Global Trends in Public Pension Spending and Outlook

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Plan of Presentation

I. Trends and drivers of public pension spending in advanced and emerging economies

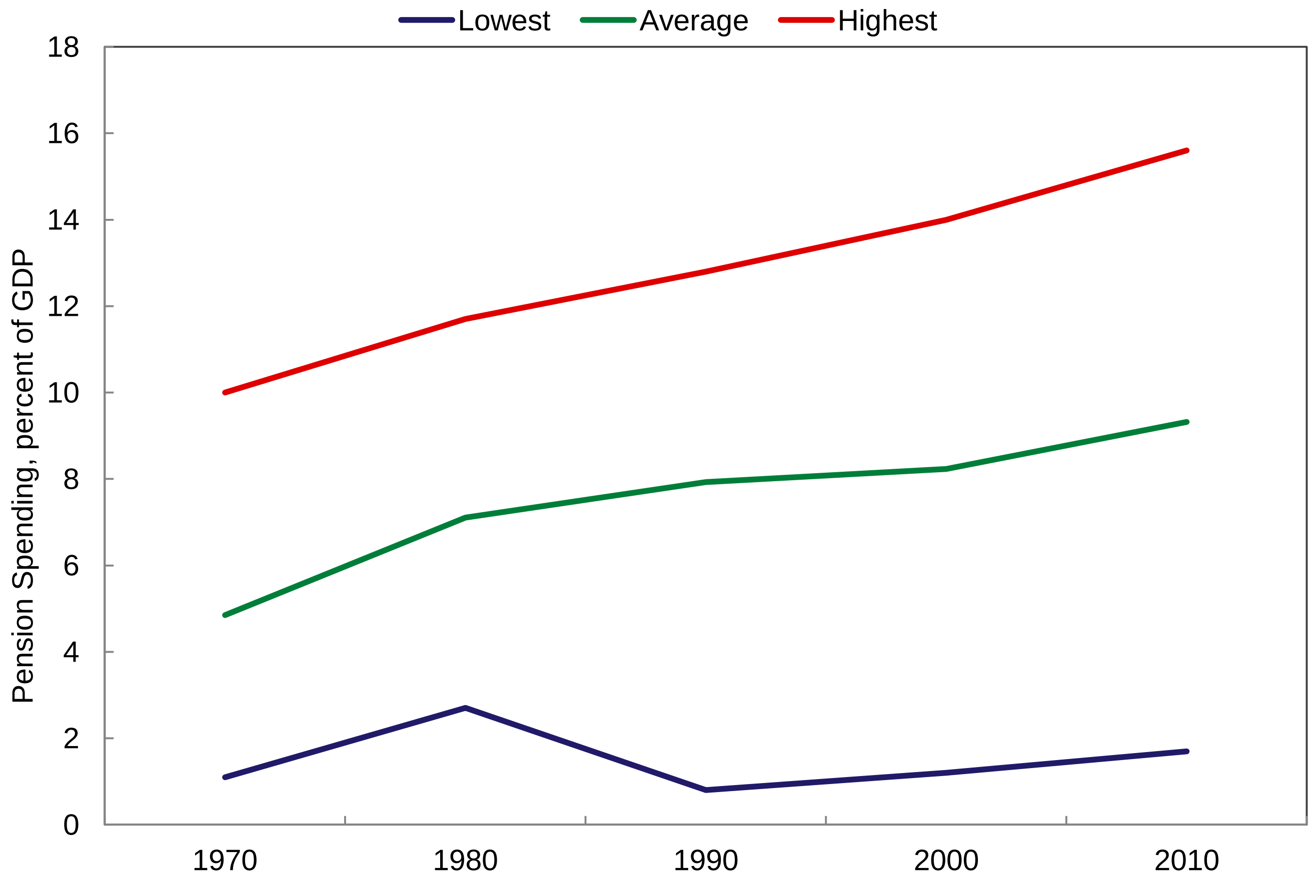
II. Fiscal context and projected spending increases

III. Risks to projections

IV. Conclusions

I. Trends and drivers of public pension spending

After rapid increases over 1970-1990, reforms have slowed the growth of public pension spending advanced economies

