

## PENSION-BENEFIT EXPENDITURES: PUBLIC AND PRIVATE

### Key results

Payments from private pension schemes were worth 1.5% of gross domestic product (GDP) on average in 2013 in the 24 OECD countries for which data are available. This is equivalent to one-fifth of average public spending on retirement benefits. Private-pension payments increased from 1.0% of GDP in 1990, but have been broadly stable since 2000.

Private pensions are mandatory or achieve near-universal coverage through industrial relations agreements (“quasi-mandatory”) in less than half of the 35 OECD countries. In others, voluntary private pensions – either individual (“personal”) or employer-provided (“occupational”) – have broad coverage.

The biggest flow of private-pension payments is in the Netherlands: 6.0% of GDP in 2013. Added to public spending, total benefits are 11.5% of GDP. The United States is next at 5.0% followed by Switzerland at 4.9% of GDP. While Swiss occupational plans are compulsory, the data on private-pension payments include benefits from voluntary schemes above the statutory minimum level.

The next four countries – Canada, Iceland, Sweden and the United Kingdom – record private-pension payments of between 2.9% and 4.4% of GDP. Japan (where private pensions are voluntary) also has high levels of expenditure on private pensions, at 2.7% of GDP. Iceland has the highest share of private in total pension expenditure at 65%.

Many countries introduced compulsory private pensions in the 1990s: Australia, Estonia, Mexico, Poland, the Slovak Republic and Sweden. In some cases – particularly in Central and Eastern Europe – these new schemes were mainly taken up by younger workers. Many of them have yet to begin paying benefits. Much of the private benefit payouts recorded in Australia and Sweden relate to voluntary and quasimandatory (respectively) schemes that were already in place before private pensions were made compulsory. In all these cases, it will be some decades before all retirees have spent a full career in compulsory private pension plans.

### Trends

The countries with the fastest growth in private-pension payments tended to start from a low base, below 0.5% of GDP. But there are exceptions, such as Iceland, Sweden and Switzerland. In the latter, occupational pensions became compulsory in 1985, which extended coverage significantly. This is now being reflected in the rapid growth in private pension entitlements as each

successive generation of retirees has spent longer on average covered by private pensions.

### Tax breaks

Many OECD countries offer favourable tax treatment to retirement savings made through private pension plans. Often, individual contributions are fully or partially deductible from income-tax liabilities and investment returns are fully or partially relieved from tax. Some countries offer tax relief on pension payments (see “Tax treatment of pensions and pensioners” in Chapter 4).

The cost of these fiscal incentives is measured in many OECD countries using the concept of “tax expenditures”, developed in the 1960s. This attempts to quantify the value of the preferential tax treatment relative to a benchmark tax treatment. The idea is that this is the amount the government would have to provide as a subsidy (a direct expenditure) to achieve the same effect.

Data on tax expenditures for retirement savings are available for 21 OECD countries. Over two-thirds of these figures are 0.2% of GDP or less. And in only four countries – Australia, Canada, Germany and the United Kingdom – are reported tax expenditures worth 1% of GDP or more.

Tax expenditure figures come with important caveats: they are not comparable between countries because of differences in the benchmark tax system chosen. Despite their name, they are not equivalent to direct expenditures and so should not be added to numbers for public pension spending.

### Further reading

Adema, W. and M. Ladaique (2009), “How Expensive is the Welfare State? Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)”, *OECD Social, Employment and Migration Working Paper*, No. 92, OECD Publishing, Paris, <http://dx.doi.org/10.1787/220615515052>.


OECD (2010), *Tax Expenditures in OECD Countries*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264076907-en>.

## 7.4. Pension-benefit expenditures: Public and private

	Scheme type	Benefit expenditure of private pension schemes					Change (%)	Public and private benefit spending (% of GDP)	Tax breaks for private pensions (% of GDP)
		Level (% of GDP)							
		1990	2000	2005	2010	2013	2000-13	2013	2013
Australia	v		2.5	1.4	1.5	1.7	-32.6	6.0	1.7
Austria	v	0.4	0.6	0.5	0.6	0.7	14.5	14.0	0.0
Belgium	v	1.0	1.3	1.5	1.1	1.1	-14.1	11.3	0.2
Canada	v	2.5	3.9	4.2	3.4	3.2	-18.1	7.8	2.0
Chile	m			1.2	1.3	1.4		4.4	
Czech Republic	m	0.0	0.2	0.2	0.4	0.3	40.2	9.0	0.0
	v	a	0.0	0.0	0.1	0.1	120.0		
Denmark	q/m	1.6	2.4	2.5	1.2	1.0	-60.4	8.9	
Estonia								6.4	
Finland	v	0.1	0.3	0.2	0.2	0.2	-15.2	11.3	0.1
France	m	0.2	0.2	0.2	0.0	0.0	-71.0	14.1	0.1
	v	0.0	0.1	0.1	0.2	0.2	63.1		
Germany	v	0.7	0.7	0.7	0.8	0.8	17.6	10.9	1.1
Greece	v	0.4	0.4	0.4	0.4	0.4	1.8	17.8	
Hungary								10.3	
Iceland	m	1.4	2.3	2.7	3.4	3.8	67.1	5.9	0.0
Ireland	v	0.9	0.8	0.8	0.8	0.8	-8.2	5.7	0.9
Israel								4.9	
Italy	m	1.0	0.9	1.0	0.5	0.4	-51.7	16.7	0.0
	v	0.1	0.3	0.2	0.3	0.4	52.3		
Japan	m	0.2	0.5	0.4	0.6	0.7	28.9	12.9	0.0
	v	a	2.9	2.2	2.7	2.7	-7.8		
Korea	v	m	0.0	0.0	0.0	0.0		2.6	
Latvia								7.5	
Luxembourg	v	a	a					8.5	0.0
Mexico								2.3	0.2
Netherlands	m	0.0	0.0	0.0	0.0	0.0		11.5	
	q	3.6	4.5	4.9	5.3	6.0	34.2		
New Zealand								5.1	
Norway	v/m	0.6	0.6	0.6	0.6	0.8	34.6	6.6	0.2
Poland								10.3	0.0
Portugal	v	0.3	0.4	0.6	0.5	0.6	55.4	14.5	0.0
Slovak Republic	v	a	0.2	0.4	0.3	0.4	80.9	7.5	0.0
Slovenia								11.8	
Spain								11.4	0.2
Sweden	q/m	1.2	1.6	1.8	2.3	2.9	75.9	10.6	
Switzerland <sup>1</sup>	m	2.2	4.0	4.5	4.7	4.9	22.3	11.2	
	v	0.0	0.0	0.0	0.0	0.0	8.6		
Turkey								8.1	
United Kingdom	v/m	4.0	5.8	4.5	4.3	4.4	-24.3	10.5	1.2
United States	v	2.6	3.6	3.6	4.4	5.0	37.6	12.0	0.8
<b>OECD</b>		<b>1.0</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>	<b>5.5</b>	<b>9.4</b>	<b>0.4</b>

m = mandatory private scheme, q = quasi mandatory; and v = voluntary.

Source: OECD Social Expenditures Database (SOCX); OECD Main Economic Indicators Database. See Adema and Ladaique (2009) for more details on the data, sources and methodology.

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