum and periodic payments (Svensk Hypotekspension, n.d.^[107]; République française, 2023^[122]).

This flexibility is valuable in increasing the competitive advantage of the reverse mortgage. Indeed, one likely reason for growth in Sweden is an increase in flexibility offered to customers – the 2023 report states that the organisation had started offering a ‘flex’ option to customers that year, giving customers access to a pre-approved line of credit that they can access when they choose, over a five-year period. It emphasises that this option had been well received by customers, largely because higher interest rate levels meant that customers appreciated the option to avoid excessively rapid debt growth. However, as touched on above, this flexibility carries potential risks. Borrowers could be tempted to draw on the loan too quickly or for non-essential purposes, reducing the home’s remaining equity too quickly to last them throughout their retirement. As such, the flex option may increase appeal, but requires careful planning by the consumer to avoid negative financial consequences.

4.4.3. Repayment triggers and conditions

The flexibility found in the disbursement of reverse mortgages can also be seen in how the loan can be paid off. Borrowers can choose to pay the loan early, or to not pay at all until their death. Furthermore, the borrower retains 100% ownership of the home, provided they meet the contract obligations, which usually involve paying property taxes and keeping the home in good condition. This has three benefits: (i) if the borrower or heir decides they want to keep the house, they can, provided they pay off the loan another way, (ii) if they decide to move out or sell the house, they can, again provided they pay off the loan (the United Kingdom and Sweden also specify that the loan must be paid off if the borrower goes into long-term care), and (iii) if they do decide to sell the house, any positive difference between the house price and the loan amount goes to the borrower or heir. In Canada and the United Kingdom, individuals also have the option to transfer their reverse mortgages to a new property when they sell their home, providing it meets the same requirements as the original home did (OECD, 2024^[52]). Furthermore, almost all countries legally require reverse mortgage providers to have a no negative equity guarantee on their reverse mortgages. This means that if the value of the loan exceeds the sale price of the property at the time of the borrower’s death (or other type of contract termination), the lender is responsible for covering the shortfall.

However, there are several considerations borrowers should take into account. Retaining this flexibility depends on meeting all contractual obligations. Generally, failure to pay property taxes and insurance, or failure to maintain the property can trigger foreclosure. Selling the house is only beneficial if property values are sufficient to cover the loan, otherwise there is limited financial gain to such a decision, thus limiting the benefits of this flexibility.

Another issue can be that the borrower’s spouse does not necessarily have the same right to lifetime residency as the borrower does. This can mean that, if the spouse is not on the title of the home, they may not be eligible to receive the same access to the reverse mortgage if their partner dies. However, in several cases, mechanisms exist to ensure spouses can retain the home when their partner dies. Usually, this involves them being signed as a co-borrower, apart from the United States, where if a spouse has “Eligible Non-Borrowing Spouse” status, they can stay without

paying off the loan but will not receive loan disbursement. In Australia, providers of reverse mortgages must provide warnings about this potential risk, although research has found that this is not necessarily effective (OECD, 2024^[52]). Unaddressed spousal risks often remain an issue.

Table 19. Overview of repayment conditions

	A reverse mortgage can be paid off...			A borrower can begin to pay off the loan early if they so wish	There are options for spouses/heirs to retain the house	Is a no negative equity guarantee in place?
	...When the last surviving borrower dies	...When the home is sold	...When the borrower no longer lives in the home			
Australia	Yes	Yes	Yes	Yes	Yes	Yes
Canada	Yes	Yes	Yes	Yes, up to a maximum amount. Sometimes if a borrower pays off the reverse mortgage early, they must pay a fee	Yes. A surviving spouse can continue to live in the home if they are a co-borrower. Heirs can sell the property or turn the keys over to the lender	Yes
France	Yes	Yes	Yes	Yes, although the lender may refuse partial early repayment if it is less than 10% of loaned capital	Yes. The heirs can choose if they want to sell the property	Yes
Italy	Yes	Yes	Yes	Yes	Yes - the heirs can either repay the debt owed to the bank directly, sell the property, or let the lending bank sell the property	Yes
Sweden	Yes	Yes	Yes	Yes	Yes. The loan passes automatically to the survivor in the house.	Yes
United Kingdom	Yes	Yes	Yes	Yes, although there may be penalties or restrictions depending on the provider	Yes. A co-borrower can remain in the home. Heirs can pay off debt in whichever way they choose to.	Yes
United States	Yes	Yes	Yes	Yes	Yes - an "Eligible Non-Borrowing Spouse" can stay without paying off the loan, although they will not receive loan disbursement	Yes