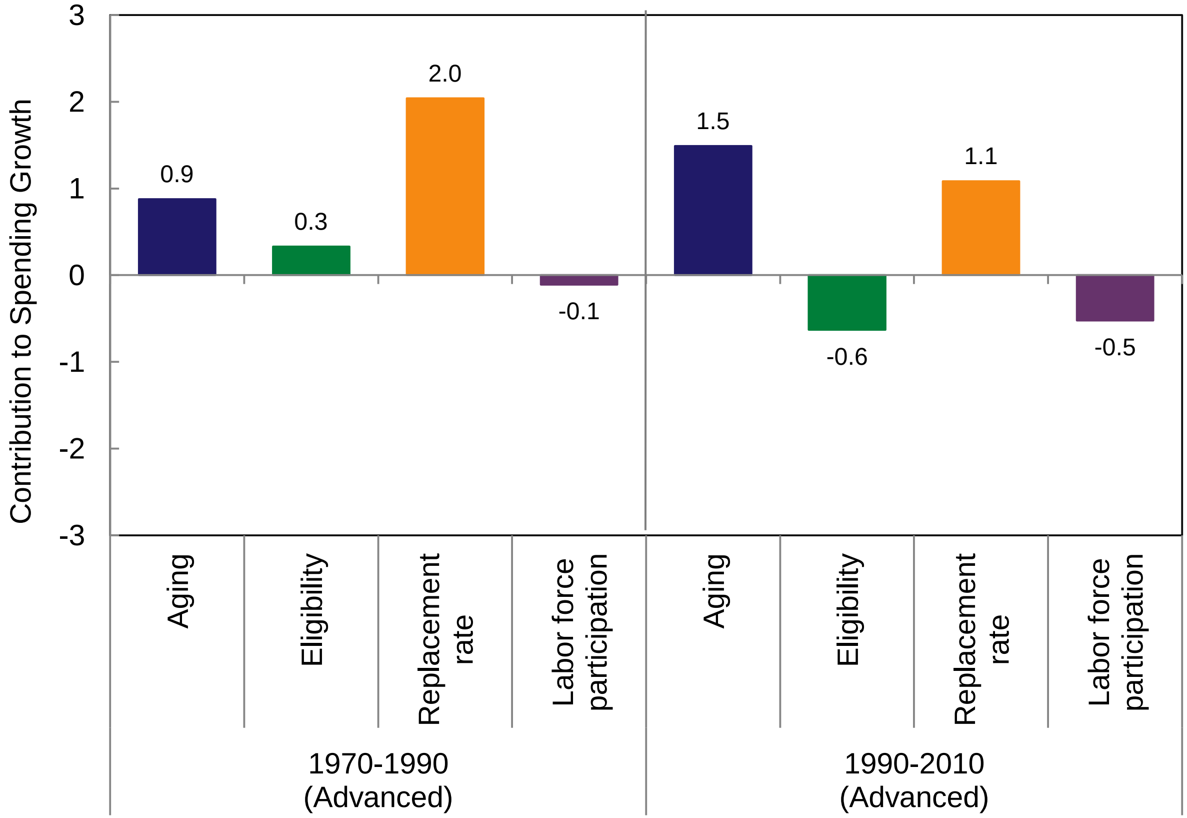


Sources: OECD, EC, ILO, UN, and IMF staff estimates.

Note: The average includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The lowest/highest refers to the single country with the lowest/highest spending.

