

MANDATORY PENSION CONTRIBUTIONS

Key results

Mandatory pension contribution rates for an average earner averaged 18.4% in 2016 for the 22 OECD countries that have specific contributions for pensions only. For another 12 countries social insurance contributions and mandatory private pension contribution rates averaged 22.9% for employee and employer contributions combined.

Most of the measures presented in *Pensions at a Glance* look at the benefits side of the pension system. The indicators here look at the contribution side, mapping out how much the average workers contributed towards their pension in 2016. Tax financed pension benefits are not covered here.

Since different pension components in a country can be financed through different income sources mapping out the pension's contribution terrain is very important but it can also be difficult. This presentation aims to give a broad picture of the pension schemes modelled herein and where data are available.

The upper table presents the 22 OECD countries where pension contributions are mandatory, either public or private. Countries that belong to this group have pension systems where the contribution rate paid is more directly linked to the pensions system. The average contribution rate in this group equalled 18.4% in 2016. The highest total mandatory contribution rates are found in Hungary and Italy at 30.75% and 33.0%, respectively, with no other country above 26%. By contrast the contribution in Mexico amounts to only 6.275%. In both Australia and Canada, tax financed components play a large role and so contribution rates are consequently below 10%. The same is true for New Zealand, but as there is no mandatory earnings related scheme it is not included in either table.

The average contribution rate to the public schemes is 15.4% compared to 10.7% for private schemes. Within the public scheme employee contributions are around two-thirds of those of employers, representing 6.0% and 9.4%, respectively. For the private scheme there is less difference between employee and employer contributions being 4.5% and 6.2% respectively.

The lower table looks at the mandatory private and mandatory social insurance contribution rates that apply

for a private-sector worker. In this group it is difficult to separate the pension contributions paid by the employee and employer to pension benefits from the other parts of social insurance such as survivor's benefits, disability benefits, unemployment etc. In addition individuals cannot choose which systems to belong to and they therefore have to contribute fully to all parts.

The average contribution rate in this group is 22.9% for an average earner in 2016. The highest mandatory private and social insurance contributions are found in Latvia at 34.1% and the lowest in the United States at 12.4% and Ireland at 14.75%, with all the other countries between 20.0% and 28.3%. In Latvia, 20% contribution finances future pension entitlements in the NDC and DC schemes with the remaining 14.1% financing unemployment, disability, sickness, injury, maternity, parental and survivor (for children) benefits.

On average employer contributions are twice those made by employees at 15.3% and 7.7% respectively, with virtually all the contributions being to public schemes. An exception to the contribution ratio between employees and employers is Slovenia, where the reverse is almost the case, as employees pay 15.5% compared to 8.85% for employers.

Countries with higher pension contribution rates often have above average pension benefits (as in the case of Iceland, Italy and the Netherlands), or longer duration in retirement through lower retirement age as is the case in France. Higher mandatory pension contribution rates might lower overall employment and increase informality.

Further reading

OECD (2017), *Taxing Wages 2017*, OECD Publishing, Paris, http://dx.doi.org/10.1787/tax_wages-2017-en.

7.1. Mandatory pension contribution rates for an average worker in 2016

	Public		Private		Total
	Employee	Employer	Employee	Employer	
Australia	0.0	9.5			9.5
Belgium	7.5	8.86			16.4
Canada	4.95	4.95			9.9
Chile			11.23	1.15	12.4
Denmark	0.26	0.52	4	8	12.8
Finland	7.20	18.00			25.2
France	7.25	10.40	3.10	4.65	25.40
Germany	9.35	9.35			18.7
Hungary	10.0	20.75			30.75
Iceland	0.0	7.35	4	8	19.35
Israel	3.75	3.75	5.5	12.0	25.0
Italy	9.19	23.81			33.0
Japan	8.914	8.914			17.828
Korea	4.5	4.5			9.0
Luxembourg	8.0	8.0			16.0
Netherlands	4.9	0.0	16	20.9	
Mexico			1.125	5.15	6.275
Poland	9.76	9.76			19.52
Slovak Republic	4.0	14.0			18.0
Sweden	7.0	11.4	0.0	4.5	22.9
Switzerland	4.2	4.2	3.9	3.9	16.2
Turkey	9.0	11.0			20.0

Note: In some cases, pension contribution revenues have been calculated assuming that the revenues are split between different social security programmes in the same proportion as the contribution rates. The total contribution includes payments from people who are not employed (principally the self-employed). In Denmark the ATP contribution is expressed as percentages of AW earnings DNK 412 555. Source: OECD (various years), *Taxing Wages*; OECD (2016), *Revenue Statistics*; Social Security Administration, United States (various years), *Social Security Programs throughout the World*; OECD pension and tax models.

StatLink  <http://dx.doi.org/10.1787/888933634534>

7.2. Social insurance contribution and mandatory private contribution rates for an average worker in 2016

	Public		Private		Total
	Employee	Employer	Employee	Employer	
Austria	10.25	12.55			22.8
Czech Republic	6.5	21.5			28.0
Estonia		16.0	2.0	4.0	22.0
Greece	6.67	13.3			20.0
Ireland	4	10.75			14.75
Latvia	10.5	23.59			34.09
Norway	8.2	14.1		2.0	22.3
Portugal	6.4	13.8			20.2
Slovenia	15.5	8.85			24.4
Spain	4.7	23.6			28.3
United Kingdom	12	13.8			25.8
United States	6.2	6.2			12.4

Note: In some cases, pension contribution revenues have been calculated assuming that the revenues are split between different social security programmes in the same proportion as the contribution rates. The total contribution includes payments from people who are not employed (principally the self-employed).

Source: OECD (various years), *Taxing Wages*; OECD (2016), *Revenue Statistics*; Social Security Administration, United States (various years), *Social Security Programs throughout the World*; OECD pension and tax models.

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