

Social protection in Europe: expenditure on pensions ⁽¹⁾

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Statistics in focus

POPULATION AND SOCIAL CONDITIONS

THEME 3 – 6/2000

POPULATION AND LIVING CONDITIONS

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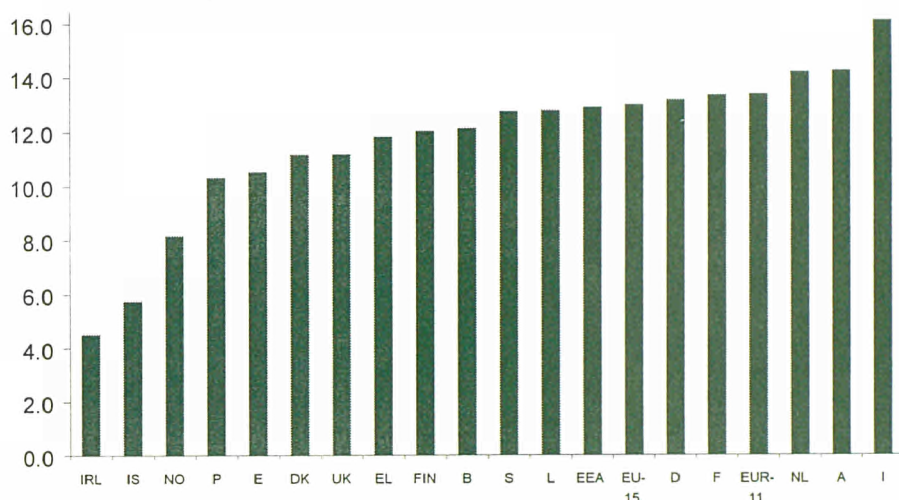
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Graph 1:
Expenditure on pensions as % of GDP (1997)



1997	4.5	5.7	8.2	10.3	10.5	11.2	11.2	11.8	12.0	12.1	12.8	12.8	12.9	13.0	13.2	13.4	13.4	14.2	14.3	16.2
1990	5.9	:	8.6	7.6	9.2	9.6	9.6	12.1	10.4	11.5	:	12.2	11.7	11.8	12.0	12.2	12.2	15.4	13.7	14.0

Source: Eurostat-ESSPROS

In 1997, expenditure on pensions in EU-15 accounted for 13.0% of GDP. In Italy, expenditure represented approximately 16% of GDP, followed by Austria and the Netherlands where the ratio was higher than 14%. In contrast, Ireland spent less than 5% of GDP on pensions and Iceland less than 6%.

Between 1990 and 1997, expenditure on pensions in EU-15 as a percentage of GDP increased by 1.2% from 11.8% to 13.0%.

This was a general trend in EU-15, with the exception of Ireland, the Netherlands and Greece where there was a decrease in expenditure. The ratio also decreased in Norway between 1990 and 1997.

The increase was particularly pronounced in Portugal and Italy (more than 2% as a percentage of GDP).

The differences between countries can be partly explained by the proportion of the population in the age group 65 and over. In 1997, more than 17% of Italy's population was in this age group as opposed to less than 12% in Ireland and compared to an EU-15 average of 15.8%.

In 1997, old age pensions accounted for approximately 75% of expenditure on pensions in EU-15.

⁽¹⁾ The "pensions" aggregate is the sum of seven different categories of benefits: disability pensions, early retirement benefits due to reduced capacity to work, old age pensions, anticipated old age pensions, partial pensions, survivors' pensions and early retirement benefits for labour market reasons. Some of these benefits (for example disability pensions) are paid to people who have not reached the standard retirement age. See box on "Methods and concepts" for more information.

The different regulations concerning early retirement and disability benefits partly explain these results.

For example, in Ireland and Austria expenditure on early retirement benefits⁽¹⁾ accounted for more than 12% of total expenditure on pensions compared to an EU-15 average of approximately 5%. In contrast expenditure was less than 1% in Sweden.