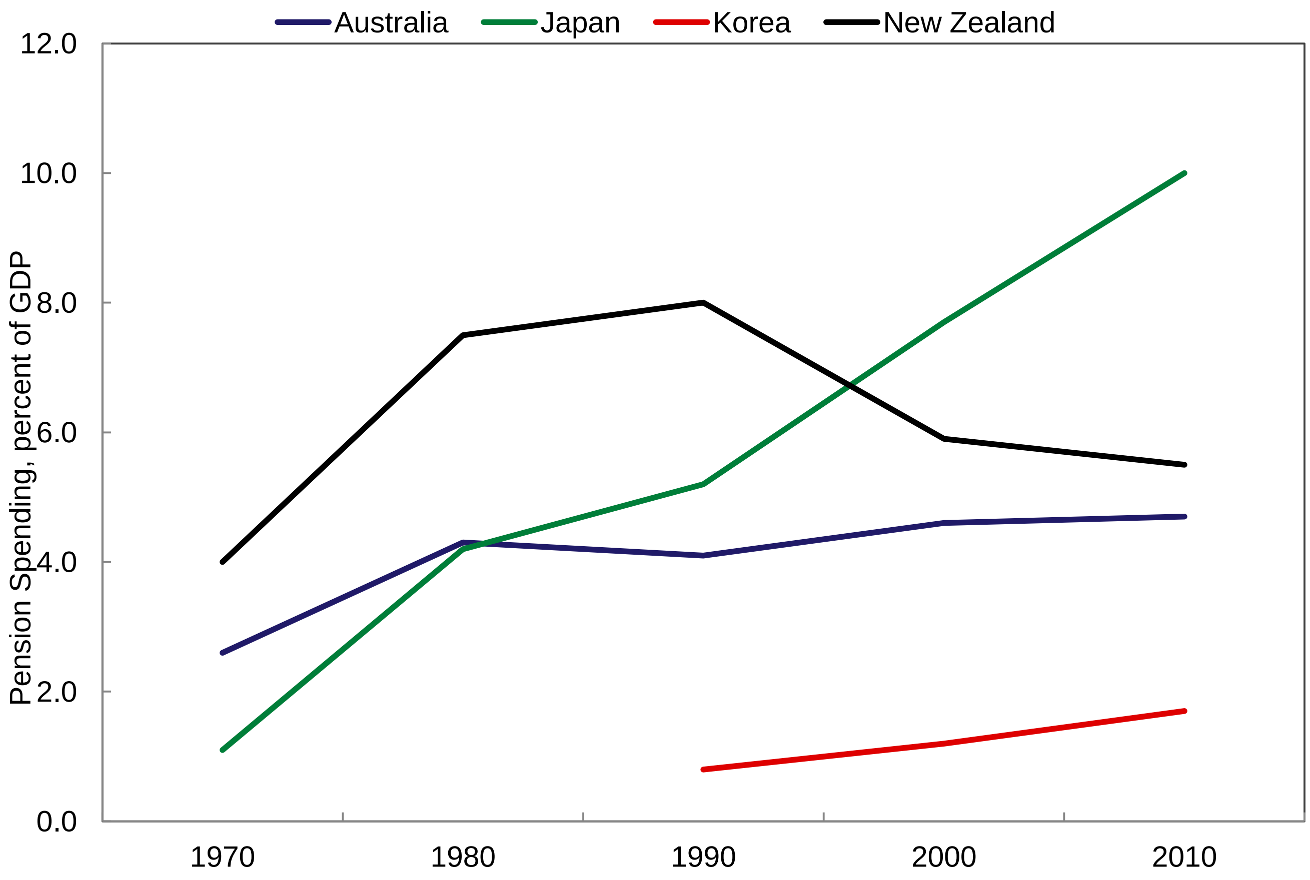
Higher replacement rates and aging have driven spending in advanced economies

Evolution of Public Pension Expenditures in Advanced Economies, 1970–2010 (Percent of GDP)



Sources: OECD, EC, ILO, UN, and IMF staff estimates.