While the no negative equity guarantee is a major point of a reassurance for prospective borrowers, it can also be regarded as an excessive risk from the lender's perspective. In the United Kingdom, research found that the equity release market was concentrated in wealthier areas, and attributed this to the fact that these areas had faced historically higher house price growth (Sharma, French and McKillop, 2020^[123]). As the no negative equity guarantee risk means that lenders must take on any negative equity, they are disincentivised from providing reverse mortgages in areas where there is a high chance that house prices will not grow enough to cover the loan. This risk is somewhat mitigated in countries where the no negative equity guarantee is provided by a pooling mechanism. For example, in the United States the government guarantees that it will purchase HECM loans from providers once the balance exceeds 98% of the maximum claim amount, and in the United Kingdom, the Equity Release Council provides the no negative equity guarantee insurance itself. However, in cases of major property price drops, this can still cause issues. For example, in the United States, so many reverse mortgage loans triggered the no negative equity guarantee during the global financial crisis that the Department of Housing and Urban Development had to raise premiums and reduce borrowing limits to reduce budget pressures (OECD, 2024^[52]).

A clear legal framework defining repayment triggers and procedures is essential for the proper functioning of reverse mortgage markets. For example, initial legislation in Italy simply described reverse mortgages as medium- to long-term loans available to individuals over 65, with full repayment required in a single instalment at maturity. The law, however, left several key details vague (Settanni and Ruggi, 2020^[104]). This created uncertainty for both potential lenders and borrowers regarding which events would trigger repayment, how the collateral property should be appraised and sold, and the applicable tax treatment.

4.4.4. Costs, fees, and interest rates

The flexibility offered in the disbursement and repayment of a reverse mortgage loan has a significant downside – interest rates are usually significantly higher than for a standard mortgage, to compensate the provider for the relatively high level of uncertainty around when the loan will be repaid, and from the risk that the home value will fall below the outstanding loan balance. Furthermore, this interest compounds, and can accrue to significant amounts (OECD, 2024^[52]).

These high interest rates can be a significant demotivating factor for prospective borrowers. One paper found that a major reason for low uptake in Canada could potentially be excessively high interest rates. It calculated actuarially fair rates based on risk of death and house price variation, and found that the premium charged by the largest reverse mortgage provider in Canada would only be fair in an environment of negative house price growth – although it is worth noting that the uncertainties described in the previous paragraph mean that even an actuarially fair rate would still be higher than for a standard mortgage. In France, a parliamentary report identified this issue, and in 2023 proposed an alternative to the reverse mortgage, aimed at elderly people with high dependency needs, which would use the home as collateral but offer significantly lower interest rates. (Choinière Crèvecoeur and Michaud, 2021^[117]) (119e Congrès des notaires de France, 2023^[103]).

One way to reduce such interest rates is to reduce the level of risk that lenders are exposed to. This can be done through risk pooling. In the United States, the HECM programme has addressed this by assuring lenders that if the final loan balance exceeds the value of the home, the government will pay the difference. Inspired by this, France's report to its legislature on reverse mortgages has suggested the creation of a guarantee fund that would cover the risk that the borrower lives significantly longer than expected. Such risk pooling mechanisms are likely to reduce the level of risk lenders feel they need to cover, thus leading to lower interest rates (Cibfinance, 2024^[118]) (119e Congrès des notaires de France, 2023^[103]).

Even if the initial interest rate is considered reasonable, the capacity for reverse mortgage interest to compound can lead to significant costs. In Italy, while compounding interest is banned under the Banking Code unless it is carefully limited, reverse mortgages do not fall under this restriction. While borrowers can choose to pay the interest early and avoid this compounding, in practice most borrowers do not (Settanni and Ruggi, 2020^[104]).

In some countries, protections exist to prevent this causing significant financial issues. For example, in Canada, reverse mortgages are non-recourse loans, meaning that should the borrower default on the reverse mortgage, the lender cannot pursue any additional assets other than the borrower's home. In Italy, the interest rate at which the reverse mortgage is provided is fixed, allowing borrowers to plan what this total amount is likely to be. In Australia, the Home Equity Access Scheme also offers a fixed interest rate, which is lower than average commercial rates. In France, the interest rate on reverse mortgages is regulated so that it must not exceed the maximum usury rate established by the Bank of France, while members of the United Kingdom's Equity Release Council must fix their interest rate.

