

## PUBLIC EXPENDITURE ON PENSIONS

### Key results

Public spending on cash old-age pensions and survivors' benefits in the OECD increased from an average of 6.7% of gross domestic product (GDP) to 8.2% between 2000 and 2013. Public pensions are often the largest single item of social expenditure, accounting for 18% of total government spending on average in 2013.

Greece spent the largest proportion of national income on public pensions among OECD countries in 2013: 17.4% of GDP. Other countries with high gross public pension spending are also found in continental Europe, with Italy at 16.3% and Austria, France and Portugal at about 13% to 14% of GDP. Public pensions generally account for between one-fourth and one-third of total public expenditure in these countries.

Iceland and Mexico spent 2.0% and 2.3% of GDP on public pensions respectively. Korea is also a low spender at 2.6% of GDP. Iceland and Mexico are countries with relative young populations and Korea's pension system is not mature yet: the public, earnings-related scheme was only established in 1988 and the new targeted basic pension was introduced only in 2014. In Mexico, low spending also reflects relatively narrow coverage of pensions (only around 35% of employees). In Iceland, much of retirement income is provided by compulsory occupational schemes (see the next indicator of "Pension-benefit expenditures: Public and private"), leaving a lesser role for the public sector in providing old-age income. In addition the retirement age is high at age 67.

Spending also tends to be low in countries with favourable demographics, such as Australia, Canada, Ireland and New Zealand. However, this is not always the case: Turkey spends 8.1% of GDP on public pensions despite being the second youngest OECD country in demographic terms. This is more than Denmark, the Netherlands, the United Kingdom and the United States, despite the fact that these countries have a higher share of people age over 65 as a share of the population than in Turkey.

### Trends

Public pension spending was fairly stable as a proportion of GDP over the period 1990-2013 in six countries: Canada, Iceland, Ireland, Luxembourg, Norway and Sweden.

In another two countries, the Netherlands and New Zealand, public pension spending grew markedly more slowly than national income. In the Netherlands this change reflects the growing importance of occupational pension which reduces the reliance on targeted public pensions. In New Zealand, the decline of around 30% reflects two policies: freezing the value of the basic pension in 1992-94 and increasing pension age from 60 to 65 years. Often reductions in public pension expenditure are met by increases in private and occupational pension expenditure.

Public pension expenditure more than doubled relative to national income in six OECD countries. In Korea, Mexico and (to a lesser degree) Turkey, this reflected the low starting point in 1990. But Poland and Portugal moved from spending below the OECD average to well above. The change in Japan results from rapid ageing.

### Gross and net spending

The penultimate column of the tables shows public spending in *net* terms: after taxes and contributions paid on benefits. Net spending is significantly below gross spending in Austria, France, Italy, Poland, Portugal, Switzerland and the Nordic countries, due to taxes on pension benefits. Gross and net spending are similar where pensions are not taxable such as the Slovak Republic or where public benefits are generally below basic tax reliefs (Australia, the Czech Republic, Ireland and the United Kingdom).

### Non-cash benefits


The final column of the table shows total gross public spending on older people, including noncash benefits. In three countries, such benefits exceed 2% of GDP. The most important in Denmark, Norway and Sweden are housing benefits. These are defined as "non-cash benefits" because they are contingent on particular expenditure by individuals. Australia, Finland, Japan and the Netherlands also record high figures for non-cash benefits.

