

Key results

Payments from private pension schemes were worth 1.5% of gross domestic product (GDP) on average in 2017, representing about one-sixth of total – public and private – spending, and having increased from 0.7% of GDP in 1990 and 1.2% in 2005.

Private pensions are mandatory or achieve near-universal coverage through industrial relations agreements (“quasi-mandatory”) in less than half of the 38 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: 5.6% of GDP in 2017. Added to public spending, total benefits are 10.8% of GDP. Canada is next at 5.5% followed by Switzerland and the United States at 5.3% of GDP. While Swiss occupational plans are compulsory, the data on private-pension payments include benefits from voluntary schemes above the statutory minimum level. Next is the United Kingdom at 5.2% when summing both the mandatory and voluntary components.

The next three countries – Australia, Iceland and Sweden – record private-pension payments of between 3.1% and 5.0% of GDP. Japan (where private pensions are voluntary) also has high levels of expenditure on private pensions, at 2.6% of GDP. Iceland has the highest share of private in total pension expenditure at 61%.

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 and some have since reversed the decision with mandatory private schemes removed in Poland and becoming voluntary in Estonia and the Slovak Republic. Much of the private benefit pay-outs recorded in Australia and Sweden relate to voluntary and quasi-mandatory (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 that have recorded an increase larger than 1 percentage point of GDP between 2000 and 2017 are

Australia, Canada, Iceland, the Netherlands, Sweden, Switzerland and the United States. In some cases such as Australia and Switzerland, the occupational pensions became compulsory in 1993 and 1985, respectively, 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. Overall in the OECD, private pensions accounted for 10% of total pension expenditure in 1990, increasing to 15% by 2000 with that share being broadly stable since.

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 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 of revenue forgone as a result of the tax incentives.

Data on tax expenditures for retirement savings are available for 23 OECD countries. Just under half of these figures are 0.2% of GDP or less. And in only six countries – Australia, Canada, Germany, Israel, Switzerland and the United States – 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.

Table 8.4. Private pension-benefit expenditures

| Scheme type | Level (% of GDP) | | | | | | Change of level 2000-17 | Public and private benefit spending (% of GDP) 2017 | Tax breaks (% of GDP) 2017 | |
|-----------------|------------------|------------|------------|------------|------------|------------|----------------------------|---|----------------------------------|------------|
| | 1990 | 2000 | 2005 | 2010 | 2015 | 2017 | | | | |
| Australia | m | 0.0 | 2.9 | 1.9 | 3.4 | 4.6 | 5.0 | 2.1 | 9.0 | 2.1 |
| Austria | v | 0.4 | 0.6 | 0.5 | 0.6 | 0.7 | 0.7 | 0.1 | 13.7 | 0.0 |
| Belgium | v | 1.0 | 1.3 | 1.5 | 1.1 | 1.1 | 1.1 | -0.2 | 11.6 | 0.2 |
| Canada | v | 2.5 | 3.9 | 4.1 | 3.7 | 4.6 | 5.5 | 1.6 | 10.3 | 2.2 |
| Chile | m | 0.3 | 1.1 | 1.2 | 1.3 | 1.4 | 1.5 | 0.4 | 4.3 | 0.2 |
| Colombia | m | | | | 0.4 | 0.4 | 0.4 | | 6.3 | |
| Costa Rica | m | | | | | 0.2 | 0.2 | | 5.1 | |
| Czech Republic | m | 0.0 | 0.2 | 0.2 | 0.4 | 0.3 | 0.4 | 0.2 | 8.1 | |
| Denmark | q/m | 0.0 | 0.0 | 0.0 | 1.7 | 2.2 | 1.8 | | 10.4 | |
| | v | 1.6 | 2.4 | 2.5 | 1.2 | 0.8 | 0.6 | -1.9 | | |
| Estonia | | | | | | | | | 6.5 | 0.7 |
| Finland | v | 0.1 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | -0.1 | 12.0 | 0.0 |
| France | v | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.0 | 13.9 | 0.1 |
| Germany | v | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 | 0.1 | 11.0 | 1.1 |
| Greece | v | 0.3 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 15.6 | |
| Hungary | | | | | | | | | 8.5 | 0.1 |
| Iceland | m | 1.4 | 2.3 | 2.7 | 3.3 | 3.9 | 4.1 | 1.8 | 6.7 | 0.0 |
| Ireland | v | 0.9 | 2.8 | 1.5 | 1.8 | 1.1 | 1.0 | -1.8 | 4.7 | 0.3 |
| Israel | v | 0.0 | 0.7 | 1.5 | 1.3 | 1.3 | 1.3 | 0.5 | 6.0 | 1.2 |
| Italy | v | 1.1 | 1.1 | 1.1 | 1.3 | 1.2 | 1.1 | 0.0 | 16.8 | 0.1 |
| Japan | m | 0.2 | 0.4 | 0.4 | 0.6 | 0.5 | 0.3 | -0.1 | 11.9 | |
| | v | 0.0 | 2.8 | 2.1 | 2.6 | 2.3 | 2.2 | -0.6 | | |
| Korea | m | 0.2 | 0.5 | 0.3 | 0.4 | 0.7 | 0.7 | 0.1 | 3.5 | |
| Latvia | | | | | | | | | 6.8 | 0.1 |
| Lithuania | | | | | | | | | 6.2 | |
| Luxembourg | | | | | | | | | 8.5 | |
| Mexico | | | | | | | | | 2.7 | 0.2 |
| Netherlands | q | 3.6 | 4.5 | 4.8 | 5.5 | 5.8 | 5.6 | 1.0 | 10.8 | |
| New Zealand | | | | | | | | | 4.9 | |
| Norway | v/m | 0.6 | 0.6 | 0.6 | 0.6 | 1.0 | 1.0 | 0.5 | 7.9 | 0.3 |
| Poland | | | | | | | | | 10.6 | |
| Portugal | v | 0.3 | 0.2 | 0.3 | 0.2 | 0.7 | 0.6 | 0.4 | 13.4 | 0.0 |
| Slovak Republic | v | 0.0 | 0.2 | 0.4 | 0.3 | 0.4 | 0.3 | 0.1 | 7.6 | |
| Slovenia | | | | | | | | | 10.4 | 0.6 |
| Spain | v | 0.0 | 0.0 | 0.0 | 0.5 | 0.5 | 0.4 | | 11.3 | 0.0 |
| Sweden | q/m | 1.1 | 1.7 | 1.9 | 2.5 | 3.1 | 3.1 | 1.5 | 10.3 | |
| Switzerland | m | 2.3 | 4.0 | 4.5 | 4.7 | 5.1 | 5.3 | 1.3 | 12.0 | 1.3 |
| Turkey | | | | | | | | | 7.4 | |
| United Kingdom | m | 0.1 | 0.4 | 0.5 | 0.6 | 0.7 | 0.7 | 0.3 | 10.9 | 0.9 |
| | v | 4.0 | 5.4 | 4.3 | 4.2 | 4.2 | 4.6 | -0.9 | | |
| United States | v | 2.6 | 3.7 | 3.6 | 4.4 | 5.2 | 5.3 | 1.6 | 12.4 | 1.0 |
| OECD | | 0.7 | 1.2 | 1.2 | 1.3 | 1.5 | 1.5 | 0.3 | 9.2 | 0.5 |

Note: m = mandatory private scheme, q = quasi mandatory; and v = voluntary. Blank cells indicate missing values.

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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