Reverse mortgages also generally require a set of other fees. The most common of these are appraisal fees, i.e. the costs for a professional assessment of the home's market value, and closing costs, similar to those in traditional mortgages. In the United States, for example, the HECM involves several up-front fees such as origination fees, real estate closing costs, and an initial mortgage insurance premium. In addition, there are ongoing costs that are added monthly to the loan balance, including accrued interest, servicing fees, annual mortgage insurance premiums, and property-related charges like taxes and insurance. In Canada, the largest reverse mortgage provider charges a closing administrative fee, fees for property assessment, and fees for independent legal advice (CFPB, 2024^[124]) (Choinière Crèvecoeur and Michaud, 2021^[117]). In some cases, such as in the United States HECM programme, providers are limited on how large their fees can be (OECD, 2024^[52]). These fees increase the total cost, thereby reducing the loan value available.

Additional tax benefits may exist: most notably, money received from a reverse mortgage is not subject to taxation. In some countries, such as Canada, the money received from a reverse mortgage also does not impact the amount of public pension received. In Sweden, properties with energy ratings of A and B benefit from an interest discount of 0.25 percentage points.

4.4.5. Consumer protections, regulations, and advice

Reverse mortgages are inherently complex financial products, and understanding their benefits and risks is crucial for prospective borrowers. As mentioned above, reverse mortgages can carry significant risks, including the accumulation of interest over time, eroding home equity, and the risk of making long-term financial commitments that do not align with future needs.

Several countries have implemented consumer protections to mitigate these risks. Many of these protections are consistent with the G20/OECD High-Level Principles on Financial Consumer Protection already mentioned above. These emphasise the need for a comprehensive legal, regulatory and supervisory framework, highlight the importance of promoting financial literacy, of equitable and fair treatment, and of clear disclosure of product terms, benefits and risks (OECD, 2022^[88]). The Recommendation on Financial Literacy stresses that adherents should promote awareness and understanding of financial products and services, and empower individuals to evaluate the products, services and providers available to them (OECD, 2020^[90]). The Recommendation on Consumer Credit also highlights the importance that adherents embed principles of equitable and fair treatment of customers, and take measures to ensure that consumers are provided with adequate information (OECD, 2019^[89]).

Suitability and disclosure requirements for reverse mortgages

Individuals are less likely to take on a reverse mortgage if they have not received sufficient advice on whether it is suited to their needs and circumstances. As reverse mortgages are inherently complex, a lack of advice is likely to put someone off taking the risk. Research by the United Kingdom's Home Equity Release Council found that one of the key concerns consumers have in relation to reverse mortgages is insufficient access to legal advice (Equity Release Council, 2024^[114]). Similarly, the 2023 annual report of *Svenk Hypotekspension* contains the results of a survey in which only 30% of respondents understood that repayment of the loan in a reverse mortgage is not required until the home is sold (Svenk Hypotekspension, 2023^[125]). Furthermore, empirical evidence from Canada shows that more than half of those surveyed lacked basic knowledge of reverse mortgages (Choinière Crèvecoeur and Michaud, 2021^[117]). If not mitigated, this lack of understanding can increase the probability that a consumer enters into a reverse mortgage contract when it is not a good option for them, or that a consumer does not manage their loan effectively. This risk can increase consumer apprehension. From a public finance perspective, it may also create a risk of increased demand for publicly funded support or remedial interventions.

Several countries require any applicant for a reverse mortgage to receive independent advice on whether it is suitable for them. This requirement is most developed in the United Kingdom and the United States. For the HECM in the United States, prospective borrowers must meet with a counsellor who explains eligibility criteria, long-term financial implications, and available alternatives, while also clarifying the mechanics of reverse mortgages and the responsibilities associated with maintaining residency. The HECM provides guidance to the counsellor on what topics must be covered, which includes client responsibilities, costs, long-term financial implications, alternatives to a reverse mortgage, and warnings about potential scams. It also emphasises that the counsellor must not steer the client in any particular direction, both in terms of whether or not to take out a reverse mortgage and what lender to choose. If the counsellor believes the client does not have adequate understanding of reverse mortgages and their implications, they have the right to withhold approval (HUD, 2011^[105]).

