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Private Pension – Benefit Expenditures

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Abstract: Private pension plans have been growing in importance in recent years as pension reforms all over the world have reduced public pension entitlements. The aim of the research study was to analyze the payments from private pension schemes in OECD countries. On the basis of studies it was found that: i) 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; ii) payments from private pension schemes is equivalent to one-fifth of average public spending on retirement benefits (9,3%); iii) private-pension payments increased 38% faster than GDP between 1990 and 2011 on average, which is faster than public pension spending; iv) the countries (Korea, France, Finland) with the fastest growth in private pension payments tended to start from a low base, below 0.5% of GDP; v) many countries (Australia, Estonia, Mexico, Poland, the Slovak Republic and Sweden) introduced compulsory private pensions in the 1990s and many of them have yet to begin paying benefits; vi) the biggest flow of private-pension payments is in the countries (Netherlands, Switzerland, Iceland and Denmark) where private pensions were mandatory or quasi-mandatory; vii) in 17 OECD countries, private pensions were mandatory or quasi-mandatory in 2013.

Keywords: pension spending, private pension plans, the pension system

JEL codes: J32, J14

1. Introduction

In developed countries population is aging as a result of increasing longevity and low fertility rates. This issue leads to a serious challenge in terms of economic, social and political sense. It is predicted that the world's share of persons aged 65 years and over will increase from 8% in 2015 to almost 18% by 2050. In the countries of the Organization for Economic Cooperation and Development (OECD) ratio will increase from 16% to 27%. In the OECD countries the share of the population aged over 75 in 2050 will be similar to the share of the population aged over 65 years right now (United Nations, 2015: 8).

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The aging of society has a direct impact on the financing pay-as-you-go (PAYG) pension plan, because the decreasing number of people of working age must maintain the level of pension benefits for a growing number of older people (Dybał, 2008: 16).

As a result, the stability of public finances has become a problem of the present, not the future. For example, in all OECD countries, government gross financial liabilities increased by an average of 55% of gross domestic product (GDP) in 2007 to 88% of GDP in 2014. Given that the expenditures of public pension system play an important role in total public expenditures, pension reform is usually part of a strategy to consolidate public finances and reduce debt ratios. Among various ways of pension reform, introduction of private pension plans is friequently used (OECD, 2015; Dybał, 2012: 118).

Thus the motivation for the article reveals. The research aim of this study is to analyze the payments from private pension schemes in OECD countries. To achieve the goal, the author decided to implement the following research tasks:

- To determine the private benefit spending as a % of GDP.
- To determine the public benefit spending as a % of GDP.
- To determine trends in the private benefit spending as a % of GDP.
- To determine scheme type of the private pension plan.

The research years cover mainly years 1990-2015, and the author uses in the work following research methods: analysis of scientific literature and normative documents, comparative analysis, statistical analysis. The basis of the study was literature and statistical data published mostly by the OECD, Eurostat, Worldbank.

2. Private benefit spending

Payments from private pension plans were worth 1.6% of gross domestic product (GDP) on average in 2011 in the 25 OECD countries for which data are available (see table 1).The data differ between the countries. The biggest flow of private pension schemes payments is in the Netherlands: 5.8% of GDP in 2011. The United Kingdom has the next highest figure for private pension benefits plans: 5.3% of GDP. The third position is occupied by the Switzerland: 5.0% of GDP. The next five countries – Denmark, the United States, Iceland, Japan and Canada – record private pension plan payments: 4.7%, 4.5%, 3.7%, 3.3%, and 3.3% of GDP respectively.

Table 1. Benefit expenditure of private pension schemes as a % of GDP

Country	2011
Australia	2.5
Austria	0.7
Belgium	1.2
Canada	3.3
Chile	1.4
Czech Republic	0.6
Denmark	4.7
Estonia	
Finland	0.3
France	0.4
Germany	0.8
Greece	0.4
Hungary	
Iceland	3.7
Ireland	0.8
Israel	
Italy	1.5
Japan	3.3
Korea	1.0
Luxembourg	0.6
Mexico	
Netherlands	5.8
New Zealand	
Norway	0.6
Poland	
Portugal	0.6
Slovak Republic	0.3
Slovenia	
Spain	
Sweden	2.6
Switzerland	5.0
Turkey	
United Kingdom	5.3
United States	4.5
OECD	**1.6**

Source: (OECD, 2015a: 181).

On the other side there are countries like Finland and Slovak Republic where spending from a private pension plans is 0.3% of GDP. France and Greece has the next lowest figure for private pension benefits plans: 0.4% of GDP. The third position is occupied by the Czech Republic, Luxembourg, Norway and Portugal: 0.6% of GDP. The next four countries – Austria, Germany, Ireland and Korea – record private pension plan payments: 0.7%, 0.8%, 0.8%, and 1.0% of GDP respectively.

