Key results

Public spending on cash old-age pensions and survivors' benefits in the OECD increased 27% faster than the growth in national income between 1990 and 2009, from an average of 6.1% of gross domestic product (GDP) to 7.8%. Public pensions are often the largest single item of government expenditure, accounting for 17% of total government spending on average.

Italy spent the largest proportion of national income on pensions among OECD countries in 2009: 15.4% of GDP. Other countries with high gross public pension spending are also found in continental Europe, with Austria, France and Greece at about 14% to 13% of GDP and Poland and Portugal at about 12%. Pensions generally account for between 24% and 30% of total public expenditure in these countries. High spending partly results from demographics: these six countries are mostly among the oldest of OECD countries.

The left-hand figure compares pension spending in 2009 with the old-age dependency ratio for that year. (The dependency ratio is the percentage of the adult – aged 20 and over – population that is aged 65 and over. It is the inverse of the "Old-age support ratio", presented in the indicator in Chapter 7). There is a strong relationship, but it is far from deterministic. Countries such as Japan, Sweden, Switzerland and the United Kingdom face similar or worse demographics but have significantly lower pension spending than the seven countries at the top of the scale.

Iceland and Mexico spend around 1.7% of GDP on public pensions with Korea at 2.1%. They are all relatively young countries. Also, Korea's pension system is immature: the public, earnings-related scheme was only established in 1988. 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 less role for the public sector in providing old-age income.

Spending also tends to be low in other countries with relatively favourable demographics, such as Australia, Canada, Ireland and New Zealand. However, this is not always the case: Turkey spends 6.8% of GDP on public pensions despite being the second youngest OECD country in demographic terms. This is more than Denmark, the Netherlands and the United Kingdom and is equal to that of the United States, despite the fact that these countries have 2-3 times as many over 65s relative to the population as Turkey does.

Trends

Pension spending was a fairly stable proportion of GDP over the period 1990-2009 in six countries: Belgium, Canada, Ireland, Sweden, Switzerland and the United States.

In five countries, public pension spending grew more slowly than national income. In New Zealand, the decline of over 40% reflects two policies: freezing the value of the basic pension in 1992-94 and increasing pension age from 60 to 65. There were significant falls in pension spending in Iceland, Luxembourg, the Netherlands, New Zealand and Norway as well though the latter is now increasing to near 1990s levels.

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 table shows public spending in *net* terms: after taxes and contributions paid on benefits. The right-hand figure compares this with *gross* pension spending. Net spending is significantly below gross in two of the highest spending countries – Austria and France – and in the Nordic countries, where taxes are relatively high. Gross and net spending are similar where pensions are not taxable (the Slovak Republic) or 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 non-cash benefits. In six countries, such benefits exceed 1% of GDP. The most important in Denmark, Finland, Norway and Sweden are residential care and home-help services. Australia and Japan also record high figures for non-cash benefits.