Other countries highlight the value of receiving financial or legal advice, but do not require it. For example, Canada's dedicated site on reverse mortgages highlights the kind of topics that could be useful to cover with a financial advisor before getting a reverse mortgage, and provides information on alternative financial products alongside guidance on which one may be best for the prospective borrower. As a reverse mortgage is a long-term commitment, such advice is valuable in helping consumers consider the long-term implications of their decisions. The government provides a clear warning about the potentially higher interest rates relative to traditional mortgages, and various fees that borrowers might encounter (Government of Canada, 2025^[106]). In Australia, the government recommends that prospective users of the Home Equity Access Scheme consider their current financial situation, and the impact of

compound interest on the loan. However, the Australian government does require that providers assess the future needs of the borrower and ensure the borrower is aware of the long-term consequences that the product could have on their financial situation (OECD, 2024^[52]). In Sweden, the largest reverse mortgage company *Svensk Hypotekspension* offers a “life planning package” with advice on legal matters, although its use is not mandatory (Svensk Hypotekspension, n.d.^[107]).

Other consumer safeguards

Given the risks involved with reverse mortgages, consumer safeguards can also help ensure that providers of reverse mortgages do provide prospective borrowers with sufficient understanding of the product, reducing the risk of poor financial decisions.

In the United Kingdom, the Financial Conduct Authority regulates reverse mortgages. It requires that lenders provide support that meets consumers’ needs throughout the life of the product, and communicate in ways that support consumer understanding. It also requires that poor product design and governance do not lead consumers to purchase products they do not fully understand or that do not meet their needs (Financial Conduct Authority, 2024^[126]). In addition, the Equity Release Council, as an industry body, also plays a role. While membership of the Council is optional, members must observe minimum standards. Borrowers receiving reverse mortgages from one of the body’s members are assured to receive a no negative equity guarantee and are protected from eviction. Additionally, the Council requires that all borrowers have at least one in-person face-to-face meeting with a solicitor, who not only provides advice but helps ensure that there is no element of duress or coercion from third parties. The solicitor also represents the consumer’s interest throughout the transaction (Equity Release Council, 2024^[114]).

Disclosure and Transparency Requirements

Clear disclosure and transparency requirements are essential to help ensure prospective borrowers understand the details of a reverse mortgage before committing. They aim to reduce information asymmetries, prevent misunderstandings, and support informed decision making.

In Sweden, the Consumer Credit Act ensures that information about the effective interest rate is communicated clearly through a representative example, simplifying complex financial details for consumers. French regulations mandate comprehensive transparency in reverse mortgage agreements. Banks are required to send a detailed loan offer—complete with all costs and a full property description—a minimum of 10 days before the contract can be signed. Similarly, Italian legislation requires the lending institution to provide two illustrative simulations on how the debt may evolve over time, the first simulating the interest rate at the time the contract is signed, the second simulating conditions three years later. The lender is also required to send the borrower an annual statement detailing the amount of capital initially financed and the total amount due at maturity. Additionally, advertisements must clearly disclose the total cost of credit and the overall effective rate, and lenders are prohibited from claiming that a loan can be granted without first assessing the borrower’s financial situation.

Table 20. Overview of suitability and disclosure practices in focus countries

	Australia	Canada	France	Italy	Sweden	United Kingdom	United States
Legal/Financial Advice	Recommended but not required	Recommended but not required	Not required	Not required	Optional via provider	Required	Required for HECM
Notable Practices	Govt suggests considering financial situation and long-term costs	Website offers info on alternatives and factors to consider.	Offer must include all costs and property details	Existence of simulations to show loan evolution	Law requires clear example to illustrate functioning	Legal checks against coercion	Counsellor can withhold approval if understanding is lacking

4.5. Implications for mobilising reverse mortgages to contribute to retirees' pensions

Reverse mortgages demonstrate clear potential as an instrument for mobilising housing wealth in retirement. However, their uptake as an effective vehicle for complementary retirement income is contingent on the surrounding institutional, regulatory, and cultural context. In countries where reverse mortgages have had greater uptake, such as in the United States and the United Kingdom, strong consumer protections are in place, along with well-structured financial counselling mechanisms and clear legal frameworks. In contrast, countries with less successful reverse mortgage markets have often seen such markets remain limited due to high costs, low consumer confidence and regulatory ambiguity. From a budgeting perspective, these differences influence how much pressure falls on publicly funded retirement income systems: where reverse mortgages function effectively, they can reduce demand for certain age-related benefits. They can impact access to means-tested benefits, thus from a public finance perspective, limiting the pressures on the public purse. However, this effect is mitigated in cases where inheritance tax considers wealth net of debt, meaning reverse mortgages can reduce inheritance taxes owed, such as in the United Kingdom (OECD, 2024^[52]).