Payments from private pension plans in the remaining five countries were worth from 1.2% to 2.6% of GDP: Belgium (1.2% of GDP), Chile (1,4% of GDP), Italy (1.5% of GDP), Australia (2.5% of GDP), Sweden (2.6% of GDP).

Table 1 shows that private pension benefit spending varies between the countries. In Netherlands (5.8% of GDP) is more than nineteen times bigger than in Finland and Slovak Republic (both 0.3% of GDP). Thus, the questions arise:

- Is the data presented in table 1 for each country a lot or a little?
- What factors influance the data in table 1?

The answer to the first question we will try to find in section 2 and the second in section 4.

3. Public benefit spending

Table 2 presents the data on public and private pension benefit spending in 2011 as a % of GDP. All together public and private pension spending represents on average 9.4% of GDP in OECD countries. According to the data average private pension spending (1.6% of GDP) is equivalent to one-fifth of average public spending on retirement benefits (7.8% of GDP). The relations between public and private pension benefit spending share are diverse. On one side are countries in which private pension spending exceeds public pension spending. In facte, they are only two countries: Iceland (3.7% and 2.2% of GDP) and Netherlands (5.8% and 5.4% of GDP). It should be noted, however, that in five countries share of private pension spending in public pension spending is higher than two-thirds: the United States (67%), Australia (71%), Denmark (75%), Canada (81%), the United Kingdom (94%). On the other side there are countries in which private pension spending is below public pension spending. In fact, it is way below the public spending beacuse private pension spending equals to zero: Estonia, Hungary, Mexico, New Zeland, Poland, Slovenia, Spain, Turkey. In the remaining nineteen countries private pension spending is less than half of public pension spending.

Table 2. Public and private benefit spending in 2011 as a % of GDP

Country	Private	Public	Private & Public
Australia	2.5	3.5	6.0
Austria	0.7	13.2	13.9
Belgium	1.2	10.2	11.4
Canada	3.3	4.3	7.6
Chile	1.4	3.2	4.6
Czech Republic	0.6	8.8	9.4
Denmark	4.7	6.2	10.9
Estonia	0.0	6.9	6.9
Finland	0.3	10.2	10.5
France	0.4	13.7	14.1
Germany	0.8	10.6	11.4
Greece	0.4	14.5	14.9
Hungary	0.0	10.0	10.0
Iceland	3.7	2.2	5.9
Ireland	0.8	5.3	6.1
Israel		4.8	4.8
Italy	1.5	15.8	17.3
Japan	3.3	9.7	13.0
Korea	1.0	2.2	3.2
Luxembourg	0.6	7.7	8.3
Mexico	0.0	1.8	1.8
Netherlands	5.8	5.4	11.2
New Zealand	0.0	4.9	4.9
Norway	0.6	5.5	6.1
Poland	0.0	10.8	10.8
Portugal	0.6	13.0	13.6
Slovak Republic	0.3	7.0	7.3
Slovenia	0.0	11.4	11.4
Spain	0.0	10.5	10.5
Sweden	2.6	7.3	9.9
Switzerland	5.0	6.5	11.5
Turkey	0.0	7.5	7.5
United Kingdom	5.3	5.6	10.9
United States	4.5	6.7	11.2
OECD	**1.6**	**7.8**	**9.4**

Source: (OECD, 2015a: 181. Available at http://dx.doi.org/10.1787/888933301250. Accessed 15 November 2016.

The highest public pension benefit spending is offered by Italy (15.8% of GDP). Greece has the next highest figure for public pension benefits plans: 14.5% of GDP. The third position is occupied by the France: 13.7% of GDP. The next eight countries record public pension payments above 10% of GDP: Austria (13.2% of GDP), Portugal (13.0% of GDP), Slovenia (11.4% of GDP), Poland

(10.8% of GDP), Germany (10.6% of GDP), Spain (10.5% of GDP), Finland and Belgium (10.2% of GDP). The lowest public pension benefit spending is offered by Mexico (1.8% of GDP), in turn. Iceland and Korea has the next lowest figure for public pension benefits plans: 2.2% of GDP. The third position is occupied by the Chile: 3.2% of GDP.

Situation is similar when we consider private and public spending combined – the lowest spending is in Mexico (1.8% od GDP) while the highest in Italy (17.3% of GDP).

One may ask the question what factors influance the data in table 2? Right now we can say that among answers one can find issues related with compulsory, voluntary, coverage and maturity of pension systems. The detailed information will be provided in section 5.

4. Trends in benefit spending

Table 3 presents the data on trends in private benefit spending for the period 1990-2011. Due to the period of the analysis table 2 presents data for the 19 countries of 34 belonging to the OECD. In the countries under analysis average 1990-2011 change is 54.2%.

