LONG-TERM PROJECTIONS OF PUBLIC PENSION EXPENDITURE

Key results

Public spending on pensions has been on the rise in most OECD countries for the past decades, as shown by the previous two indicators. Long-term projections show that pension spending is expected to go on growing in 21 OECD countries and fall in 14. On average pension expenditure is forecast to increase from around 8.9% of gross domestic product (GDP) in 2013-15 to 9.5% of GDP in 2050.

The main driver of growing pension expenditures is demographic change. The projections shown opposite are derived either from the European Commission's *2015 Ageing Report* – which covers the EU28 members plus Norway – or from Standard & Poor's Global Ageing 2016 report. In the main table, data are presented forwards to 2060 for those countries where the figures are available. However, since the horizon is 2050 only for 11 OECD countries and all the other major economies this is the main comparison in the table.

Long-term projections are a crucial tool in planning pension policy: there is often a long time lag between when a pension reform occurs and when it begins to affect public pension expenditure. There are some differences in the range of different programmes covered in the forecasts, reflecting the complexity and diversity of national retirement-income provision. For example, data for a number of countries do not include special schemes for public-sector workers while in others they are included. Similarly, projections can either include or exclude spending on resource-tested benefits for retirees. The coverage of the data also differs from the *OECD Social Expenditures Database* (SOCX), from which the data on past spending trends in the previous two indicators were drawn. The numbers for 2013-15 may differ between the SOCX database and the sources used here because of the different range of benefits covered and the definitions used.

Nevertheless, the figures do reveal broad trends. Pension spending is projected to grow from 8.9% of GDP to 9.5% of GDP by 2050 on average across all OECD countries. In the EU28 it is projected to increase from 11.2% of GDP in 2020 to 11.7% of GDP in 2035, before receding back to current levels. This would be a significant achievement given the demographic change throughout the time period. The indicator of the "Old-age dependency ratio" in Chapter 5 shows an about 90% increase in the demographic dependency ratio, the number of people above the age 65 per 100 people aged between 20 and 64 from today until 2050. Cuts in benefits for future retirees, through lowered indexation and valorisation or benefit formulae, together with increases in the age at which individuals first can claim pension benefits, will reduce growth in public pension expenditure.

Public pension expenditure is expected to increase in 21 OECD countries by 2050. In Korea, pension spending would more than double by 2050, though the increase is from a low base. This rapid increase reflects both the ageing process and the still maturing pension system. In Slovenia, public spending is projected to rise further: from above the OECD average at 12% of GDP, to 16% of GDP by 2050.

Long-term public pension spending is expected to increase in all major economies but India, where it is constant at 1% of GDP, reflecting the low coverage levels. Most notably in Brazil where pension expenditure will grow from 9% currently and reach 17% of GDP by 2050 and in Saudi Arabia where it will increase by 250% form 2.7% in 2015 to 9.4% by 2050.

Further reading

European Commission (2015), *2015 Ageing Report*; Economic and budgetary projections for the 28 EU Member States (2013-2060), Publications Office of the European Union, Luxembourg.

Standard & Poor's (2016), *Global Aging 2016: 58 Shades of Gray*, McGraw Hill Financial.