## 7.3. Public expenditure on old-age and survivors benefits

	Public expenditure on cash benefits for old-age and survivors									Total inc. non-cash (% of GDP)
	Level (% of GDP)					Change (%)	Level (% of total government spending)		Level in net terms (% of GDP)	
	1990	2000	2005	2010	2013		2000-13	2000		
Australia	3.1	4.7	3.7	3.8	4.3	-8.5	12.9	11.7	4.3	5.2
Austria	11.3	12.0	12.0	13.1	13.4	11.7	23.8	26.2	11.4	14.0
Belgium	8.9	8.7	8.8	9.7	10.2	17.5	17.7	18.3	10.2	10.5
Canada	4.2	4.2	4.0	4.3	4.6	9.1	10.3	11.1	4.3	4.6
Chile		5.0	3.7	3.4	3.0	-40.6			2.9	3.0
Czech Republic	5.6	6.9	6.7	8.1	8.7	26.0	17.1	20.4	8.7	8.9
Denmark	6.1	6.3	6.5	7.2	8.0	26.3	12.0	14.1	5.8	10.1
Estonia		6.0	5.3	7.6	6.4	6.9	16.5	16.8	6.3	6.5
Finland	7.2	7.4	8.1	9.8	11.1	49.7	15.5	19.3	9.2	12.3
France	10.4	11.4	12.0	13.2	13.8	21.1	22.4	24.3	12.6	14.3
Germany	9.5	10.8	11.1	10.6	10.1	-6.5	24.2	22.7	9.7	10.1
Greece	9.5	10.4	11.4	13.3	17.4	67.6	22.3	31.5	16.2	17.5
Hungary		7.5	8.4	9.6	10.3	38.0	15.8	20.8	10.3	10.8
Iceland	2.2	2.1	1.9	1.6	2.0	-3.1	5.1	4.6	2.0	2.5
Ireland	4.8	2.9	3.2	4.9	4.9	68.8	9.5	12.5	4.5	5.4
Israel		4.6	4.8	4.8	4.9	6.5	9.6	11.9	4.9	5.5
Italy	11.3	13.5	13.6	15.3	16.3	20.9	29.6	31.9	14.0	16.4
Japan	4.8	7.3	8.5	10.0	10.2	40.5	18.9	24.2	9.7	12.1
Korea	0.7	1.3	1.4	2.0	2.6	99.3	5.3	8.2	2.6	2.7
Latvia	0.0	8.7	5.5	9.3	7.5	-13.7	23.2	20.3	7.2	7.7
Luxembourg	7.7	7.1	7.9	8.1	8.5	20.1	19.5	19.7	7.5	8.5
Mexico	0.4	0.8	1.2	1.8	2.3	175.4		8.9	2.3	0.2
Netherlands	6.3	4.7	4.7	5.0	5.4	16.1	11.2	11.7	4.9	6.4
New Zealand	7.2	4.9	4.2	4.6	5.1	4.0	14.3	14.3	4.4	5.1
Norway	5.5	4.7	4.8	5.2	5.8	23.6	11.2	13.2	4.7	7.9
Poland	5.0	10.5	11.3	11.1	10.3	-1.6	24.9	24.2	9.3	10.4
Portugal	4.8	7.8	10.0	12.0	14.0	78.4	18.3	27.9	13.0	14.0
Slovak Republic		6.3	6.1	6.8	7.2	15.0	12.0	17.5	7.2	7.5
Slovenia		10.3	9.7	11.0	11.8	14.3	22.4	19.6	11.8	12.0
Spain	7.7	8.4	7.9	9.8	11.4	35.6	21.5	25.3	10.9	12.0
Sweden	7.3	6.9	7.2	7.3	7.7	11.8	12.8	14.7	6.0	10.0
Switzerland	5.2	6.0	6.2	6.1	6.4	5.9	17.6	18.7	5.2	6.6
Turkey	2.4	4.9	6.0	7.7	8.1	66.4			8.1	8.3
United Kingdom	4.5	5.1	5.3	6.1	6.1	20.9	13.3	13.8	5.9	6.6
United States	5.8	5.6	5.7	6.6	7.0	24.6	16.7	18.4	6.5	7.0
<b>OECD</b>	<b>5.8</b>	<b>6.7</b>	<b>6.8</b>	<b>7.7</b>	<b>8.2</b>	<b>21.8</b>	<b>16.5</b>	<b>18.1</b>	<b>7.6</b>	<b>8.6</b>

Note: See 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, Paris, <http://dx.doi.org/10.1787/220615515052> for more details on the data, sources and methodology.

Source: OECD Social Expenditures Database (SOCX); OECD Main Economic Indicators Database.

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