According to the data the fastest growth in private pension payments can be observed in Korea (400.3%). France is the next fastest growth: 214.3%. The third position is occupied by the Denmark: 202.2%. The next five countries record growth in private pension spending above 100%: Finland (173.6%), Iceland (167.2%), Italy (165.3%), Switzerland (113.3%) and Sweden (112.5%).

On the other hand the slowest growth (decrease) in private pension payments can be observed in Ireland (-4.3%). Greece is the next slowest growth: 0.5%.

The countries with the fastest growth in private pension payments tended to start from a low base, below 0.5% of GDP (Korea, France, Finland). But there are exceptions, such as Iceland, Sweden, Denmark and Switzerland. In the latter, occupational pensions became compulsory in 1985, which extended coverage of private plans significantly. This is now being reflected in the fast growth in private pension schemes entitlements as each successive generation of retirees has spent longer on average covered by private pensions plans (OECD, 2011: 156).

Table 3. Trends in private benefit spending

Country	1990	1995	2000	2005	2011	1990-2011 change
Austria	0.4	0.4	0.5	0.5	0.7	56.6%
Belgium	1.0	1.7	1.4	1.5	1.2	15.7%
Canada	2.5	3.4	3.9	4.2	3.3	29.3%
Denmark	1.5	1.8	2.0	2.3	4.7	202.2%
Finland	0.1	0.4	0.3	0.2	0.3	173.6%
France	0.2	0.2	0.3	0.3	0.4	214.3%
Germany	0.7	0.7	0.8	0.8	0.8	18.1%
Greece	0.4	0.4	0.5	0.5	0.4	0.5%
Iceland	1.4	1.8	2.3	2.8	3.7	167.1%
Ireland	0.9	1.0	0.8	0.9	0.8	-4.3%
Italy	1.1	1.6	1.2	1.3	1.5	165.3%
Korea	0.2	0.2	0.6	0.4	0.9	400.3%
Netherlands	3.9	4.7	4.8	5.2	5.8	48.5%
Norway	0.6	0.6	0.6	0.6	0.6	15.9%
Portugal	0.3	0.3	0.4	0.6	0.6	95.0%
Sweden	1.2	1.9	1.8	2.1	2.6	112.5%
Switzerland	2.3	3.3	4.2	4.7	5.0	113.3%
United Kingdom	4.4	5.3	6.5	5.2	5.3	20.6%
United States	2.6	3.0	3.6	3.6	4.5	72.5%
OECD	**1.0**	**1.2**	**1.4**	**1.4**	**1.6**	**54.2%**

Source: (OECD, 2015a: 181).

5. Scheme type of the private pension plan

Table 4 presents the data on coverage of private pension plan as a % of working age population (15-64 years). According to the data private pensions are mandatory or achieve near universal coverage through industrial relations agreements (“quasi-mandatory”) in 16 of the 34 OECD countries. In others, voluntary private pensions – either individual (“personal”) or employer-provided (“occupational”) – have broad coverage (OECD, 2015: 180).

Now we know why Netherlands, Switzerland, Iceland and Denmark were so high in private pension spending (see table 1). In mentioned countries private pension plans are compulsory or quasi-mandatory (see table 4). The next three countries – Canada, the United Kingdom and the United States – also are high in private pension spending. Private pensions here are voluntary, but both occupational and personal plans have broad coverage (OECD, 2011: 156).

Table 4. Coverage of private pension plan as a % of working age population (15-64 years)

Country	Mandatory/Quasi-mandatory	Voluntary Occupational	Voluntary Personal
Australia	68.5	n.a.	19.,9
Austria	n.a.	15.1	18.0
Belgium	n.a.	57.3	..
Canada	n.a.	25.7	24.7
Chile	78.9	..	..
Czech Republic	n.a.	n.a.	66.2
Denmark	ATP: 83.3; QMO: 62.3	n.a.	22.4
Estonia	74.3	n.a.	5.1
Finland	84.1	9.2	20.9
France	n.a.	20.2	5.3
Germany	n.a.	56.4	35.2
Greece	n.a.	0,2	..
Hungary	n.a.	..	18.5
Iceland	87.9	n.a.	52.2
Ireland	n.a.	31.0	12.0
Israel	94.2	n.a.	n.a.
Italy	n.a.	7.4	8.9
Japan	..	..	..
Korea	13.9	n.a.	23.4
Luxembourg	n.a.	5.2	..
Mexico	57.8	1.7	n.a.
Netherlands	88.0	n.a.	28.3
New Zealand	n.a.	7.2	72.9
Norway	68.6	..	22.3
Poland	60.3	1.4	..
Portugal	n.a.	3.2	4.0
Slovak Republic	55.3	n.a.	..
Slovenia	n.a.	..	..
Spain	n.a.	3.3	15.7
Sweden	PPS: ~100; QMO: ~90	n.a.	36.0
Switzerland	72.6	n.a.	..
Turkey	1.4	0.5	6.9
United Kingdom	n.a.	30.0	11.1
United States	n.a.	41.6	22.0

Notes: QMO = Quasi-mandatory occupational; PPS = Premium Pension System; ".." = Not available; "n.a." = Not applicable.
Source: (OECD, 2015a: 187).