One key takeaway is the importance of strengthening the legal and regulatory frameworks surrounding reverse mortgage markets to ensure that reverse mortgages can fulfil their function. The analysis in this paper shows that the countries that have effectively fostered reverse mortgages have had clear rules on eligibility, as well as transparency on the conditions surrounding repayment triggers, interest rate practices, and no-negative equity guarantees. Such practices can help build both borrower and lender confidence.

As high interest rates and the prospect of compounding costs can also deter uptake, it is also important to reduce costs where possible. This can perhaps most effectively be done through mechanisms that reduce risks for lenders and thus risk premiums for consumers. Such mechanisms include public guarantees and risk-pooling funds, as seen within publicly supported schemes such as Australia's Home Equity Access Scheme and the United States' HECM. In some cases, caps on fees and interest rates can also be appropriate. Where no negative equity guarantees are in place, it is also important to ensure that individuals do not sell their home at a discounted rate, resulting in a loss to the provider. Such a rule helps reduce the risk to the provider, which can in turn lead to lower interest rates. Limitations on how much individuals can borrow, calculated as a function of their home value and their age, can also mitigate this risk (OECD, 2024^[52]). However, as public guarantees and risk-pooling can create fiscal exposure, it is important for governments to assess the budgetary implications of any such mechanism.

Not everyone is suited to a reverse mortgage. Their lack of flexibility once taken on means that those who envision downsizing or moving house are less likely to benefit. Furthermore, the accumulation of debt means they can be much more costly for younger retirees. Empirical analysis shows that reverse mortgages are most in demand amongst low-income and low-wealth households. Reverse mortgages may improve retirement adequacy and reduce liquidity constraints for some current retirees, including lower-income homeowners, although they can reduce the possibility of bequests (Nakajima and Telyukova, 2016^[127]) (OECD, 2019^[128]).

Advisory schemes should ensure that these considerations are clearly communicated, so that young retirees, those with potential plans to move, and those who want to bequeath their homes recognise that a reverse mortgage may not necessarily be for them (OECD, 2024^[52]). Independent financial and legal counselling as seen in the United Kingdom and United States can be valuable here. Standardised disclosure rules, including projections of accumulated debt, as seen in Sweden, France and Italy, can also be useful in enhancing transparency and therefore trust.

In cases where individuals do decide a reverse mortgage is appropriate, they should be reassured that the decision will not lead to difficulty for their family. This can take two forms: ensuring that spouses are able to continue living in a house after the death of the borrower, and ensuring children (or whoever is responsible for paying off remaining debt in the event of borrower death) are permitted sufficient time to sell the home and gather the requisite funds. Given that one of the key appeals of a reverse mortgage is the right to remain in the house, contracts that risk this right or have negative implications for an individual's loved ones are likely to see low uptake.

Greater competition in the market could be fostered through an increased number of providers. However, there are significant barriers to entry. Perhaps most notably, the long-term nature of reverse mortgages means that lenders need to put forward significant amounts of capital that they might not receive until decades later, and even then, not in full. Furthermore, reputational risk can be a serious issue. In several countries, past issues have meant that public perception of reverse mortgages can be negative. This was the case, for example, in the United States, where between 2013 and 2014 the Consumer Financial Protection Bureau found several cases of deceptive advertisements for reverse mortgages, including claims that consumers could not lose their homes, and in Australia, where the Australian Securities and Investments Commission found that older Australians with reverse mortgages risked ending up in financial difficulty later in life due to the impact of compound interest. Public schemes, such as those in Australia and the United States, can help by offering guarantees and providing up-front capital, although development of such schemes must consider the budgetary implications of long-term capital planning and risk management (OECD, 2024^[52]; OECD, 2020^[129]).

Provided that the main regulatory and oversight issues are addressed, reverse mortgages may not represent a main option, but can be a valuable supplement, channelling additional resources for individuals able to mobilise their housing wealth into retirement, and helping to shield public finances from some additional pressures.

5 Conclusion

As OECD countries confront the dual pressures of ageing populations and constrained public finances, there may be value in considering broader and innovative approaches to ensure retirement security while maintaining sound public finances, adopting a holistic perspective considering both income and assets in retirement. This paper has highlighted that, to fully understand pension adequacy, it is important to consider accumulated wealth and the tools available to convert this wealth into retirement income.

Pension systems remain a core mechanism for ensuring basic income in old age. The challenge is to improve their design over time to manage the implicit and explicit liabilities and pressures on public finances, while ensuring fiscal sustainability and equity. The paper highlights options for mobilising means-testing approaches, taking into account both income and wealth in some cases, to improving targeting and mitigating fiscal sustainability issues. Asset-based mechanisms exist to various degrees in the four countries analysed, including Canada, Sweden, France and Australia. The latter two have mechanisms to claw back pension provisions for those with particular asset levels, while all four countries have support schemes in place that are only available to those with assets below a certain level.

