

PUBLIC AND PRIVATE PENSION EXPENDITURES

Pension systems vary country by country, and there is no single pension model which fits all countries. Traditionally, pension systems have combined two distinct components, one public and the other one private. Public pensions were statutory, financed on a pay-as-you-go (PAYG) basis and managed by public sector institutions. Private pensions were voluntary, employment-based (occupational) pension plans or individual retirement arrangements.

Definition

Public expenditures indicate how important public pensions are in terms of old-age benefit provision and can be defined as follows: old-age pension benefits are regarded as public when relevant financial flows are controlled by general government (that is central, state, and local governments, including social security funds). Thus, social security benefits paid by social security institutions are

within the public sphere. Pension benefits provided by governments to their own employees and paid directly out of the government's current budget (PAYG) are also considered to be public. All pension benefits not provided by general government are within the private domain.

Private expenditures on pensions includes payments made to private pension plan members (or dependants) after retirement. All types of plans are included (occupational and personal, mandatory and voluntary, funded and book reserved), covering persons working in both the public and private sectors.

Comparability

The OECD Global Pension Statistics (GPS) database provides pension expenditures for private pension arrangements, while public pension expenditures can be derived from the OECD Social Expenditure (SOCX) database. At the time of data compilation, only data up until 2003 were available in the SOCX database. OECD estimates were therefore calculated for public pension expenditures for 2006 (different methods were used, including linear extrapolation of data from the SOCX database for the period 1990-2003). Seven OECD countries are not shown in the figure as 2006 private pension expenditures were not available for these countries. For the Czech Republic, private pension expenditure data refer to the year 2007.

The GPS database may not cover all types of private pension arrangements for all countries. Data on book reserve plans and pension insurance contracts are currently included when available. Thus, private pension expenditure data for Austria, Canada, Germany and Luxembourg only cover autonomous pension funds.

Overview

In recent years, there has been a shift towards funding and private sector management within statutory pension systems. This trend has been especially strong in Latin America and Central and Eastern Europe, but it also extends to OECD countries such as Australia, Finland, Iceland, Norway, Switzerland and Sweden. With the exception of Finland's statutory pension system (which is run on a hybrid PAYG-funded basis), these new mandatory pension systems are classified as private under National Accounts methodology.

Funding has also become increasingly important within publicly managed pension systems. In some countries like Denmark, public pension institutions provide benefits that are financed on a fully-funded basis (the ATP system). Many other countries have established national reserve funds to provide financing support to otherwise PAYG-run systems.

Fourteen of the thirty OECD countries have some form of mandatory or quasi-mandatory private pension system in place and all OECD countries have voluntary personal pension plans, but statistical information on these plans is sometimes not available from official sources.

Increasingly, therefore, private pension systems are being considered an intrinsic part of the national retirement income system, rather than just a source of complementary benefits for higher income employees. The role of private and funded pensions is likely to continue growing in absolute terms and in relation to public and PAYG pensions. Reforms are partly due to governments' objective of reducing the fiscal liabilities of public pension debts by scaling back benefit promises.

As shown in the figure below, private pension benefits in Australia, Canada, Denmark, Korea, the Netherlands and Switzerland are below, but close to, the total benefits paid by the public pension system in 2006. In Iceland private pension benefits dominate retirement income provision, while in Finland the above-mentioned mandatory private pension system is by far the main source of retirement income.

Source

- OECD Pension Statistics.

Further information

Analytical publications

- OECD (2007), *Pensions at a Glance: Public Policies across OECD Countries 2007 Edition*, OECD, Paris.
- OECD (2008), *Complementary and Private Pensions throughout the World 2008*, OECD, Paris.
- OECD (2008), *OECD Private Pensions Outlook*, OECD, Paris.
- OECD (2009), *Pensions at a Glance: Asia/Pacific*, OECD, Paris.

Methodological publications

- Adema, W. and M. Einerhand (1998), *The Growing Role of Private Social Benefits*, OECD Labour Market and Social Policy Occasional Papers, No. 32, OECD, Paris.
- OECD (2005), *Private Pensions: OECD Classification and Glossary*, OECD, Paris.

Websites

- OECD work on pensions, www.oecd.org/daf/pensions.
- Pension Markets in Focus, www.oecd.org/daf/pensions/pensionmarkets.
- OECD Private Pensions Outlook, www.oecd.org/daf/pensions/outlook.