In Ireland and Austria more than 40% of the population in the 50-59 age group was inactive compared to an EU-15 average of 36% in 1997. In Sweden, on the

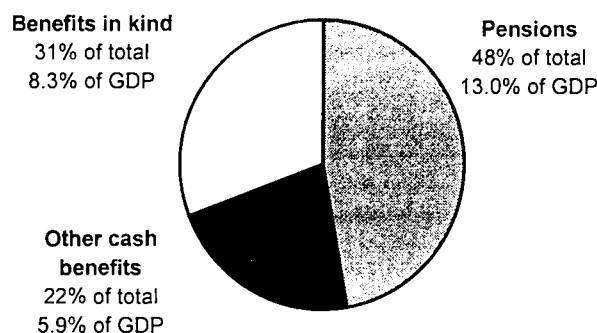
other hand, the rate was less than 15%.

In 1997, for example, in the Netherlands, Portugal and Finland, disability pensions accounted for more than 20% of total expenditure on pensions compared to an EU-15 average of approximately 10%. This was also the case in Iceland and Norway.

In France, on the other hand, disability pensions accounted for less than 5% of total expenditure on pensions.

Expenditure on pensions represents almost half of total social benefits.

Graph 2:
Expenditure in EU-15 in 1997
(as % of total benefits and of GDP)



Source: Eurostat-ESSPROS

In 1997, in the majority of Member States, expenditure on pensions took the largest share of expenditure on social protection, namely 48% of total expenditure in EU-15.

This was particularly true for Italy, where pensions accounted for over 64% of total benefits.

In Portugal, Greece, Austria and Spain, expenditure on pensions was more than 50% of total social benefits.

In contrast, in Ireland and Sweden, expenditure on benefits in kind⁽²⁾ was higher than expenditure on pensions. This was also true in Iceland and Norway.

In Denmark the proportion of benefits in kind was almost the same as pensions i.e. more than 36% of the total.

In Italy, on the other hand, benefits in kind only represented 5.7% of GDP compared to an EU-15 average of 8.3%.

% of GDP	Pensions	Other cash benefits	Benefits in kind	Total benefits
B	12.1	7.9	6.7	26.7
DK	11.2	7.8	10.7	29.6
D	13.2	6.8	8.8	28.8
EL	11.8	3.3	7.5	22.7
E	10.5	4.5	5.8	20.9
F	13.4	6.4	9.5	29.3
IRL	4.5	5.8	6.5	16.8
I	16.2	3.2	5.7	25.1
L	12.8	:	:	23.9
NL	14.2	6.8	7.9	28.9
A	14.3	5.6	8.0	27.9
P	10.3	2.4	7.1	19.8
FIN	12.0	7.5	8.9	28.5
S	12.8	6.8	13.4	32.9
UK	11.2	6.5	9.1	26.9
EU-15	13.0	5.9	8.3	27.2
EUR-11	13.4	5.8	7.9	27.1
IS	5.7	3.4	8.6	17.8
NO	8.2	6.5	10.5	25.1
EEA	12.9	6.0	8.4	27.2

Source: Eurostat-ESSPROS

Other cash benefits i.e. cash benefits excluding pensions⁽³⁾ represented 22% of total benefits in EU-15 or 5.9% of GDP in 1997.

In contrast, they represented more than 30% of the total in Ireland and less than 15% of the total in Portugal, Italy and Greece.

⁽¹⁾ Early retirement benefits due to reduced capacity to work, anticipated old age pensions, partial pensions and early retirement benefits for labour market reasons.

⁽²⁾ Benefits in kind: for example hospital and out-patient treatment, accommodation for elderly and disabled people, child day care, etc.

⁽³⁾ Other cash benefits: for example family allowances, birth grants, death grants, unemployment and vocational training benefits, paid sick leave and maternity leave, etc.

Methods and concepts

The expenditure on pensions presented in this publication is calculated in accordance with the methodology of the European System of integrated Social PROtection Statistics, the "ESSPROS Manual 1996".

The definition of **social protection** in the ESSPROS Manual 1996 is as follows: "Social protection encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved. The list of risks or needs that may give rise to social protection is fixed by convention as follows: sickness/health care, disability, old age, survivors, family/children, unemployment, housing, and social exclusion not elsewhere classified."

The ESSPROS methodology includes **basic and supplementary schemes**. These schemes are sometimes referred to as *first pillar* and *second pillar* schemes, with a *third pillar* consisting of private arrangements that are not part of social protection in the definition of the ESSPROS.

