

Key results

Payments from private pension schemes were worth 1.6% of gross domestic product (GDP) on average in 2007 in the 25 OECD countries for which data are available. This is equivalent to one-fifth of average public spending on retirement benefits. Private-pension payments increased 23% faster than GDP between 1990 and 2007, which is faster than public pension spending.

Private pensions are mandatory or achieve near-universal coverage through industrial relations agreements (“quasi-mandatory”) in 14 out of 34 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 Switzerland: 6% of GDP in 2007. Added to public spending, total benefits are 12.4% of GDP, a similar figure to public pension expenditure in Austria, France and Greece, for example. Swiss occupational plans are compulsory, although the data on private-pension payments includes benefits above the statutory minimum level.

The Netherlands, where occupational plans are “quasi-mandatory”, has the next highest figure for private-pension benefits: 5.2% of GDP. The next three countries – Canada, the United Kingdom and the United States – record private-pension payments of between 4% and 5% of GDP. Private pensions here are voluntary, but both occupational and personal plans have broad coverage. (In the United Kingdom, there is a small mandatory component related to individuals who “contract out” of the public earnings-related scheme: see the country profiles in Part III.) Iceland – with mandatory occupational schemes – and Belgium and Japan (where private pensions are voluntary) have the next highest benefit expenditures on private pensions, at around 3% or more of GDP.

Many countries introduced compulsory private pensions in the 1990s: Australia, Estonia, Hungary, 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 benefit payouts 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 fastest growth in private-pension payments has been from a relatively low base (less than 0.5% of GDP). But there are exceptions, such as Belgium, Iceland and Switzerland. Swiss 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

Most OECD countries offer a 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 the indicator of “Tax treatment of pensions and pensioners” in Part II.2).

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. More than half of these figures are 0.2% of GDP or less. And in only five countries – Australia, Canada, Iceland, Ireland 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.

Reference

OECD (2010), *Tax Expenditures in OECD Countries*, OECD Publishing, Paris.

Pension-benefit expenditures: Public and private


Scheme type	Benefit expenditure of private pension schemes						Public and private benefit spending (% of GDP)	Tax breaks for private pensions (% of GDP)	
	Level (% of GDP)					Change (%)			
	1990	1995	2000	2005	2007 ¹				
						1990-2007	2007	2007 ²	
Australia	v		1.8	2.9	1.9	1.9		5.3	2.7
Austria	v	0.4	0.4	0.5	0.5	0.5	22.4	12.8	0.1
Belgium	v	1.0	1.7	2.0	3.5	3.7	261.2	12.6	0.1
Canada	v	2.6	3.5	4.0	4.3	4.1	58.4	8.2	2.0
Chile	m		1.0	1.1	1.3	1.1		6.3	
Czech Republic	m	a	a	0.2	0.2	0.2		7.7	0.1
	v	a	0.0	0.0	0.0	0.1			
Denmark	q/m	1.5	1.8	2.0	2.3	2.2	41.2	7.7	
Estonia								5.2	
Finland	v	0.1	0.4	0.3	0.2	0.2	154.3	8.5	0.1
France	m	0.2	0.1	0.2	0.2	0.2	10.6	12.8	0.0
	v	0.1	0.1	0.1	0.1	0.1	162.8		
Germany	v	0.6	0.7	0.8	0.8	0.8	24.1	11.5	0.8
Greece	v	0.4	0.4	0.5	0.4	0.4	6.9	12.3	
Hungary								9.1	
Iceland	v	1.4	1.8	2.3	2.8	3.0	113.5	4.9	1.0
Ireland	v	0.9	1.1	1.0	1.0	0.9	0.9	4.5	1.2
Israel								4.8	
Italy	m	2.7	3.1	1.2	1.1	1.2	-57.1	15.5	0.0
	v	0.3	0.2	0.2	0.2	0.2	-22.1		
Japan	m	0.2	0.3	0.5	a	a		12.7	0.7
	v	a	a	3.0	2.3	2.9			
Korea	v	m	0.0	0.0	0.0	0.0		1.7	
Luxembourg	v	a	a	a	0.6	0.5		7.0	0.5
Mexico								1.4	0.2
Netherlands	m	a	0.0	0.0	0.0	0.0		10.0	
	q	3.9	4.7	4.8	5.2	5.2	34.8		
New Zealand								4.3	
Norway	v	0.6	0.6	0.6	0.6	0.6	2.7	5.3	0.6
Poland								10.6	0.2
Portugal	v	0.3	0.3	0.4	0.6	0.5	58.8	11.3	0.1
Slovak Republic	v	a	0.1	0.2	0.4	0.5		6.3	0.2
Slovenia								9.6	
Spain								8.0	0.2
Sweden	q/m	1.2	1.9	1.8	2.1	2.1	72.8	9.3	
Switzerland	m	3.2	4.9	5.8	6.0	6.0	88.7	12.4	
	v	0.0	0.0	0.0	0.0	0.0	23.5		
Turkey								6.1	
United Kingdom	v/m	4.3	5.2	6.1	4.8	4.5	6.2	9.9	1.2
United States	v	2.7	3.1	3.8	3.8	4.3	61.0	10.3	0.8
OECD		1.3	1.4	1.5	1.6	1.6	23.3	8.4	0.6

m = Mandatory private scheme; q = Quasi mandatory; and v = Voluntary.

1. Data for Australia, Canada and Chile are from 2005.

2. Data for Iceland, Norway, Poland and the United Kingdom are from 2005. See Adema, W. and M. Ladaique (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.

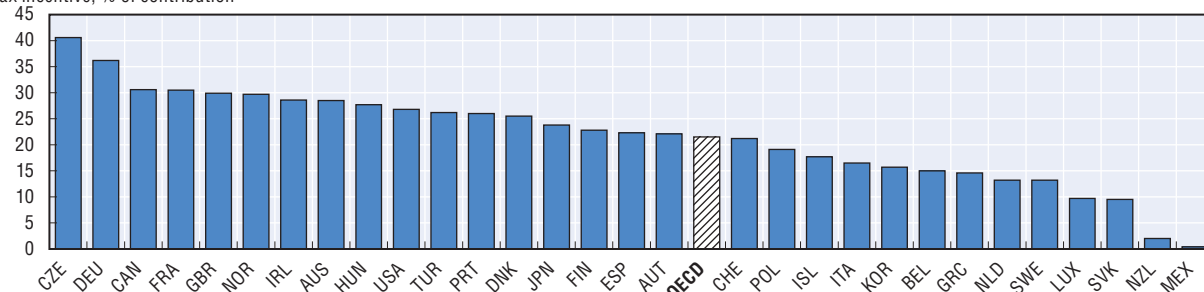
Source: OECD Social Expenditures Database (SOCX); OECD Main Economic Indicators Database.

StatLink  <http://dx.doi.org/10.1787/888932371082>

Tax incentives for private pensions

2003 parameters and rules

Tax incentive, % of contribution



Source: Yoo, K.Y. and A. De Serres (2004), "Tax Treatment of Private Pension Savings in OECD Countries", OECD Economic Studies, Vol. 39, No. 2, OECD Publishing, Paris, pp. 73-110.

StatLink  <http://dx.doi.org/10.1787/888932371082>



From:
Pensions at a Glance 2011
Retirement-income Systems in OECD and G20 Countries

Access the complete publication at:
https://doi.org/10.1787/pension_glance-2011-en

Please cite this chapter as:

OECD (2011), "Contributions", in *Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/pension_glance-2011-31-en

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