7.5. Projections of public expenditure on pensions, 2013-60

	2013-15	2020	2025	2030	2035	2040	2045	2050	2055	2060
OECD members										
Australia	4.0								3.7	
Austria	13.9	13.9	14.1	14.4	14.7	14.7	14.7	14.6	14.6	14.4
Belgium	11.8	11.8		12.3		13.0		12.9		13.0
Canada	5.5							6.9		
Chile	5.1							4.2		
Czech Republic	9.0	9.0	9.1	9.0	8.8	9.0	9.3	9.6	9.8	9.7
Denmark	10.3	8.7	8.4	8.3	8.2	8.0	7.7	7.5	7.3	7.2
Estonia	7.6	7.6	7.3	7.1	7.0	6.9	6.8	6.7	6.6	6.3
Finland	12.9	14.2	14.9	15.0	14.4	13.6	13.0	12.8	12.8	12.9
France	14.9	14.6	14.9	14.7	14.2	13.8	13.3	12.8	12.3	12.1
Germany	10.0	10.3	10.9	11.6	12.1	12.2	12.3	12.5	12.6	12.7
Greece	16.2	15.5	15.0	14.4	14.1	14.1	14.1	14.4	14.2	14.3
Hungary	11.5	9.8	9.3	8.9	9.1	9.6	10.4	10.7	11.0	11.4
Iceland	3.3							3.5		
Ireland	7.4	8.0	8.7	9.1	9.6	10.0	10.2	10.0	9.3	8.4
Israel	5.3							6.2		
Italy	15.7	15.3	15.5	15.7	15.8	15.8	15.5	14.8	14.2	13.8
Japan	10.2							9.5		
Korea	2.6							6.3		
Latvia	7.7	5.9	5.5	5.5	5.5	5.4	5.3	5.2	5.0	4.6
Luxembourg	9.4	10.6	11.2	11.9	12.4	12.7	12.7	12.5	12.4	13.4
Mexico	1.8							3.0		
Netherlands	6.9	7.1	7.4	7.7	8.1	8.3	8.3	8.1	7.9	7.8
New Zealand	4.7							7.2		
Norway	9.9	10.7	11.1	11.3	11.4	11.4	11.4	11.6	11.9	12.4
Poland	11.3	10.6	10.5	10.4	10.1	10.0	10.1	10.4	10.7	10.7
Portugal	13.8	14.6	14.9	15.0	15.0	14.8	14.6	14.4	13.8	13.1
Slovak Republic	8.1	8.0	7.9	7.6	7.7	8.1	8.6	9.1	9.7	10.2
Slovenia	11.8	11.1	11.4	12.3	13.3	14.3	15.1	15.6	15.6	15.3
Spain	11.8	11.8	11.4	11.2	11.5	11.9	12.5	12.3	11.4	11.0
Sweden	8.9	8.3	8.1	7.9	7.8	7.5	7.3	7.2	7.4	7.5
Switzerland	9.8							10.7		
Turkey	7.2							5.6		
United Kingdom	7.7	7.4	7.8	7.9	8.2	8.4	8.1	8.1	8.3	8.4
United States	4.9							5.9		
OECD	**8.9**							**9.5**		**10.9**
Argentina	7.8							10.4		
Brazil	9.1							16.8		
China	4.1							9.5		
India	1.0							1.0		
Indonesia	0.8							1.2		
Russian Federation	9.1							12.4		
Saudi Arabia	2.7							9.4		
South Africa	2.2							3.3		
EU28	11.3	11.2	11.4	11.6	11.7	11.7	11.6	11.4	11.3	11.2

Note: OECD28 figure shows only countries for which complete data between 2010-15 and 2050 are available. EU28 figure is a simple average of member states (not the weighted average published by the European Commission). Pension schemes for civil servants and other public-sector workers are generally included in the calculations for EU member states: see European Commission (2015), *2015 Ageing Report*.

Source: European Commission (2015), *2015 Ageing Report*; Standard & Poor's (2016), *Global Aging 2016: 58 Shades of Gray: Argentina, Brazil, Canada, Chile, China, India, Indonesia, Israel, Japan, Korea, Mexico, New Zealand, Russian Federation, Saudi Arabia, South Africa, Switzerland, Turkey and the United States;* Standard & Poor's (2013), *Global Aging 2013: Rising to the Challenge: Iceland; Australia: 2015 Intergenerational Report Australia in* 2055. Figures are based on the proposed policy as at the 2015 *Intergenerational Report*. There have been significant changes to the proposed Age Pension and Disability Support Pension policy since then which would have an impact on these projections.

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Pensions at a Glance 2017
OECD and G20 Indicators

Chapter 8

Private pensions and public pension reserve funds

The range of indicators of private pensions and public pension reserves follows the format of the last edition of Pensions at a Glance.

The first of these seven indicators looks at the proportion of the working-age population covered by private pension plans. It distinguishes between mandatory, quasi-mandatory and voluntary schemes and between occupational provision, through an employer-provided or industry-wide scheme, and personal provision, arranged by an individual with a pension provider.

The diversity of pension plans is examined next. This second indicator shows the types of pension plan that can be found in OECD countries. This indicator provides a breakdown of pension assets between occupational defined benefit, occupational defined contribution and personal plans.

The third indicator reports assets in private pension plans and public pension reserves for the latest year available. The way these assets are invested is explored in the fourth indicator. There then follows an analysis of the investment performance of private pension plans and public pension reserve funds in 2016 and 2015 respectively.

The sixth indicator looks at the operating expenses of private pension systems and the fees pension providers charge to members in selected defined contribution plans.

The final indicator focuses on defined benefit funding ratios, which are presented over the period 2012-16.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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