Public expenditure on pensions

Key Results

Public spending on cash old-age pensions and survivors' benefits in the OECD increased from an average of 6.5% of gross domestic product (GDP) to 7.7% between 2000 and 2019. Public pensions are often the largest single item of social expenditure, accounting for 18% of total government spending on average in 2019.

Greece and Italy spent the largest proportion of national income on public pensions among OECD countries in 2019, at around 16% of GDP (Table 8.2). Other countries with high gross public pension spending are in continental Europe, with Austria and France around 13%-13.5% of GDP in 2019 – France increased to 14.5% in 2020 but this is due to a drop in GDP rather than a significant increase in spending levels. Public pensions generally account for between one-quarter and one-third of total public expenditure in these countries.

At the other end of the spectrum, Chile, Iceland, Ireland, Korea and Mexico spent less than 4% of GDP on public pensions. Chile, Ireland and Mexico have relatively young populations. Moreover, in Mexico, low spending also reflects the relatively narrow coverage of pensions (only around 35% of employees). In Iceland, much of retirement income is provided by compulsory occupational schemes (see the next indicator of "Pension-benefit expenditures: Public and private"), leaving a lesser role for public pensions; in addition, the retirement age is high at age 67. Korea's pension system is not mature yet: the public, earnings-related scheme was only established in 1988 and the new targeted basic pension was only introduced in 2014.

Spending also tends to be low in countries with favourable demographics, such as Mexico and New Zealand. However, this is not always the case: Türkiye spends 7.5% of GDP on public pensions despite having the second lowest old-age to working-age ratio among OECD countries (Table 6.2). For Türkiye, expenditure levels can be explained by historically low retirement ages, resulting in longer periods in retirement than in many other countries. Australia, Canada, Chile, Iceland, the Netherlands and the United Kingdom also have relatively low spending on public pensions, but all these countries have large private pension components, as shown in the next indicator.

Trends

Public pension spending increased from an OECD average of 6.5% of gross domestic product (GDP) to 7.7% between 2000 and 2019. It was estimated that population ageing captured by the shift in demographic structures alone would have triggered an increase in pension expenditure of 2.5% of GDP on average, between 2000 and 2017, with higher employment lowering total pension expenditure by 1.1% of GDP on average (Chapter 1, (OECD, 2021)). Spending increased by more than four percentage points of GDP between 2000 and 2019 in Finland, Greece and Portugal, and by between two and four percentage points in France, Italy, Japan, Korea, Mexico, Norway, Spain and Türkiye. Conversely, public spending fell by around two percentage points in Chile and Latvia, while Australia, Germany, Lithuania and Slovenia also recorded a decline. Public pension spending was relatively stable as a proportion of GDP over the period 2000-19 in 18 countries: Australia, Austria, Czechia, Estonia, Germany, Hungary, Iceland, Ireland, Israel, Lithuania, the Netherlands, New Zealand, Poland, the Slovak Republic, Slovenia, Sweden, Switzerland and the United Kingdom where there was less than one percentage point change either way over the period.

Gross and net spending

The penultimate column of the table shows public spending in *net* terms: after taxes and contributions paid on benefits. Net spending is significantly below gross spending in Austria, Belgium, Denmark, Finland, Greece, Italy, Poland and Sweden, due to taxes on pension benefits. Gross and net spending are similar where pensions are not taxable such as in Hungary, the Slovak Republic and Türkiye or where public benefits are generally below basic tax reliefs (Australia, Czechia, Iceland, Ireland and Slovenia).

Non-cash benefits

The final column of the table shows total gross public spending on older people, including non-cash benefits. In Denmark, Finland, Norway and Sweden, non-cash benefits exceed 1.5% of GDP. The most important are housing benefits. These are defined as "non-cash benefits" because they are contingent on particular expenditure by individuals. Australia and Belgium also record high figures for non-cash benefits.

Further reading

Adema, W. and M. Ladaique (2009), "How Expensive is the Welfare State?: Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)", *OECD Social, Employment and Migration Working Papers*, No. 92, OECD Publishing, Paris, https://doi.org/10.1787/220615515052.

OECD (2021), *Pensions at a Glance 2021: OECD and G20 Indicators*, OECD Publishing, Paris, https://doi.org/10.1787/ca401ebd-en.