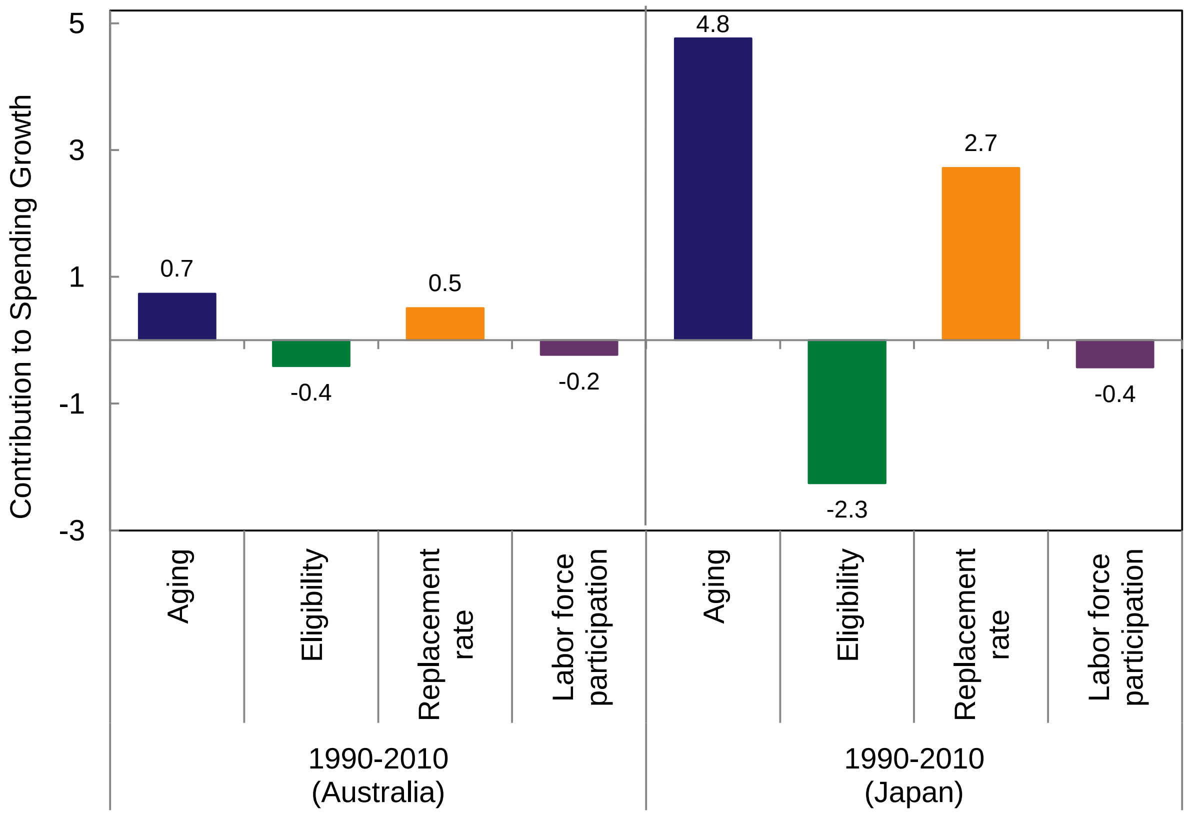
Trends vary across countries



Sources: OECD, ILO, UN, and IMF staff estimates.

Higher replacement rates and aging have driven spending in advanced economies

Evolution of Public Pension Expenditures in