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SUMMARY

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What is the cost of total pension provision and who pays the bill?

Cross-national comparison of pension contributions

In this report we compare the level of pension contribution income in nine different European countries; Austria, Denmark, Finland, France, Germany, Netherlands, Norway, Sweden and Switzerland. The aim of the report is to give a comprehensive picture of the total costs of basic and earnings-related pensions. Therefore, individual savings or so called third pillar pension provision is not included in the analysis. Our focus is on the contribution income of statutory and occupational pensions together with the general tax revenues allocated to pension provision. This type of comprehensive comparisons is seldom conducted. Typically international statistics and comparisons only include statutory pension expenditure and contribution income.

In addition to the contribution level, another aim of this report is to study the decomposition of the contributions into the employer's and the employee's shares as well as the share of general tax revenues in pension financing.

There are significant differences in how pension provision is structured, not only between countries but also within a country. In this report, we focus only on a macro-level comparison. The pension contributions have been compared first and foremost in relation to GDP at market prices and to the compensation of employees. For reference the results are also calculated in relation to wage sum and GDP at basic prices. Details about scheme-specific differences in pension financing can be found in the report's country fiches.

In general, the total pension contribution is roughly at the same level in all of the compared countries. The highest contribution levels were found in Denmark and Austria: 16 and 15 per

cent of GDP respectively, or 30 per cent of the employee compensation. Correspondingly, the two countries with the lowest pension contributions are Sweden and Germany, even though their position varies somewhat depending on the indicator. The contribution level amounted close to 13 per cent of GDP in both countries. The average level was around 14 per cent of GDP, corresponding to 28 per cent of the employee compensation. On average, the level of pension contributions has increased compared to the results of the previous study almost a decade ago. This is largely due to the ageing population with increased expenditure of old-age pensions.

Our main observation concerns the convergence of the contribution levels of the different countries, when taking into account all basic and earnings-related pension schemes. One of the key results of our report is that, in cross-national studies, it is important to take into account different structures of pension provision and to be aware of the total pension provision. Both significantly affect the results. Thus, a straightforward comparison of statutory pensions is not sufficient since there are comprehensive supplementary pension schemes which are of growing importance in many countries and, in some countries, even broadly equivalent to earnings-related statutory pension schemes.

A decomposition of contributions reveals that employers' contributions tend to represent the greatest share of contributions with the exception of Denmark where the share of tax revenues is dominant. The tax revenues' share of the premium income is significant also in Austria and Germany. Employees contribute the most in the Netherlands and Switzerland and the least in Denmark and Finland.

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