Key results

Public spending on pensions has been on this rise in most OECD countries for the past two decades, as shown by the previous two indicators. Long-term projections show that pension spending is expected to go on growing in 28 out of 31 OECD countries where data are available. On average pension expenditure is forecast to grow from 9.3% of gross domestic product (GDP) in 2010 to 11.7% of GDP in 2050.

The main driver of growing pension expenditures is demographic change. The projections shown opposite are derived either from the European Union's ageing report – which covers its 27 members plus Norway – or from national projections. In the main, data are presented forwards to 2060, although the horizon is 2050 for six countries. Long-term projections are a vital tool in planning pension policy: there is often a long lag time between a pension reform and the time it begins to affect public pension expenditure.

There are some differences in the range of different programmes covered in the forecasts, reflecting the complexity and diversity of national retirement-income provision. For example, data for a number of countries do not include special schemes for public-sector workers while in others they are included. Similarly, projections can either include or exclude spending on resource-tested benefits for retirees. The coverage of the data also differs from the OECD *Social Expenditures Database (SOCX)*, from which the data on past spending trends in the previous two indicators were drawn. The numbers for 2010 may differ between the SOCX database and the sources used here because of the different range of benefits covered.

Nevertheless, the figures do reveal broad trends. Pension spending is projected to grow faster than GDP over the period 2010 to 2060 on average in both the OECD28 and EU27 groupings by 26% and 21%, respectively. Although this is a significant additional piece of national income, this rate of growth is much slower than demographic change would have delivered. The indicator of the "Old-age support ratio" in Chapter 7 shows a halving of the number of people of working age to the number of people of pension age between 2010 and 2050. This would imply a doubling in the proportion of national income devoted to public pensions.

Pension reforms explain why such an increase is not projected to take place. Cuts in benefits for future retirees and increases in the age at which people first claim pensions will reduce growth in public pension expenditure. In a number of countries – Denmark, France, Italy, Sweden and the United States – pension expenditure is broadly stable over the forecast horizon. Only two countries – Estonia and Poland – expect a substantial reduction in spending over time. Both of these countries have introduced mandatory defined-contribution plans as a substitute for part of public, earnings-related benefits. However, similar reform in the Slovak Republic is not expected to reverse the trend growth in public pension spending.

In two countries, pension spending is expected to double or increase further between 2010 and 2060. In Luxembourg, public spending is already above the OECD average and is projected to exceed 18% of GDP by 2060. The rate of change is also very rapid in Korea. However, the increase is from a low base, and pension spending will still be much below the OECD average in 2060. This rapid increase reflects both the fact that it is the most rapidly ageing OECD country and that the pension scheme was only established in 1988 and so is not yet mature. In Slovenia, spending will increase nearly as rapidly, from 11.2% of GDP in 2010 to 18.3% in 2060.

The rate of growth in pension spending is expected to be close to the average in five countries. In Australia, Switzerland and the United Kingdom, this is from a low starting point, significantly below the OECD average. In Belgium and Norway, in contrast, the base is rather higher than the OECD average.