Advanced Asia and Pacific, 1990–2010
(Percent of GDP)



Sources: OECD, ILO, UN, and IMF staff estimates.

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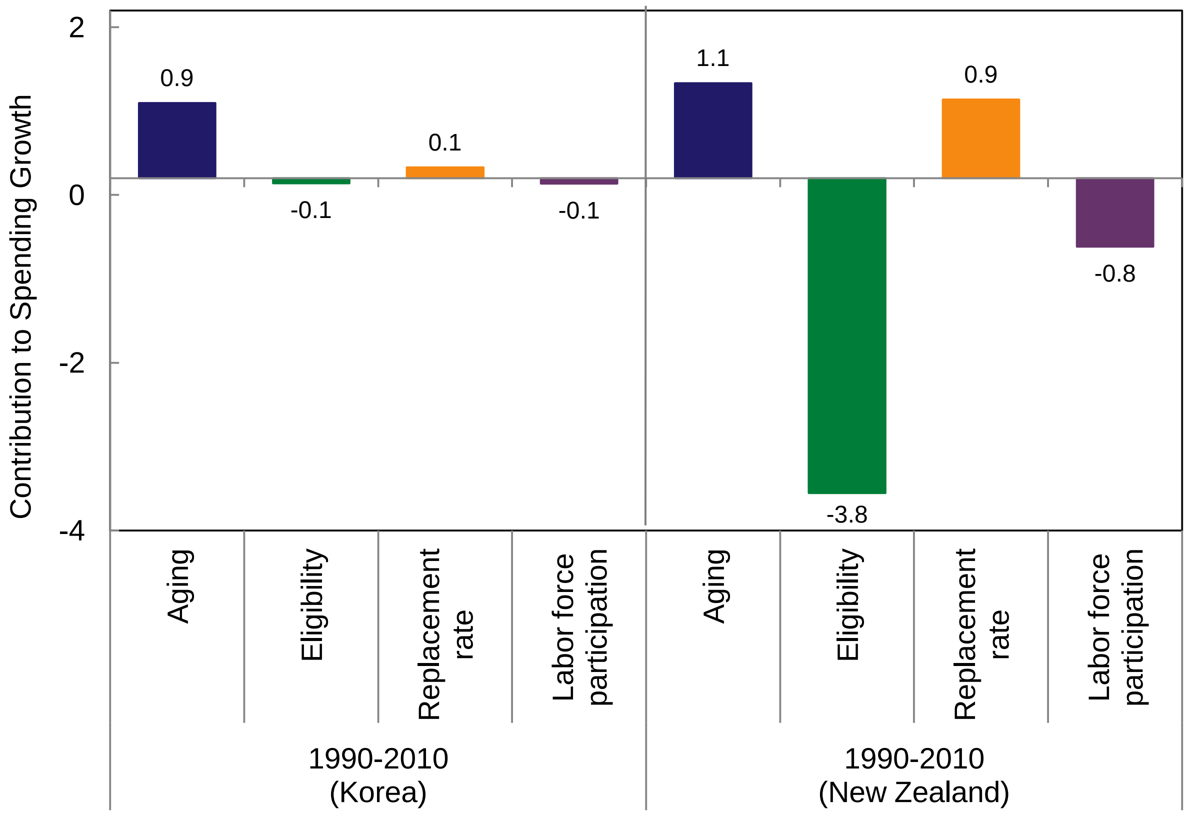
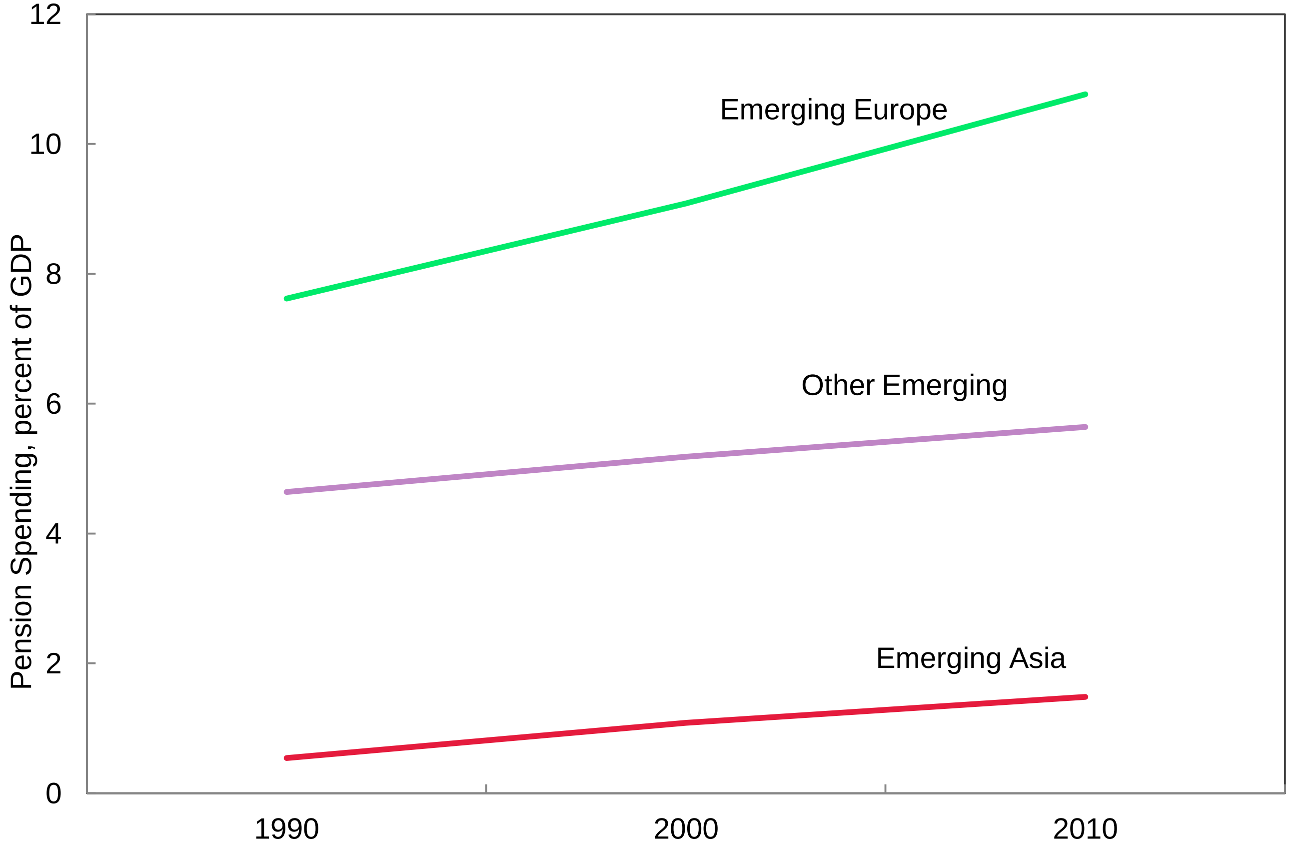


