Social Security Abroad

Foreign Weighted Benefit Formulas*

In addition to the United States—the one industrial noncommunist country to do so—eight other nations employed a weighted benefit formula in their pension programs as of 1977 Bulgaria, Costa Rica, Greece, Mexico, the Philippines, Romania, Trinidad-Tobago, and the Union of Soviet Socialist Republics Albania and Poland also employed weighted benefit formulas at one time

The weighted benefit formula is graduated in favor of the low earner That is, the lower the wage the higher the replacement rate As the accompanying table shows, the formula usually has four or more steps, the most generous of which provides up to 100-percent wage replacement for those in the lowest wage class The rate decreases at higher earnings levels—to less than 50 percent in most countries for those in the highest covered wage class

The number of steps or income classes in each country's formula varies from three in the Philippines to nine in Mexico The magnitude of the replacement rate generally ranges from 35 percent to 80 percent of earnings At one extreme, however, the formula in the Philippines calls for the replacement of only 25 percent in the upper range of covered earnings At the other extreme, the Soviet Union's formula provides for full wage replacement in the low range of earnings

In computing benefits, these formulas generally are applied to a period that emphasizes either a number of recent years or those years in which the highest earnings were received The final column in the table indicates the wide variation in the length of the period chosen by the eight nations

The two-part formula is another technique employed in several countries to increase the replacement rate of low earners in relation to that of more highly paid workers Though not, strictly speaking, a weighted benefit formula, it is similar in effect Two of the more widely used variations are

(1) A minimum benefit that can replace 100 percent or more of former income for those low earners who would receive less than the minimum under strict adherence to an earnings-related pension formula (employed in Italy and Spain, for instance) and

(2) a double-decker system with a universal flat-rate pension as the first layer and an earnings-related benefit as the second layer (examples include Finland, The German Democratic Republic, Sweden, and Switzerland)

Foreign countries with weighted benefit formulas, 1977

Country	Steps in formula[1]	Replacement rate (percentage range)[2]	Base earnings for computation purposes
Bulgaria	6	55–80	Highest 3 of last 15 years
Costa Rica	4	37–70	Highest 48 months in last 10 years
Greece	([3])	30–70	Last 2 years
Mexico	9	35–45	Last 250 weeks
Philippines	3	[4]25–45	Lifetime average (or last 5 years if higher)
Romania	7	60–85	Best 5 of last 10 years
Trinidad-Tobago	8	34–50	Average earnings
Union of Soviet Socialist Republics	6 [5]3	50–100 [5]50–65	Last 12 months (or average of best consecutive 5 of last 10 years)

[1] Number of steps or bend points at which amount changes

[2] Replacement rate decreases at higher wage steps—that is, it varies inversely with wage level Each country has supplements for longevity and, in most cases, for dependents

[3] Not available

[4] Annuitant receives 115 percent of the amount computed

[5] Minimum wage has been raised to the point where, for new annuitants only 3 wage levels and a 50–65 percent range have any meaning