

Key results

Payments from private pension schemes were worth 1.6% of gross domestic product (GDP) on average in 2011 in the 26 OECD countries for which data are available. This is equivalent to one-fifth of average public spending on retirement benefits. Private-pension payments increased 38% faster than GDP between 1990 and 2011 on average, which is faster than public pension spending.

Private pensions are mandatory or achieve near-universal coverage through industrial relations agreements (“quasi-mandatory”) in less than half of the 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 the Netherlands: 5.8% of GDP in 2011. Added to public spending, total benefits are 11.2% of GDP. Switzerland has the next highest figure for private-pension benefits: 5.0% of GDP. Swiss occupational plans are compulsory, although the data on private-pension payments include benefits above the statutory minimum level.

The next five countries – Canada, Denmark, Iceland, the United Kingdom and the United States – record private-pension payments of between 3.3% and 4.7% of GDP. With the exception of Denmark and Iceland private pensions here are voluntary, but both occupational and personal plans have broad coverage. Japan (where private pensions are voluntary) also has high levels of expenditure on private pensions, at 2.7% of GDP. Iceland has the highest share of private in total pension expenditure at 64%.

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. Much of the private 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 countries with the fastest growth in private-pension payments tended to start from a low base, below 0.5% of GDP. But there are exceptions, such as Denmark, Iceland, Sweden and Switzerland. In the latter, 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

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-tax liabilities 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 6).

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 four countries – Australia, Canada, 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.

Further reading

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, <http://dx.doi.org/10.1787/220615515052>.


OECD (2010), *Tax Expenditures in OECD Countries*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264076907-en>.

9.4. Pension-benefit expenditures: Public and private

Country	Scheme type	Benefit expenditure of private pension schemes					Change (%)	Public and private benefit spending (% of GDP)	Tax breaks for private pensions (% of GDP)
		Level (% of GDP)							
		1990	1995	2000	2005	2011			
Australia	v		1.8	2.9	1.9	2.1		5.6	1.9
Austria	v	0.4	0.4	0.5	0.5	0.7	56.6	13.9	0.0
Belgium	v	1.0	1.7	1.4	1.5	1.2	15.7	11.4	0.2
Canada	v	2.5	3.4	3.9	4.2	3.3	29.3	7.6	1.5
Chile	m		0.9	1.1	1.2	1.4		4.6	
Czech Republic	m	a	a	0.2	0.2	0.5		9.4	0.0
	v	a	0.0	0.0	0.0	0.1			
Denmark	q/m	1.5	1.8	2.0	2.3	4.7	202.2	10.9	
Estonia								6.9	
Finland	v	0.1	0.4	0.3	0.2	0.3	173.6	10.5	0.1
France	m	0.2	0.1	0.2	0.2	0.2	-18.7	14.1	0.0
	v	0.1	0.1	0.1	0.1	0.2	233.0		
Germany	v	0.7	0.7	0.8	0.8	0.8	18.1	11.4	0.9
Greece	v	0.4	0.4	0.5	0.5	0.4	0.5	14.9	
Hungary								10.0	
Iceland	v	1.4	1.8	2.3	2.8	3.7	167.1	5.9	0.0
Ireland	v	0.9	1.0	0.8	0.9	0.8	-4.3	6.1	1.1
Israel								4.8	
Italy	m	a	a	a	a	a	a	16.2	0.0
	v	0.1	0.3	0.3	0.3	0.4	159.0		
Japan	m	0.2	0.3	0.5	0.4	0.6		13.0	0.0
	v	a	a	2.9	2.2	2.7			
Korea	v	m	0.0	0.0	0.0	0.1		2.3	
Luxembourg	v	a	a	a	0.6	0.6		8.3	0.0
Mexico								1.8	0.3
Netherlands	m	a	0.0	0.0	0.0	0.0		11.2	
	q	3.9	4.7	4.8	5.2	5.8	48.5		
New Zealand								4.9	
Norway	v	0.6	0.6	0.6	0.6	0.6	15.9	6.1	0.5
Poland								10.8	0.0
Portugal	v	0.3	0.3	0.4	0.6	0.6	95.0	13.6	0.1
Slovak Republic	v	a	0.1	0.2	0.4	0.3		7.3	0.1
Slovenia								11.4	
Spain								10.5	0.2
Sweden	q/m	1.2	1.9	1.8	2.1	2.6	112.5	9.9	
Switzerland	m	2.3	3.3	4.2	4.7	5.0	113.3	11.5	
	v	0.0	0.0	0.0	0.0	0.0			
Turkey								7.5	
United Kingdom	v/m	4.2	5.1	6.0	4.7	4.6	7.4	10.2	1.5
United States	v	2.6	3.0	3.6	3.6	4.5	72.5	11.2	0.8
OECD		1.2	1.3	1.5	1.4	1.6	37.9	9.3	0.4

Note: a = Legend; m = Mandatory private scheme; q = Quasi mandatory; and v = Voluntary.

Source: OECD Social Expenditures Database (SOCX), www.oecd.org/social/expenditure.htm; OECD Main Economic Indicators Database, <http://stats.oecd.org/mei/>. See Adema and Ladaïque (2009) for more details on the data, sources and methodology.

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