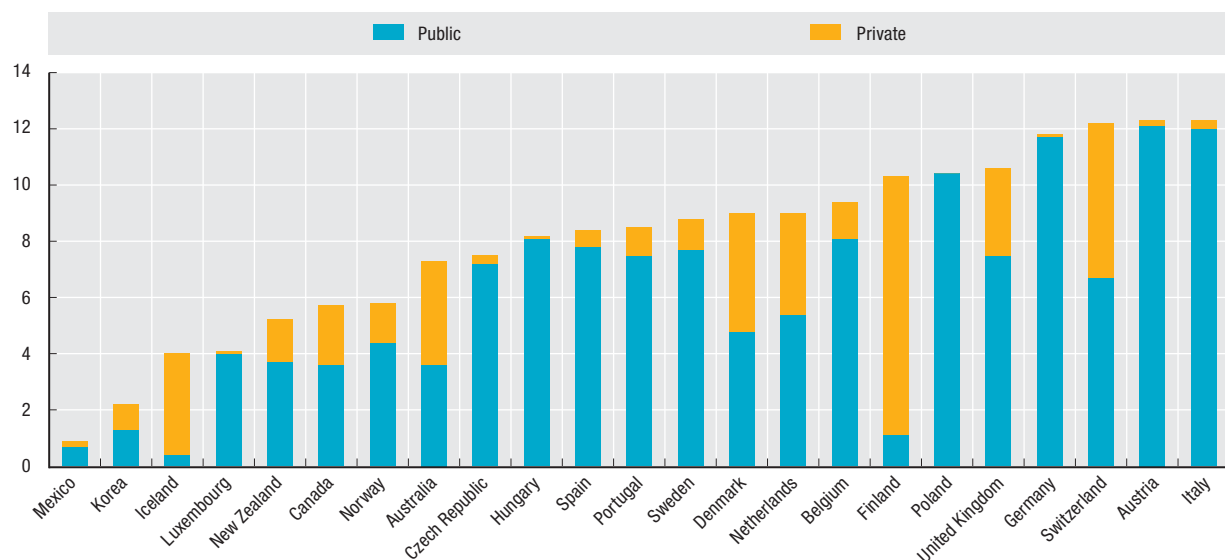
Public and private pension expenditure

	Million US dollars			As a percentage of GDP		
	Public expenditure	Private expenditure		Public expenditure	Private expenditure	
	2006	2006	2007	2006	2006	2007
Australia	26 048	27 101	34 404	3.6	3.7	3.9
Austria	39 012	559	..	12.1	0.2	..
Belgium	32 074	5 199	5 407	8.1	1.3	1.2
Canada	45 922	26 415	31 267	3.6	2.1	2.2
Czech Republic	10 213	..	452	7.2	..	0.3
Denmark	13 347	11 728	11 646	4.8	4.2	3.7
Finland	2 311	19 234	22 203	1.1	9.2	9.1
Germany	339 677	4 114	4 065	11.7	0.1	0.1
Hungary	9 141	158	250	8.1	0.1	0.2
Iceland	62	593	740	0.4	3.6	3.7
Italy	222 032	4 634	4 067	12.0	0.3	0.2
Korea	11 462	8 078	9 700	1.3	0.9	1.0
Luxembourg	1 672	24	38	4.0	0.1	0.1
Mexico	5 504	1 910	1 981	0.7	0.2	0.2
Netherlands	35 947	23 888	27 789	5.4	3.6	3.6
New Zealand	3 873	1 622	1 689	3.7	1.5	1.3
Norway	14 591	4 746	..	4.4	1.4	..
Poland	35 527	10	26	10.4	0.0	0.0
Portugal	14 654	1 975	2 190	7.5	1.0	1.0
Spain	95 785	6 944	7 464	7.8	0.6	0.5
Sweden	30 397	4 491	..	7.7	1.1	..
Switzerland	25 194	20 719	23 066	6.7	5.5	5.4
United Kingdom	176 953	73 483	..	7.5	3.1	..

StatLink <http://dx.doi.org/10.1787/540480454102>

Public and private pension expenditures

As a percentage of GDP, 2006



StatLink <http://dx.doi.org/10.1787/534462684217>