6.2. 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	1995	2000	2005	2009[1]	1990-2009	1990	2009[1]	2009[1]	2009[1]
Australia	3.0	3.6	3.8	3.3	3.5	*14.7*	8.5	9.4	3.4	5.1
Austria	11.4	12.3	12.2	12.4	13.5	*18.3*	22.1	25.5	11.8	14.0
Belgium	9.1	9.3	8.9	9.0	10.0	*10.2*	17.4	18.7	8.9	10.2
Canada	4.2	4.7	4.3	4.1	4.5	*7.4*	8.5	10.3	4.3	4.5
Chile		6.7	7.3	5.7	3.6				3.5	3.6
Czech Republic	5.8	6.1	7.2	7.0	8.3	*42.9*		18.5	8.3	8.6
Denmark	5.1	6.2	5.3	5.4	6.1	*19.3*	9.2	10.5	4.5	8.2
Estonia			6.0	5.3	7.9			17.6	7.8	8.1
Finland	7.3	8.8	7.6	8.4	9.9	*36.3*	15.1	17.7	8.3	11.1
France	10.6	12.0	11.8	12.4	13.7	*29.2*	21.4	24.2	12.8	14.1
Germany	9.7	10.5	11.1	11.4	11.3	*15.7*		23.4	10.9	11.3
Greece	9.9	9.7	10.8	11.8	13.0	*31.2*		24.2	13.0	13.2
Hungary			7.6	8.5	9.9			19.4	9.9	10.5
Iceland	2.2	2.4	2.2	2.0	1.7	*-21.3*		3.4	1.6	2.2
Ireland	4.9	4.3	3.1	3.4	5.1	*5.2*	11.5	10.5	4.8	5.6
Israel		4.7	4.9	5.1	5.0			11.1	4.9	5.2
Italy	10.1	11.3	13.5	13.9	15.4	*53.3*	19.1	29.8	13.5	15.6
Japan	4.8	6.1	7.3	8.7	10.2	*111.4*		19.1	9.5	11.8
Korea	0.7	1.2	1.4	1.5	2.1	*193.5*	3.7	6.5	2.1	2.4
Luxembourg	8.2	8.8	7.5	7.2	7.7	*-6.1*	21.6	17.8	6.9	7.7
Mexico	0.5	0.7	0.9	1.2	1.7	*269.0*		7.3	1.7	1.7
Netherlands	6.7	5.8	5.0	5.0	5.1	*-23.9*	12.2	9.9	4.7	6.1
New Zealand	7.4	5.7	5.0	4.3	4.7	*-36.7*	14.0	11.1	4.0	4.7
Norway	5.6	5.5	4.8	4.8	5.4	*-5.2*		11.5	4.4	7.4
Poland	5.1	9.4	10.5	11.4	11.8	*129.1*		26.4	10.8	11.8
Portugal	4.9	7.2	7.9	10.3	12.3	*151.9*		24.8	11.6	12.5
Slovak Republic		6.3	6.3	6.2	7.0			16.9	7.0	7.4
Slovenia			10.5	9.9	10.9			22.1	10.9	11.0
Spain	7.9	9.0	8.6	8.1	9.3	*17.3*		20.1	9.0	9.9
Sweden	7.7	8.2	7.2	7.6	8.2	*6.8*		15.0	6.2	10.8
Switzerland	5.6	6.7	6.6	6.8	6.3	*11.9*	18.6	19.5	6.4	6.6
Turkey	2.4	2.7	4.9	5.9	6.8	*188.7*		16.8	6.8	6.9
United Kingdom	4.8	5.4	5.3	5.6	6.2	*28.1*	11.6	12.1	5.9	6.8
United States	6.1	6.3	5.9	6.0	6.8	*12.6*	16.4	16.3	6.4	6.9
OECD	**6.1**	**6.7**	**6.9**	**7.0**	**7.8**	***27.0***		**16.6**	**7.3**	**8.3**

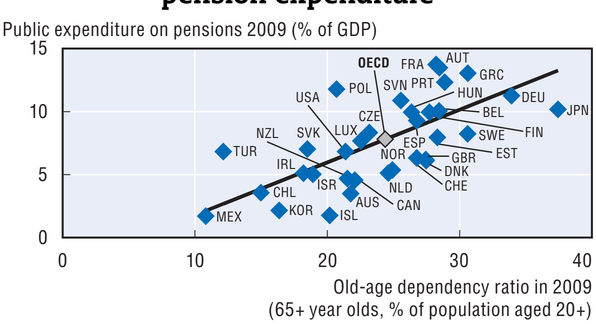
Note: See Adema, W. and M. Ladaique (2009), "How Expensive is the Welfare State? Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)", *OECD Social, Employment and Migration Working Papers*, No. 92, OECD Publishing, Paris, *http://dx.doi.org/10.1787/220615515052* for more details on the data, sources and methodology.

1. Data for Switzerland is 2008.

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

StatLink http://dx.doi.org/10.1787/888932907832

6.3. Demographic pressures and public pension expenditure

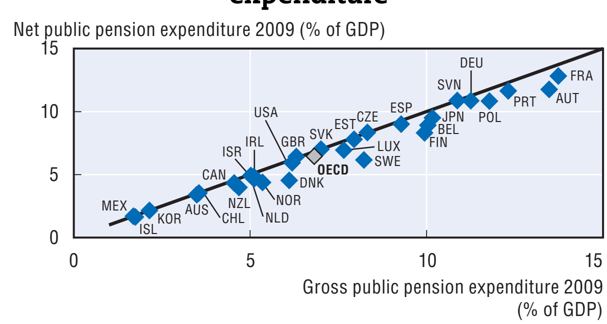


Note: Regression line is pension expenditure = -2.408 (1.917) + 0.4186 (0.07774) × dependency ratio, where heteroskedasticity adjusted standard errors are given in parentheses. The coefficient on the dependency ratio is significant at the 1% level and the R^2 of the regression is 0.4832.

Source: OECD, *Social Expenditures Database* (SOCX); United Nations, *World Population Prospects: The 2008 Revision – Highlights*.

StatLink http://dx.doi.org/10.1787/888932907851

6.4. Gross and net public pension expenditure



Note: The figure shows a 45° line. 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 Papers*, No. 92, OECD Publishing, Paris, *http://dx.doi.org/10.1787/220615515052* for more details on the data, sources and methodology.

Source: OECD, *Social Expenditures Database* (SOCX).

StatLink http://dx.doi.org/10.1787/888932907870