6.7. Projections of public expenditure on pensions, 2010-60

	2010	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060
OECD members											
Australia	3.6	3.6	3.7		4.3		4.7		4.9		
Austria	14.1	14.4	15.1	16.1	16.7	16.7	16.5	16.4	16.4	16.4	16.1
Belgium	11.0	11.9	13.1	14.5	15.5	16.2	16.5	16.7	16.7	16.8	16.6
Canada	5.0	5.4	5.8	6.3	6.6	6.6	6.5	6.4	6.3	6.3	6.2
Chile											
Czech Republic	9.1	8.6	8.7	8.7	8.9	9.2	9.7	10.3	11.0	11.6	11.8
Denmark	10.1	10.4	10.8	10.6	10.7	10.5	10.3	10.0	9.6	9.5	9.5
Estonia	8.9	7.8	7.7	7.9	8.2	8.1	8.1	8.1	8.0	8.0	7.7
Finland	12.0	12.8	14.0	14.9	15.6	15.5	15.2	14.9	14.9	15.1	15.2
France	14.6	14.4	14.4	14.5	14.9	15.2	15.2	15.2	15.1	15.1	15.1
Germany	10.8	10.5	10.9	11.4	12.0	12.4	12.7	12.8	13.0	13.2	13.4
Greece	13.6	14.1	13.7	13.6	14.1	14.6	14.9	15.3	15.4	15.0	14.6
Hungary	11.9	11.9	11.5	11.4	11.1	11.4	12.1	12.8	13.5	14.2	14.7
Iceland	4.0								6.9		
Ireland	7.5	8.3	9.0	9.0	9.0	9.4	10.0	10.6	11.4	11.7	11.7
Israel											
Italy	15.3	14.9	14.5	14.4	14.5	15.0	15.6	15.9	15.7	15.0	14.4
Japan											
Korea	0.9	1.1	1.4	2.0	2.5	3.1	3.9	4.8	5.5	6.0	6.5
Luxembourg	9.2	9.9	10.8	12.4	14.0	15.4	16.5	17.6	18.1	18.7	18.6
Mexico	2.4								3.5		
Netherlands	6.8	6.8	7.4	8.3	9.1	10.0	10.4	10.5	10.4	10.4	10.4
New Zealand	4.7	4.8	5.3	5.9	6.7	7.3	7.7	7.8	8.0		
Norway	9.3	10.9	11.6	12.3	12.9	13.4	13.7	13.8	13.9	14.0	14.2
Poland	11.8	10.7	10.9	11.1	10.9	10.6	10.3	10.1	10.0	9.9	9.6
Portugal	12.5	13.3	13.5	13.4	13.2	13.1	13.1	13.2	13.1	12.9	12.7
Slovak Republic	8.0	8.1	8.6	9.1	9.5	10.0	10.6	11.3	12.2	13.2	13.2
Slovenia	11.2	11.8	12.2	12.5	13.3	14.5	15.8	16.9	17.9	18.3	18.3
Spain	10.1	10.4	10.6	10.5	10.6	11.3	12.3	13.3	14.0	14.0	13.7
Sweden	9.6	9.7	9.6	9.8	10.1	10.2	10.2	9.9	9.9	10.1	10.2
Switzerland	6.3	6.6	6.8	7.5	8.1	8.6	8.6	8.8	8.6		
Turkey	7.3								11.4		
United Kingdom	7.7	7.4	7.0	7.3	7.7	8.0	8.2	8.0	8.2	8.7	9.2
United States	4.6	4.8	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.7	4.7
OECD28	**9.3**	**9.5**	**9.8**		**10.6**		**11.2**		**11.7**		
Other major economies											
Argentina	5.9								8.6		
Brazil	8.5								15.8		
China	2.2								2.6		
India	1.7								0.9		
Indonesia	0.9								2.1		
Russian Federation	7.1	8.5	8.9	9.0	9.0	8.7	8.4	8.0	7.5	7.2	6.9
Saudi Arabia	2.2								7.1		
South Africa	1.3	1.7	1.8	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.4
EU27	10.8	10.9	11.1	11.5	11.9	12.3	12.6	12.9	13.1	13.2	13.2

Note: OECD28 figure shows only countries for which complete data between 2010 and 2050 are available. EU27 figure is a simple average of member states (not the weighted average published by the European Commission). Pension schemes for civil servants and other public-sector workers are generally included in the calculations for EU member states: see European Commission, *The 2012 Ageing Report*. Expenditures on these schemes are not included for Canada, Japan, South Africa and the United States. Projections are not available, in some cases, for separate resource-tested programmes for retirees. This is the case for the United States and some EU member states as set out in European Commission, *op. cit*. Similarly, data for Korea cover the earnings-related scheme but not the basic (resource-tested) pension.

Source: European Commission (2012), *The 2012 Ageing Report*; Australia: Commonwealth of Australia (2010), *Australia to 2050: Future Challenges*; Canada: Calculations provided by the Office of the Chief Actuary, Office of the Superintendent of Financial Institutions; Korea: National Pensions Research Institute; Russian Federation: World Bank staff estimates; South Africa: OECD Secretariat estimates assuming a universalised basic pension; United States: Social Security Administration (2010), *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, Document 111-137, House of Representatives, United States; Argentina, Brazil, China, Iceland, India, Indonesia, Mexico, Saudi Arabia, Turkey: Standard and Poor's (2010), *Global Aging 2010: An Irreversible Truth*.

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