Sources: OECD, ILO, UN, and IMF staff estimates.

Large increases in pension spending in emerging economies, but from low level in Asia

Evolution of Public Pension Expenditures in Emerging Economies, 1990–2010
(Percent of GDP)

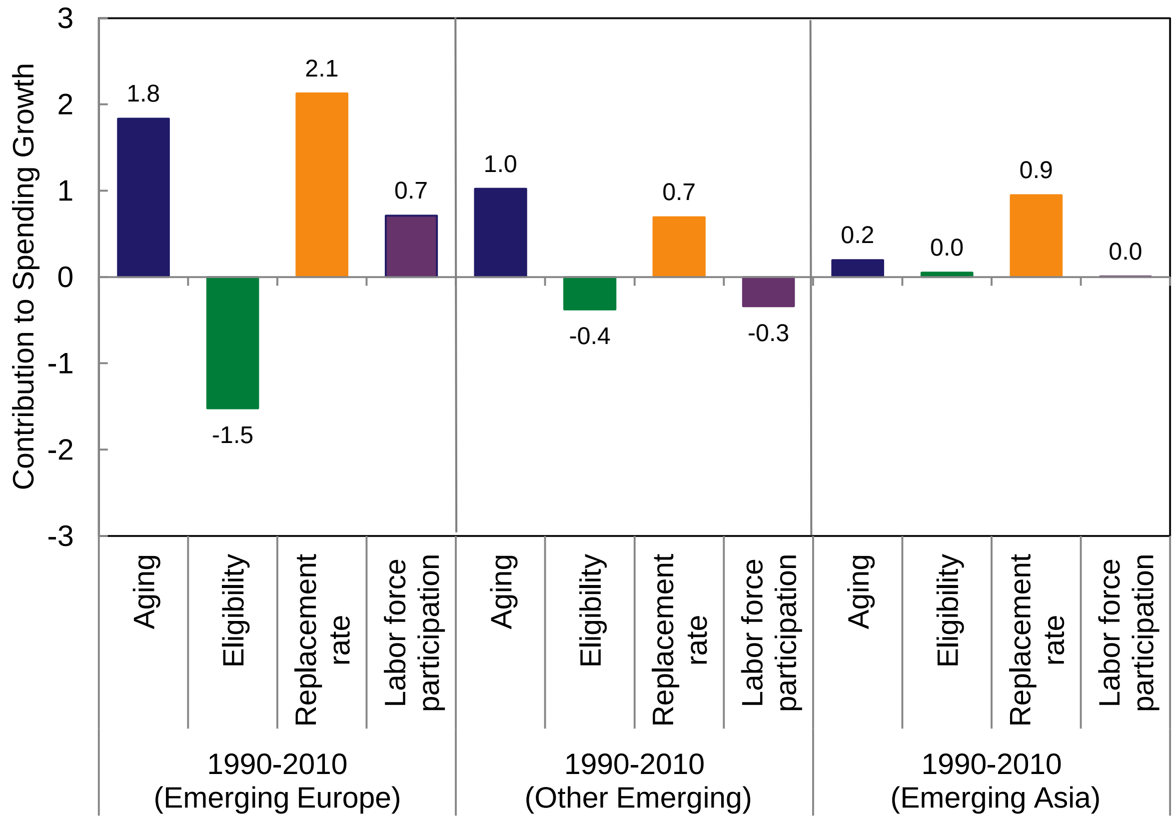


Sources: OECD, EC, ILO, UN, and IMF staff estimates.

Note: Emerging Europe includes Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Turkey, and Ukraine. Emerging Asia includes China, India, Indonesia, Malaysia, Pakistan, Philippines, and Thailand. Other emerging includes Argentina, Brazil, Chile, Colombia, Egypt, Jordan, Mexico, Saudi Arabia, and South Africa.

Higher replacement rates and aging have driven spending in emerging economies

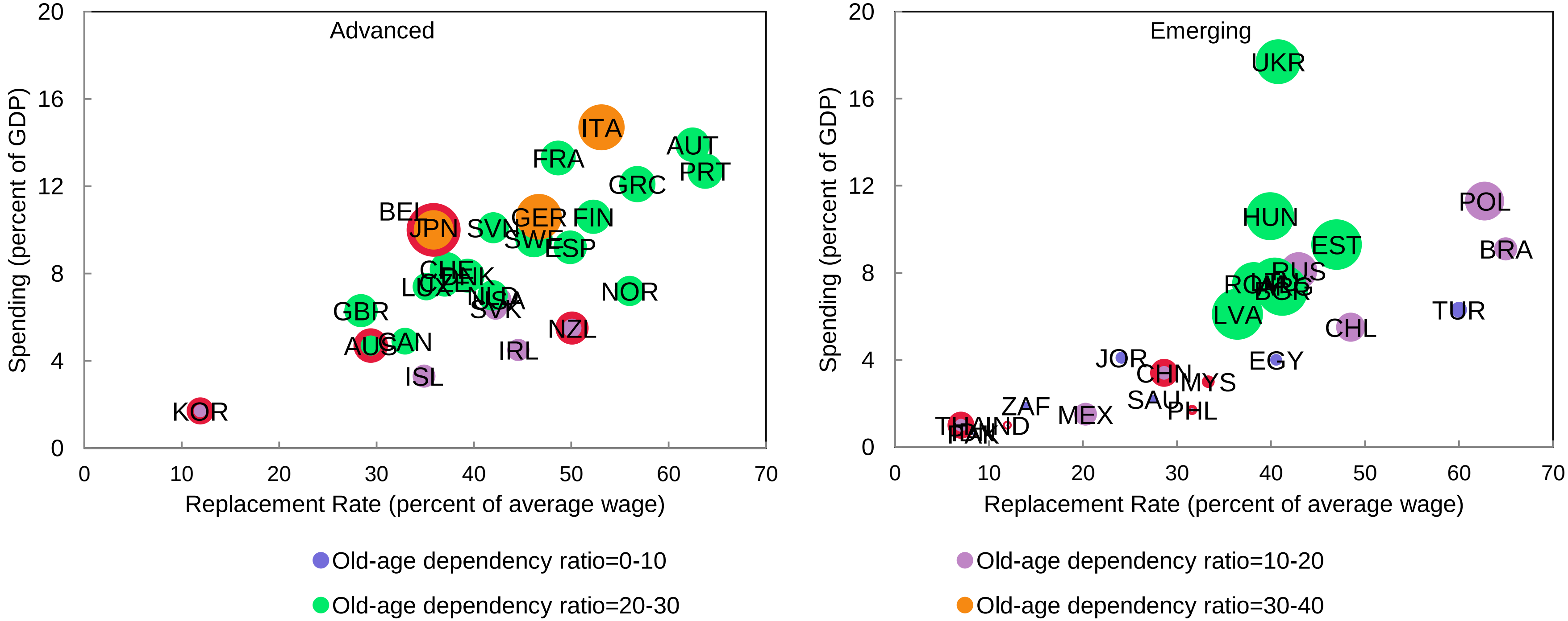
Evolution of Public Pension Expenditures in Emerging Economies, 1990–2010
(Percent of GDP)



