

### Key Results

Public spending on pensions has been on the rise in most OECD countries for the past decades, as shown in Table 8.3. Long-term projections show that pension spending is expected to go on growing in 21 OECD countries and fall in 15. On average public pension expenditure is projected to increase from 8.8% of gross domestic product (GDP) in 2015-16 to 9.4% of GDP in 2050.

The main driver of growing pension expenditures is demographic change. The projections shown in Table 8.5 are derived either from the European Commission's 2018 *Ageing Report* – which covers the EU28 members plus Norway – or from Standard & Poor's Global Ageing 2016 report. In the main table, data are presented forwards to 2060 for those countries where the figures are available. However, since the horizon is 2050 only for 11 OECD countries and all the other major economies this is the main comparison in the table.

Long-term projections are a crucial tool in planning pension policy: there is often a long time lag between when a pension reform occurs and when it begins to affect 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 2015-16 may differ between the SOCX database and the sources used here because of the different range of benefits covered and the definitions used.

Nevertheless, the figures do reveal broad trends. Pension spending is projected to grow from 8.8% of GDP to 9.4% of GDP by 2050 on average across all OECD countries. In the EU28 it is projected to increase from 10.0% of GDP in 2020 to 10.7% of GDP in 2045, after which it is effectively flat. This would be a significant achievement given the demographic change throughout the time period. The indicator of the “Demographic Old-Age to Working-Age Ratio” in Chapter 6 shows a 95% increase in the number of people above age 65 per 100 people aged between 20 and 64 from today until

2050. Cuts in benefits for future retirees at least relative to wages, through lowered indexation and valorisation of benefit formulae, together with increases in the age at which individuals can first claim pension benefits, will reduce growth in public pension expenditure.

Public pension expenditure is expected to increase in 21 OECD countries by 2050. In Korea, pension spending would more than double by 2050, though the increase is from a low base. This rapid increase reflects both the ageing process and the still maturing pension system. In Slovenia, public spending is projected to rise further: from above the OECD average at 10.9% of GDP in 2015-16, to 15.6% of GDP by 2050. According to these projections, six other countries would record an increase of more than 2% of GDP: Belgium, the Czech Republic, Germany, Ireland, Luxembourg and New Zealand. Conversely, Estonia, Sweden and Turkey would have a fall of about 1.5-2% of GDP and Greece almost 5%.

Long-term public pension spending is expected to increase in all major non-OECD economies but India, where it is constant at 1% of GDP, reflecting the low coverage levels. Most notable increases are in Brazil where pension expenditure would grow from 9% currently and reach 17% of GDP by 2050 and in Saudi Arabia from 2.7% in 2015 to 9.4% of GDP by 2050.

### Further Reading

European Commission (2018), “2018 Ageing Report; Economic and budgetary projections for the 28 EU Member States (2016-2070),” Vol. Publications Office of the European Union, Luxembourg.

Standard & Poor's (2016), , *Global Aging 2016: 58 Shades of Gray*, McGraw Hill Financial, [https://www.agefiactifs.com/sites/agefiactifs.com/files/fichiers/2016/05/global\\_aging\\_2016\\_-\\_58\\_shades\\_of\\_gray\\_28\\_apr\\_16.pdf](https://www.agefiactifs.com/sites/agefiactifs.com/files/fichiers/2016/05/global_aging_2016_-_58_shades_of_gray_28_apr_16.pdf).

Table 8.5. Projections of public expenditure on pensions, 2015-60, % of GDP

	2015-2016	2020	2025	2030	2035	2040	2045	2050	2055	2060
Australia	4.0							3.7		
Austria	13.8	13.9	14.0	14.4	15.0	14.9	14.6	14.6	14.7	14.7
Belgium	12.1	12.6	13.4	13.8	14.2	14.5	14.6	14.7	14.8	14.9
Canada	5.5							6.9		
Chile	5.1							4.2		
Czech Republic	8.2	8.1	8.1	8.2	8.5	9.2	10.1	10.8	11.5	11.6
Denmark	10.0	9.3	8.8	8.6	8.4	8.2	7.9	7.8	7.6	7.5
Estonia	8.1	7.8	7.3	7.2	7.1	7.1	7.1	7.1	7.1	6.9
Finland	13.4	13.8	14.5	14.8	14.5	13.9	13.4	13.2	13.2	13.5
France	15.0	15.0	15.3	15.4	15.3	15.1	14.4	13.8	13.1	12.5
Germany	10.1	10.3	10.8	11.5	11.9	12.0	12.1	12.2	12.4	12.5
Greece	17.3	13.4	12.2	12.0	12.3	12.9	12.6	12.5	11.9	11.5
Hungary	9.7	9.0	8.7	8.4	8.6	9.4	10.3	10.6	10.8	11.1
Iceland	3.3							3.5		
Ireland	5.0	5.1	5.5	5.8	6.3	6.7	7.1	7.4	7.5	7.2
Israel	5.3							6.2		
Italy	15.6	15.6	16.4	17.2	18.2	18.7	18.4	17.3	15.9	15.1
Japan	10.2							9.5		
Korea	2.6							6.3		
Latvia	7.4	6.8	6.2	6.2	6.3	6.3	6.1	6.1	6.1	5.6
Lithuania	6.9	7.0	6.9	7.1	7.2	7.0	6.8	6.5	6.3	6.0
Luxembourg	9.0	9.0	9.4	10.2	10.8	11.5	12.2	13.0	14.3	16.0
Mexico	1.8							3.0		
Netherlands	7.3	7.0	7.1	7.5	8.1	8.5	8.4	8.2	8.0	7.9
New Zealand	4.7							7.2		
Norway	10.7	11.0	11.5	11.7	11.9	11.9	11.9	12.0	12.2	12.5
Poland	11.2	11.1	11.2	11.0	10.8	10.8	11.0	11.2	11.3	11.1
Portugal	13.5	13.6	13.9	14.3	14.7	14.7	14.5	13.7	12.8	12.0
Slovak Republic	8.6	8.3	7.8	7.6	7.6	7.8	8.3	8.8	9.4	9.9
Slovenia	10.9	11.0	11.1	12.0	13.1	14.2	15.1	15.6	15.6	15.2
Spain	12.2	12.3	12.4	12.6	13.2	13.9	14.4	13.9	12.6	11.4
Sweden	8.2	7.6	7.4	7.2	7.0	6.8	6.6	6.6	6.8	7.0
Switzerland	9.8							10.7		
Turkey	7.2							5.6		
United Kingdom	7.7	7.7	8.0	8.0	8.4	8.6	8.3	8.3	8.6	8.9
United States	4.9							5.9		
<b>OECD</b>	<b>8.8</b>							<b>9.4</b>		
Argentina	7.8							10.4		
Brazil	9.1							16.8		
China	4.1							9.5		
India	1.0							1.0		
Indonesia	0.8							1.2		
Russian Federation	9.1							12.4		
Saudi Arabia	2.7							9.4		
South Africa	2.2							3.3		
EU28	10.3	10.0	10.0	10.2	10.4	10.6	10.7	10.7	10.8	10.7

Note: EU28 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 (2018), 2018 Ageing Report.

Source: European Commission (2018), 2018 Ageing Report; Standard & Poor's (2016), Global Aging 2016: 58 Shades of Gray: Argentina, Brazil, Canada, Chile, China, India, Indonesia, Israel, Japan, Korea, Mexico, New Zealand, Russian Federation, Saudi Arabia, South Africa, Switzerland, Turkey and the United States; Standard & Poor's (2013), Global Aging 2013: Rising to the Challenge: Iceland.

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