

### Key results

Public spending on cash old-age pensions and survivors' benefits in the OECD increased 15% faster than the growth in national income between 1990 and 2007, from an average of 6.1% of gross domestic product (GDP) to 7.0%. 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 from 2000: 14.1% (nearly one-seventh) of GDP. Other countries with high public pension spending are also found in continental Europe, with Austria, France and Greece at about 12% of GDP and Germany, Poland and Portugal at about 11%. Pensions generally account for between 25% and 30% of total public expenditure in these countries. High spending partly results from demographics: these seven countries are mostly among the oldest of OECD countries.

The left-hand chart compares pension spending in 2007 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 Part II.5.) 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, Korea and Mexico spend less than 2% of GDP on public pensions. They are all relatively young countries. Also, Korea's pension system is immature: the public, earnings-related scheme was only established in 1998. 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 favourable demographics, such as Australia, Canada, Ireland and New Zealand. However, this is not always the case: Turkey spends 6% 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 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 1990-2007 in six countries: Belgium, Canada, Ireland, Spain, Sweden 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 and Norway as well.

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 chart compares this with *gross* pension spending. Net spending is significantly below gross in three of the highest spending countries – Austria, France and Italy – and in the Nordic countries, where taxes are relatively high. Gross and net spending are similar where pensions are not taxable (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 housing benefits. These are defined as “non-cash benefits” because they are contingent on particular expenditure by individuals. Australia and Japan also record high figures for non-cash benefits.

## 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	2007		1990	2007		
Australia	3.0	3.6	3.8	3.3	3.4	11.2	8.6	10.1	3.3	4.5
Austria	11.4	12.3	12.3	12.5	12.3	7.8	22.1	25.3	10.6	12.7
Belgium	9.1	9.4	8.9	9.0	8.9	-2.9	17.4	18.3	8.0	9.0
Canada	4.2	4.7	4.3	4.2	4.2	-1.2	8.5	10.6	3.9	4.2
Chile		6.9	7.5	5.9	5.2					5.2
Czech Republic	6.1	6.3	7.5	7.3	7.4	21.8		17.5	7.4	7.7
Denmark	5.1	6.2	5.3	5.4	5.6	8.6	9.2	10.9	4.1	7.3
Estonia			6.0	5.3	5.2			15.2		5.3
Finland	7.3	8.8	7.7	8.4	8.3	13.3	15.1	17.5	6.8	9.2
France	10.6	12.0	11.8	12.3	12.5	17.5	21.5	23.9	11.7	12.8
Germany	9.0	10.7	11.2	11.5	10.7	19.1		24.5	10.4	10.7
Greece	9.9	9.6	10.7	11.7	11.9	20.9		26.3		12.0
Hungary			7.4	8.6	9.1			18.3		9.6
Iceland	2.2	2.4	2.2	2.0	1.9	-14.7		4.5	1.8	2.3
Ireland	3.9	3.5	3.1	3.4	3.6	-7.7	9.0	9.7	3.4	3.9
Israel		4.7	4.9	5.1	4.8			10.7		5.0
Italy	10.1	11.3	13.6	14.0	14.1	38.9	19.1	29.4	12.4	14.1
Japan	4.9	6.1	7.4	8.7	8.8	80.5		27.0	8.4	10.1
Korea	0.7	1.2	1.4	1.5	1.7	130.5	3.7	5.7	1.7	1.9
Luxembourg	8.2	8.8	7.5	7.2	6.5	-19.8	21.6	18.1	5.9	6.6
Mexico	0.5	0.7	0.9	1.2	1.4	202.0		7.2	1.4	1.4
Netherlands	6.7	5.8	5.0	5.0	4.7	-29.8	12.2	10.4	4.1	5.5
New Zealand	7.4	5.7	5.0	4.3	4.3	-41.8	14.0	10.9	3.5	4.3
Norway	5.6	5.5	4.8	4.8	4.7	-16.6		11.4	3.8	6.5
Poland	5.1	9.4	10.5	11.4	10.6	107.0		25.2	9.7	10.7
Portugal	4.9	7.2	7.9	10.3	10.8	119.8			10.2	10.8
Slovak Republic		6.3	6.3	6.2	5.8			17.0	5.8	6.2
Slovenia			10.6	9.9	9.6			22.7		9.7
Spain	7.9	9.0	8.6	8.1	8.0	1.5		20.5	7.4	8.5
Sweden	7.7	8.2	7.2	7.6	7.2	-6.8		14.1	5.3	9.5
Switzerland	5.6	6.7	6.6	6.8	6.4	14.2	18.6	19.9		6.7
Turkey	2.4	2.7	4.9	5.9	6.1	159.2				6.2
United Kingdom	4.8	5.4	5.3	5.6	5.4	11.0	11.6	12.0	5.1	5.9
United States	6.1	6.3	5.9	5.9	6.0	-1.5	16.4	16.3	5.6	6.0
<b>OECD</b>	<b>6.1</b>	<b>6.7</b>	<b>6.9</b>	<b>7.1</b>	<b>7.0</b>	<b>14.5</b>		<b>16.5</b>	<b>6.2</b>	<b>7.4</b>

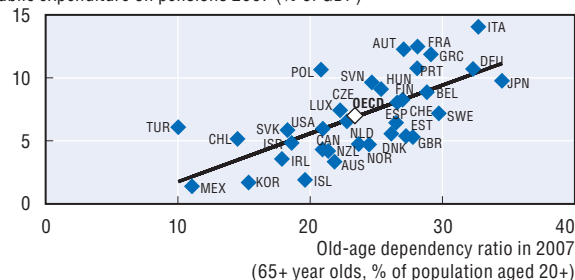
Note: See Adema, W. and M. Ladaïque (2009), "How Expensive is the Welfare State? Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)", *Social, Employment and Migration Working Paper*, No. 92, OECD Publishing, Paris, for more details on the data, sources and methodology.

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

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## Demographic pressures and public pension expenditure

Public expenditure on pensions 2007 (% of GDP)



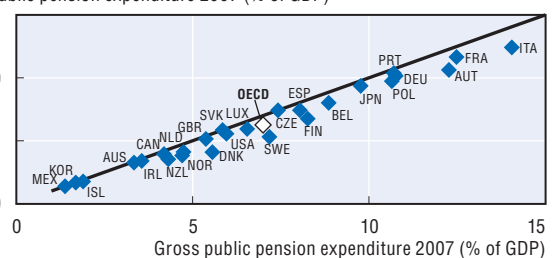
Note: Regression line is pension expenditure =  $-2.091 (1.908) + 0.3835 (0.07814) \times$  dependency ratio, where heteroskedasticity adjusted standard errors are given in parentheses. The coefficient on the dependency ratio is significant at the 1% level and the  $R^2$  of the regression is 0.4670.

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

StatLink  <http://dx.doi.org/10.1787/888932371063>


## Gross and net public pension expenditure

Net public pension expenditure 2007 (% of GDP)



Note: The chart shows a 45° line. See Adema, W. and M. Ladaïque (2009), "How Expensive is the Welfare State? Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)", *Social, Employment and Migration Working Paper*, No. 92, OECD, Paris, for more details on the data, sources and methodology.

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