Sources: OECD, EC, ILO, UN, and IMF staff estimates.

Variation in spending reflects differences in aging, system generosity, and coverage rates

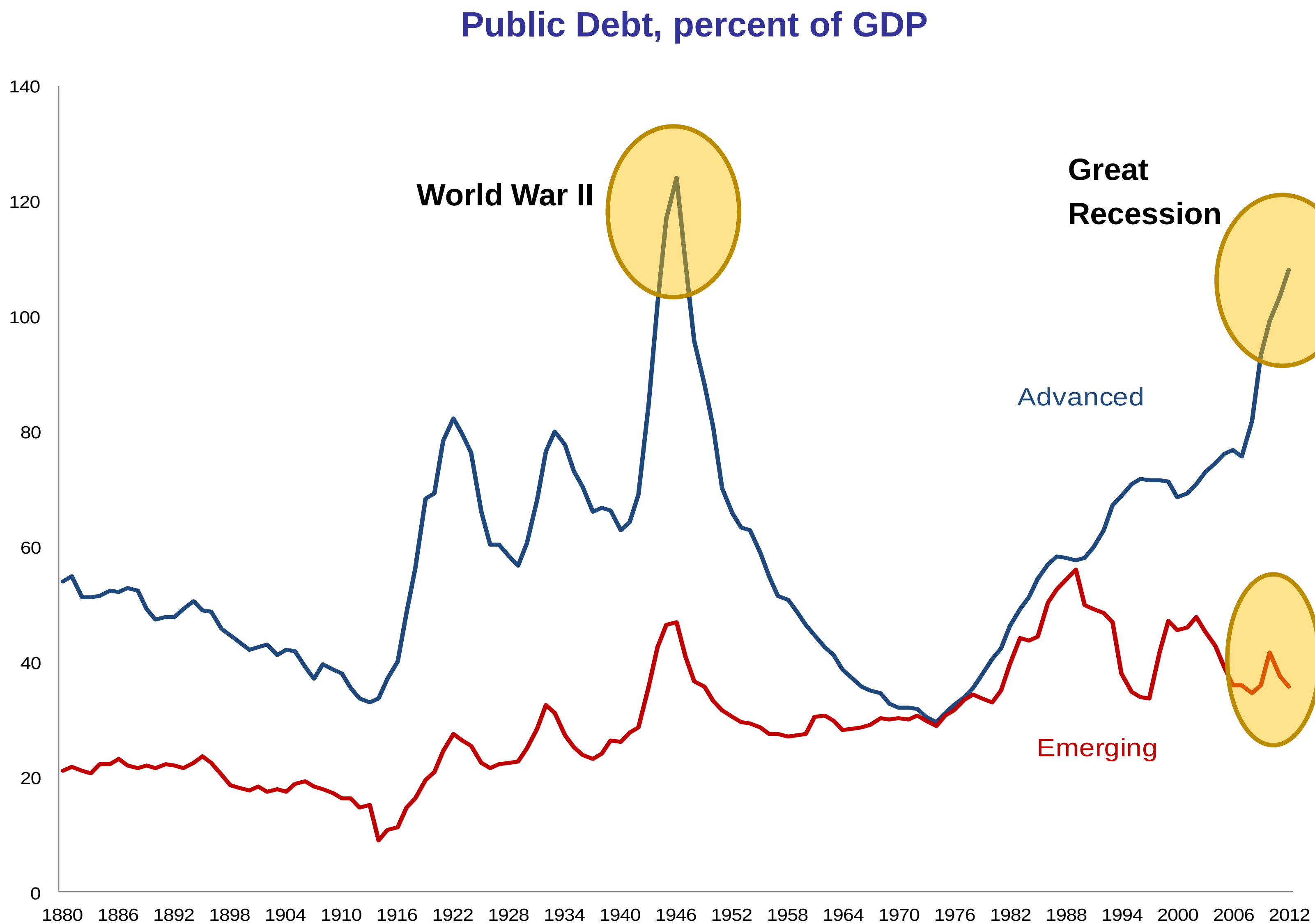
Pension Spending, Replacement Rates, and Aging, 2010



Sources: OECD, EC, ILO, UN, and IMF staff estimates.