These pension systems also vary in their outcomes, with France and Sweden having the highest replacement rates, and Sweden having the most comprehensive systems in place to support sustainability. Low-income earners receive higher replacement rates than average across all four countries. However, higher replacement rates often have implications for the fiscal burden associated with old-age pensions.

Private savings and asset mobilisation can represent important complements to public pensions, especially in systems with lower replacement rates. However, tools to aid in such mobilisation, most notably annuities and reverse mortgages, often remain underused despite their potential. In the case of annuities, which enable the conversion of accumulated savings into lifelong income, uptake remains limited due to a range of behavioural, financial and structural barriers, including financial literacy issues, preferences for liquidity and control over assets, and unattractive returns during periods of low interest rates. While policy interventions ranging from fiscal incentives to regulatory safeguards and product innovation have made significant headway in addressing these barriers, persistent concerns around flexibility, perceived value and investment returns limit broader adoption.

Reverse mortgages can offer retirees significant liquidity while maintaining possession of the home. However, here too uptake remains low due to a combination of high interest costs, limited consumer understanding of complex legal and financial issues, and provider risk aversion in areas with weak housing price growth. Countries with the most success have developed consumer protection frameworks, mandated provision of legal advice, and introduced no negative equity guarantees, helping enhance consumer trust. Complementary products such as housing-based annuities can also offer viable alternatives, although uptake can be limited by cultural factors related to home inheritance.

Annex A. Brief introduction to institutional features of income security for the elderly in selected countries

Australia

Australia's retirement income system has three components: a means-tested Age Pension, the superannuation guarantee, and voluntary superannuation contributions and other private savings. The following details describe the pension system as of 2024 unless otherwise stated (OECD, 2025^[2]).

The Age Pension is funded through general taxation revenue. Its qualification age is 67. Age Pension rates are not dependent on factors such as a person's tax contributions or previous earnings. An income test and assets test are used to target the Age Pension to those most in need. The Age Pension is reduced if income from other sources exceeds what is known as an 'income free area'. The value of the Age Pension is increased in line with CPI or Pensioner and Beneficiary Living Cost Index (PBLCI), whichever is the greater. If necessary, pension rates are further increased to ensure the combined couple rate does not fall below 41.76% of national pre-tax Male Total Average Weekly Earnings. A work bonus is in place, meaning pensioners can earn up to AUD 300 a fortnight without it being assessed as income under the income test. Pensioners who earn less than AUD 300 in a fortnight can accrue the unused amount of fortnightly concession up to AUD 11 800 to offset future employment income. There is also rent assistance for eligible renters whose rent exceeds a specific amount (OECD, 2025^[2]).

The superannuation guarantee is a compulsory employer contribution to private superannuation savings. As of July 2025, its mandatory contribution rate is 12%. Low and middle-income earners making personal non-concessional contributions to their superannuation fund may be eligible for the government to make a matching 50% co-contribution, up to a maximum of AUD 500. Members can withdraw the accumulated capital as a lump sum or as an income stream, with 66.3% of total benefit payments being the latter in 2021-2022. Superannuation claims can be deferred until 65, and employers are required to make contributions to eligible employers regardless of age. Voluntary superannuation contributions are also possible (OECD, 2025^[2]).

Superannuation contributions are taxed when employers/members make concessional contributions, generally at a rate of 15%. For high-income earners, where the sum of a modified calculation of taxable income and concessional contributions is more than AUD 250 000, a tax rate of 30% instead of 15% is imposed on the portion above the AUD 250 000 threshold up to the concessional cap (OECD, 2025^[2]).

Canada

Canada's pension system consists of a universal flat-rate benefit known as Old Age Security (OAS), an earnings-related public scheme known as the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) in Quebec, and voluntary private pensions. The following details describe the pension system as of 2024 unless otherwise stated (OECD, 2025^[2]).

Seniors residing in Canada for at least 40 years after age 18 receive the full basic OAS pension, with those in Canada for at least 10 years after age 18 eligible for a partial pension. The rate for those aged 75 and over is 10% higher than the base rate. Early claiming in the OAS is not possible, but individuals can defer. The OAS is subject to an income test through the tax system, known as a claw-back (OECD, 2025^[2]).