Table 8.2 Public expenditure on old-age and survivor benefits

	Level (% of total government spending)		Level (% of GDP)							Change of level (p.p.)	Level in net terms (% of GDP)	Total including non-cash (% of GDP)
	2000	2019	1990	2000	2005	2010	2015	2019	Latest	2000-19	2019	2019
Australia	12.8	10.3	3.1	4.7	3.7	3.8	4.3	4.3	4.2	-0.4	4.3	5.4
Austria	23.9	26.8	11.7	12.2	12.1	13.0	13.3	13.0		0.8	10.9	13.7
Belgium	17.8	20.6	9.0	8.8	8.9	9.9	10.5	10.7		1.9	9.1	11.8
Canada*	10.1	11.3	4.2	4.2	4.0	4.3	4.7	5.0	5.3	0.9	4.7	5.0
Chile**		10.3	7.9	5.0	3.7	3.4	2.9	2.8	3.1	-2.1	2.8	2.9
Colombia**		12.7				5.5	5.9	5.7	5.6		5.7	5.7
Costa Rica**		14.7					4.7	5.1	5.4		5.1	5.1
Czechia	16.8	19.2	5.5	6.8	6.6	8.0	8.0	7.9		1.0	7.9	8.2
Denmark	12.0	16.4	6.1	6.3	6.5	7.1	8.1	8.1		1.8	5.8	10.1
Estonia	16.5	16.7		6.0	5.3	7.6	6.9	6.6		0.6	6.4	6.7
Finland	15.5	22.4	7.2	7.4	8.1	9.8	11.5	11.9		4.5	9.6	13.5
France*	22.2	24.3	10.4	11.5	12.0	13.2	13.8	13.4	14.5	2.0	12.0	13.9
Germany	22.8	23.1	9.5	10.9	11.2	10.8	10.2	10.4		-0.5	9.8	10.4
Greece	21.9	32.7	9.5	10.2	11.4	14.3	17.5	15.7		5.5	13.1	15.7
Hungary	15.7	16.6		7.4	8.3	9.5	9.0	7.6		0.2	7.6	8.0
Iceland	4.6	6.6	2.2	2.1	1.9	1.5	2.0	2.9		0.8	2.9	3.3
Ireland	10.3	13.7	4.8	3.1	3.4	5.2	3.8	3.3		0.2	3.2	3.4
Israel**	10.0	12.0		4.4	4.6	4.8	4.8	4.7	4.9	0.2	4.7	5.4
Italy	29.0	32.8	11.3	13.5	13.7	15.4	16.2	15.9		2.4	12.8	16.0
Japan*		23.1	4.6	6.9	8.0	9.5	9.3	9.3	9.7	2.5	8.9	9.6
Korea*	5.6	9.7	0.7	1.3	1.4	2.0	2.8	3.3	3.6	2.0	3.2	3.5
Latvia	23.3	17.9		8.6	5.5	9.2	6.9	6.8		-1.8	6.5	7.2
Lithuania	17.9	18.4		7.1	5.7	7.7	6.7	6.4		-0.7	6.4	6.8
Luxembourg	18.8	20.1	8.1	7.1	7.8	7.5	8.0	8.7		1.5	7.2	8.7
Mexico		11.4	0.4	0.8	1.0	1.6	2.2	3.1		2.3	3.0	3.1
Netherlands	10.9	11.8	6.2	4.6	4.6	4.9	5.3	5.0		0.3	4.6	5.9
New Zealand**	12.3	12.2	7.1	4.6	4.2	4.6	5.0	4.9	5.1	0.3	4.2	5.0
Norway	11.1	13.8	5.5	4.7	4.8	5.3	6.7	7.1		2.4	5.9	9.5
Poland	24.3	26.2	5.0	10.5	11.3	11.0	11.1	10.9		0.5	9.4	11.0
Portugal	18.3	29.3	4.8	7.8	10.0	12.0	13.3	12.4		4.6	12.4	12.5
Slovak Republic	11.8	17.6		6.2	6.0	6.7	7.2	7.1		0.9	7.1	7.4
Slovenia	21.8	23.2		10.4	9.8	10.9	11.1	10.0		-0.3	9.9	10.1
Spain	21.5	26.7	7.7	8.4	8.0	9.2	11.0	11.3		2.9	10.8	11.9
Sweden	12.8	14.2	7.2	6.8	7.2	7.2	7.1	7.0		0.2	5.4	9.3
Switzerland	17.8	19.6	5.0	5.9	6.1	6.0	6.4	6.4		0.5	5.1	6.7
Türkiye		21.3	0.7	3.9	5.9	7.3	7.0	7.5		3.7	7.5	7.6
United Kingdom*	13.4	11.5	4.5	4.8	5.0	6.2	6.1	4.9	5.1	0.2	4.7	5.7
United States*	16.4	18.6	5.8	5.7	5.7	6.6	7.0	7.1	7.5	1.4	6.6	7.1
OECD	**16.2**	**18.1**	**5.8**	**6.5**	**6.6**	**7.5**	**7.9**	**7.7**		**1.2**	**7.0**	**8.2**

Note: * = latest data is for 2020, ** = latest data is for 2021. See Adema, W. and M. Ladaique (2009), "How Expensive is the Welfare State? Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)", http://dx.doi.org/10.1787/220615515052 for more details on the data, sources and methodology.
Source: *OECD Social Expenditures Database (SOCX)*; *OECD Main Economic Indicators Database*.

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