On the other hand there are some countries where private pensions are mandatory but spending is low. That is because many countries introduced compulsory private pension schemes in the 1990s: Australia, Estonia, Mexico, Poland, the Slovak Republic and Sweden. In some cases – mainly in Central and Eastern Europe – these new plans 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 (OECD, 2015: 180).

In some OECD countries, public pension spending is low due to mandatory private provision (Switzerland). As a oppositte, there are some countries in which private pension spending is low. In Korea, this reflects the fact that the public pension scheme was only introduced in 1988. But spending grew rapidly between 1990 and 2011 – more than four times (see table 3) relative to national income – due to the maturing of the scheme and rapid population ageing. In Mexico, low spending reflects relatively low coverage of pensions (only around 35% of employees) and a relatively young population (OECD, 2009: 138).

Public payments also tends to be relatively low in other countries with a favourable demographic profile, such as Australia, Canada, Ireland, New Zealand and the United States. However, this is not always the case: Turkey spends more than the OECD average despite being the second youngest OECD country in demographic terms (OECD, 2009: 138).

6. Conclusion

Private pension plans have been growing in importance in recent years as pension reforms all over the world have reduced public pension entitlements. The aim of the research study was to analyze the payments from private pension schemes in OECD countries. Autor achieved the goal because:

- Determined the private benefit spending as a % of GDP - 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.
- Determined the public benefit spending as a % of GDP - payments from private pension schemes is equivalent to one-fifth of average public spending on retirement benefits (9,3%).
- Determined trends in the private benefit spending as a % of GDP - private-pension payments increased 38% faster than GDP between 1990 and 2011 on average, which is faster than public pension spending; the countries (Korea, France, Finland) with the fastest growth in private pension payments tended to start from a low base, below 0.5% of GDP.

- Determined scheme type of the private pension plan - many countries (Australia, Estonia, Mexico, Poland, the Slovak Republic and Sweden) introduced compulsory private pensions in the 1990s and many of them have yet to begin paying benefits; the biggest flow of private-pension payments is in the countries (Netherlands, Switzerland, Iceland and Denmark) where private pensions were mandatory or quasi-mandatory; in 17 OECD countries, private pensions were mandatory or quasi-mandatory in 2013.

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Świadczenia emerytalne z prywatnych planów emerytalnych

Streszczenie

Prywatne plany emerytalne stały się coraz ważniejsze w ostatnich latach, ponieważ reformy emerytalne na całym świecie obniżyły uprawnienia emerytalne w publicznych systemach emerytalnych. Celem artykułu była analiza świadczeń z prywatnych systemów emerytalnych w krajach OECD. Na podstawie przeprowadzonych badań stwierdzono, że: i) świadczenia z prywatnych systemów emerytalnych wyniosły średnio w 2011 r. w 26 krajach OECD 1,6% produktu krajowego brutto (PKB); ii) świadczenia z prywatnych systemów emerytalnych odpowiadają jednej piątej średnich wydatków publicznych na świadczenia emerytalne (9,3%); iii) świadczenia z tytułu prywatnych emerytur wzrosły średnio o 38% szybciej niż PKB między rokiem 1990 a 2011, czyli szybciej niż wydatki publiczne na emeryturę; iv) kraje (Korea, Francja, Finlandia), gdzie dynamika prywatnych planów emerytalnych jest najwyższa, miały tendencję do zaczynania od niskiej bazy, poniżej 0,5% PKB; v) wiele krajów (Australia, Estonia, Meksyk, Polska, Republika Słowacka i Szwecja) wprowadziły obowiązkowe emerytury prywatne w latach dziewięćdziesiątych i dlatego wartość świadczeń w relacji do PKB jest jeszcze niski; vi) najwyższa wartość prywatnych świadczeń w relacji do PKB dotyczy państw (Holandia, Szwajcaria, Islandia i Dania), gdzie prywatne emerytury są obowiązkowe lub quasi-obowiązkowe; vii) w 17 krajach OECD prywatne emerytury były obowiązkowe lub quasi-obowiązkowe w 2013 r.

***Słowa kluczowe**:* system emerytalny, prywatny plan emerytalny, świadczenie emerytalne.