The ESSPROS methodology distinguishes between cash benefits and benefits in kind. Cash benefits can be periodic or lump-sum. The "**pensions**" aggregate only includes some periodic cash benefits in the disability, old age, survivors' and unemployment functions. More specifically, the "pensions" aggregate is defined in this publication as the sum of the following social benefits (with the function to which the category of benefit belongs in brackets):

- 1) **Disability pensions** (disability function)
- 2) **Early retirement benefits due to reduced capacity to work** (disability function)
- 3) **Old age pensions** (old age function)
- 4) **Anticipated old age pensions** (old age function)
- 5) **Partial pensions** (old age function)
- 6) **Survivors' pensions** (survivors' function)
- 7) **Early retirement benefits for labour market reasons** (unemployment function).

These benefits are divided into means-tested and non means-tested benefits.

The value of the "pensions" aggregate was calculated for all countries in accordance with the above definition, regardless of national differences in the institutional organisation of social protection systems.

Some of the benefits which make up the "pensions" aggregate (for example disability pensions) are paid to people who have not reached the standard retirement age.

The definitions of the different categories of social benefits can be found in the ESSPROS Manual 1996.

In accordance with the ESSPROS, **pensions are recorded without any deduction of taxes or other compulsory levies payable on them by beneficiaries**. On the other hand, **the values of pensions do not include the social contributions which pension schemes pay on behalf of their pensioners to other social protection schemes** (e.g. health schemes). The ESSPROS records these payments under the heading "re-routed social contributions". See comments below for D, F, NL and A.

Notes on the data

Eurostat estimated the values for EU-15, EUR-11 and the EEA wherever necessary (data missing for L, S and IS).

The data on pensions are from the publication "Social protection expenditure and receipts 1980-97", except for Luxembourg (more detailed data) and the United Kingdom (revised data).

More recent estimates of GDP were used for B, DK, I, P, FIN, S, UK, IS, and NO.

Denmark: the value of the "pensions" aggregate excludes lump-sum benefits which precede or accompany the payment of early retirement benefits due to reduced capacity to work and survivors' pensions. These benefits amounted to 0.2% of GDP in 1997.

Germany: the value of the "pensions" aggregate excludes social contributions which pension schemes pay on behalf of their pensioners to other social protection schemes (mainly health schemes). An initial estimate of these "re-routed social contributions" amounted to approximately 0.7% of GDP in 1997.

France: the value of the "pensions" aggregate excludes social contributions which pension schemes pay on behalf of their pensioners to other social protection schemes (health schemes). An initial estimate of these "re-routed social contributions" was less than 0.1% of GDP in 1997.

Ireland: the data concerning funded occupational pension schemes for employees in the private sector were not available.

Italy: disability pensions include "assegni di accompagnamento" which should rather be recorded under the ESSPROS heading "care allowances". The value of the "pensions" aggregate excludes the lump-sum benefits "liquidazioni in capitale" and "liquidazioni per fine rapporto di lavoro", which amounted to approximately 1.5% of GDP in 1997.

Netherlands: the value of the "pensions" aggregate excludes social contributions which pension schemes pay on behalf of their pensioners to other social protection schemes. An initial estimate of these "re-routed social contributions" amounted to approximately 0.2% of GDP in 1997.

Austria: the value of the "pensions" aggregate excludes social contributions which pension schemes pay on behalf of their pensioners to other social protection schemes (mainly health schemes). An initial estimate of these "re-routed social contributions" amounted to approximately 0.6% of GDP in 1997. Other expenditure on pensions (approximately 0.1% of GDP in 1997) is recorded under the heading "other periodic cash benefits" in the old age function.

Finland: other expenditure on pensions is recorded under the heading "other periodic cash benefits" in the old age function (between 0.1% and 0.2% of GDP in 1997) and in the disability function (approximately 0.2% of GDP in 1997).

United Kingdom: the value of the "pensions" aggregate excludes lump-sum benefits payable on retirement (approximately 0.7% of GDP in 1997). Other expenditure on pensions is recorded under the heading "other means-tested periodic cash benefits" in the old age function (approximately 1.1% of GDP in 1997). For information, "personal pension plans" which fall outside the definition of social protection amounted to approximately 1.1% of GDP in 1997.

Further information:

➤ Reference publications

Title Social protection expenditure and receipts 1980-97
 Catalogue No CA-27-99-168-EN-C Price EUR 37

➤ Databases

NewCronos, Domain SESPROS

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