The universal benefit can be supplemented with an income-tested benefit known as the Guaranteed Income Supplement (GIS). GIS is provided to low-income pensioners. With no other income, seniors receive the maximum GIS benefit, and the benefit is reduced at 50% as income increases. However, the first CAD 5 000 of employment

and self-employment income is exempt, plus a partial exemption of 50% of the next CAD 10 000 of employment and self-employment (OECD, 2025^[2]).

CPP eligibility age is 65, but an actuarially reduced pension can be claimed from age 60 and actuarially increased pension can be claimed up to the age of 70. It covers all employed and self-employed people in Canada except Quebec, which runs its own plan. Those earning less than CAD 3 500 a year are not required to contribute. Those aged between 65 and 70 are not required to contribute, although years of contributions as a working beneficiary increase retirement income. These plans will achieve a replacement rate of 33.33% of covered earnings with 40 years of contributions (with proportional reductions for less than 40 years) up to the Yearly Maximum Pensionable Earnings (YMPE). In 2024, a higher secondary earning ceiling called the Year's Additional Maximum Pensionable Earnings (YAMPE) was introduced, 14% higher than the first earnings ceiling from 2025 onwards. Up to 17% of the contributory period with lowest earnings may be excluded in calculating average earnings in the base CPP earnings-related scheme. Self-employed persons must pay both the employer and employee portions (OECD, 2025^[2]).

A registered retirement savings plan (RRSP) is a government-assisted retirement savings vehicle. Workers can make contributions up to the age of 71 at which point funds must be withdrawn, converted to an annuity or transferred to a registered retirement income fund. Funds can also be withdrawn for education or to finance purchasing of an own home. Occupational pension plans are mostly defined benefit schemes, defined contribution schemes, or hybrids (OECD, 2025^[2]).

France

France has a complex set of employer-based schemes, with a significant mandatory scheme for all public servants, which is earnings related. In the private sector, the pension system has two public mandatory components: a defined benefit public pension and an occupational points scheme. Beyond these mandatory schemes various savings vehicle and voluntary options exist both for public servants and private sector workers, but overall, they play a minor role at the moment. The following details describe the pension system as of 2024 unless otherwise stated (OECD, 2025^[2]).

The main private sector system, the “general regime”, involves a full-rate public pension that requires either 1) both a minimum contributory record and the minimum legal pension age or 2) to be aged at least 67, even if the pathway to attaining progressively that age in the future still remains unclear. The payment rate for the *régime général* is 50% of the reference wage after a full career. For each missing quarter, the pension is reduced through set quantities. The earnings reference is based on the average of the best 25 years, with past earnings valorised in line with price inflation. There is a ceiling on eligible earnings, which in 2025 was EUR 47 100 (OECD, 2025^[2]).

While the system is earnings related, various elements act on a non-contributory basis, with a view of protecting lower income, compensating for periods of unemployment or compensating women for lower earnings due to family commitments. There is an untargeted minimum pension in the *régime général* and in related schemes, known as the *minimum contributif*. The sum of the *minimum contributif* and pensions from other basic schemes cannot exceed a set monthly ceiling (OECD, 2025^[2]).

There is also a general public pension: the *allocation de solidarité aux personnes âgées*, or ASPA, is a means-tested income benefit for people 65 years old or older. It is generally adjusted in line with prices, although there have been some exceptional increases by the lawmaker. The elderly can also benefit from housing benefits, dependent on income level, housing cost, number of dependents and place of residence. ASPA is exempt from personal income tax (OECD, 2025^[2]).

Besides the “general regime”, and the main schemes, since 2019, all private and agricultural sector employees contribute to a points system known as the Agirc-Arrco scheme. The number of points earned is calculated as the value of pensionable contributions divided by the cost of a pension point. At retirement, the accumulated number of points is then converted into a pension benefit by multiplying them by the value of a pension point. Early retirement for the occupational pension is possible, subject to reductions of either retirement age or years of contributions (OECD, 2025^[2]).

People who continue to work after the minimum legal retirement age and have reached qualifying contributory conditions for a full pension receive an increased benefit from each additional quarter. People also continue to accumulate Agirc-Arrco points (OECD, 2025^[2]).

People aged 65 years and older benefit from a special deduction on their net global income, if their income does not exceed a ceiling. Older people are not liable for standard social security contributions, although they pay the general social contribution (CSG, *contribution sociale généralisée*), the contribution to the reimbursement of social debt (CRDS, *contribution pour le remboursement de la dette sociale*), the CASA (*contribution additionnelle de solidarité pour l'autonomie*) and a social security contribution (illness) on mandatory occupational pensions. However, people with low global income are exempted (OECD, 2025^[2]).

Sweden

The national retirement pension consists of a pay-as-you-go notional accounts system, and a mandatory funded defined contribution pension known as the premium pension. The following details describe the pension system as of 2024 unless otherwise stated (OECD, 2025^[2]).

Earnings-related national pensions, which use notional accounts, can be withdrawn from the age of 63 (increasing to 64 by 2026), provided the requirements of three years' residency are met. Contributions of 16% of pensionable pay (defined as earnings minus the employee contribution to the pension system) are credited and increased in line with economy-wide average earnings. Contributions are only levied when annual earnings exceed a minimum, although this minimum is low. There is also a ceiling to benefits calculated in terms of pensionable earnings, although employer contributions must be paid even above this ceiling. There is an income pension complement, with its size dependent on the amount of the income-based national pension and the number of years with pensionable income in Sweden (OECD, 2025^[2]).

Contributions of 2.5% of pensionable pay are paid into the premium pension. At retirement, individuals can choose to convert the accumulated pension into a participating annuity guaranteeing a minimum level of income, or choose a variable annuity, which does not have a guaranteed value (OECD, 2025^[2]).

Notional accounts are increased every year by the distribution of the pension balances of deceased individuals of the same age as the survivors, known as inheritance gains. At retirement, the accumulated capital is converted into an annuity, calculated by retirement age and life expectancy (OECD, 2025^[2]). Those with no or low levels of benefit from notional accounts receive an income-tested top-up pension benefit known as the guarantee pension. It is available from age 66 (increasing to 67 in 2026). Maximum guarantee pension benefit requires 40 years of residency, with shorter periods reduced proportionally. There is also a means-tested housing benefit (OECD, 2025^[2]).

There are four major occupational schemes. The largest is ITP1, the scheme for salaried employees in the private sector. It is a funded defined contribution scheme, with the contribution being 4.5% of gross salary portions up to 7.5 income base amounts. For salary portions above 7.5 income base amounts, the contribution rate is 30%. The employee can choose the saving form, traditional insurance or unit linked insurance, although at least half the contribution must be invested in traditional pension insurance. Pension benefits are normally paid from 66 but may be taken out from the age of 55 (OECD, 2025^[2]). In the cases of both the notional accounts and premium pension, it is possible to defer with automatic actuarial adjustments (OECD, 2025^[2]).

Box 5. Overview of income security in retirement in Korea

Korea's public pension system has three main components:

- The Basic Pension provides a means-tested benefit to 70% of the population aged 65 and over, as of 2020. It was introduced in 2008, and is entirely financed by general taxation. The full amount possible is KRW 334 810 (≈USD 233). Those who can receive this full amount include those not receiving an old-age pension, those receiving a survivors or disability pension, social assistance recipients, or those with a pension below KRW 502 210 (≈USD 349). As of 2022, monthly income must not exceed KRW 1 800 000 for a single person or 2 880 000 for a couple to be eligible. The value of assets is also considered through a means test that converts into a monthly income.
- The National Pension Scheme (NPS) is a contributory scheme covering private-sector workers and the self-employed. It is a defined benefit scheme with accrual based on two equally weighted components: average income of all participations and individual contribution records. This helps lift entitlements for low earners, with the net replacement rate gap between low earners and higher earners being higher than the OECD average.
- Special regimes, including those covering civil servants, the military, workers in private schools and workers in special post offices.

As of 2022, spending levels on public and mandatory expenditure levels are 4.9% of GDP – a significant increase from the 1.9% of GDP in 2000, but well below the OECD average of 9.1% (as of 2021). As more individuals become entitled to a pension in Korea, spending is set to increase further, reaching 6% of GDP in by 2050. As the NPS was introduced relatively recently (1986), many current pensioners in Korea were not able to contribute to it during their working lives. The 2022 OECD Review (OECD, 2022^[69]) states that as in the future more and more pensioners will have been able to build their own pension entitlements, the coverage of the non-contributory basic pension could be narrowed, enabling higher amounts to be paid to those most in need.

Source: (OECD, 2022^[69]).

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Notes

¹ For an overview of the pension system in Korea, see the OECD Review of Pension Systems: Korea (OECD, 2022^[69])

² While this paper does not focus on the Korean system, a comprehensive review of Korea's pension system has previously been produced by the OECD (2022^[69])

³ See for a definition of imputed rent, for example:

<https://www.cso.ie/en/interactivezone/statisticsexplained/nationalaccountsexplained/imputedrent/>