II. Fiscal context and projected spending increases

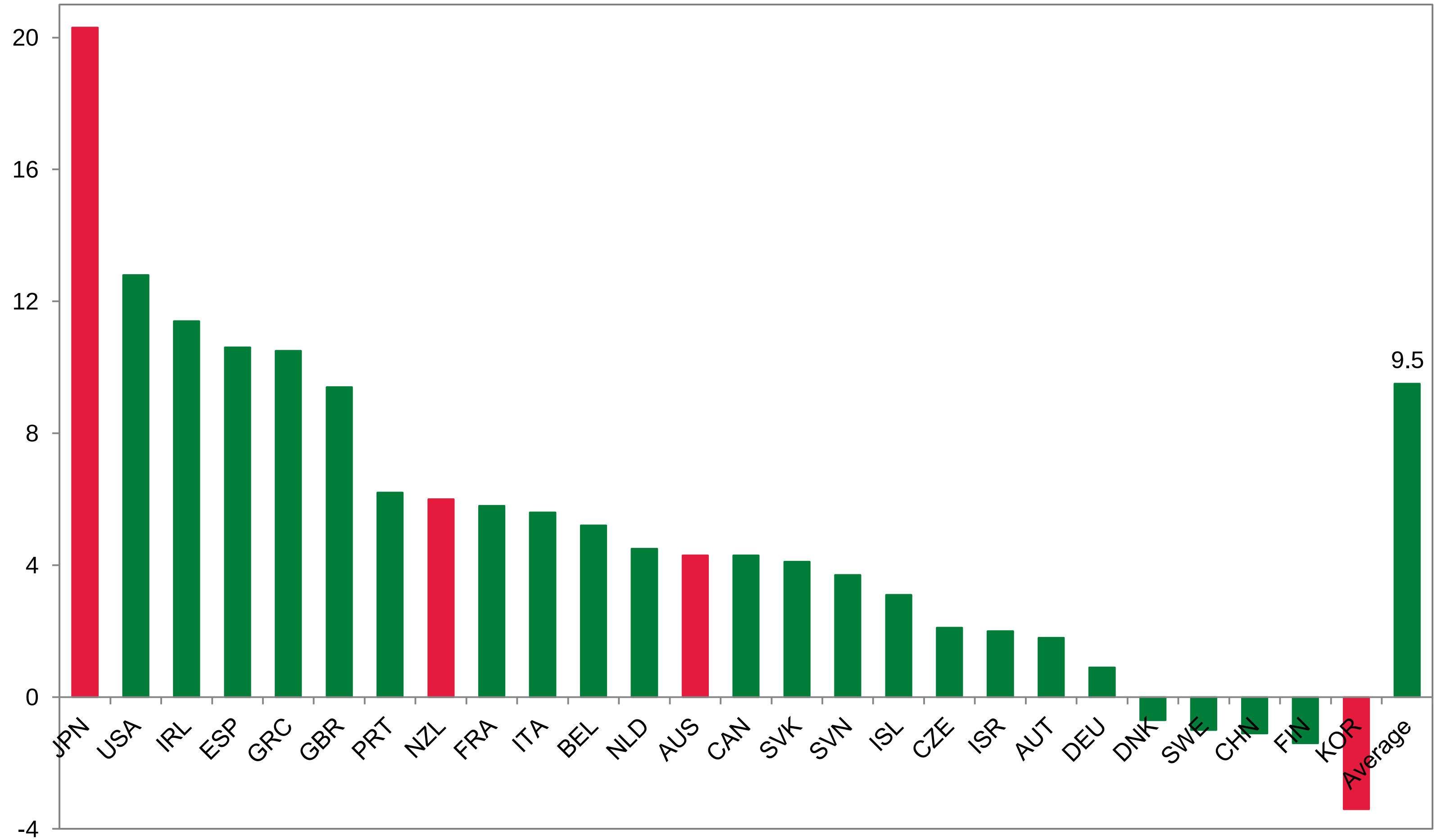
Debt ratios remain at historic levels in advanced economies



Source: IMF.

Substantial adjustment is needed to bring debt ratios to appropriate levels in advanced economies

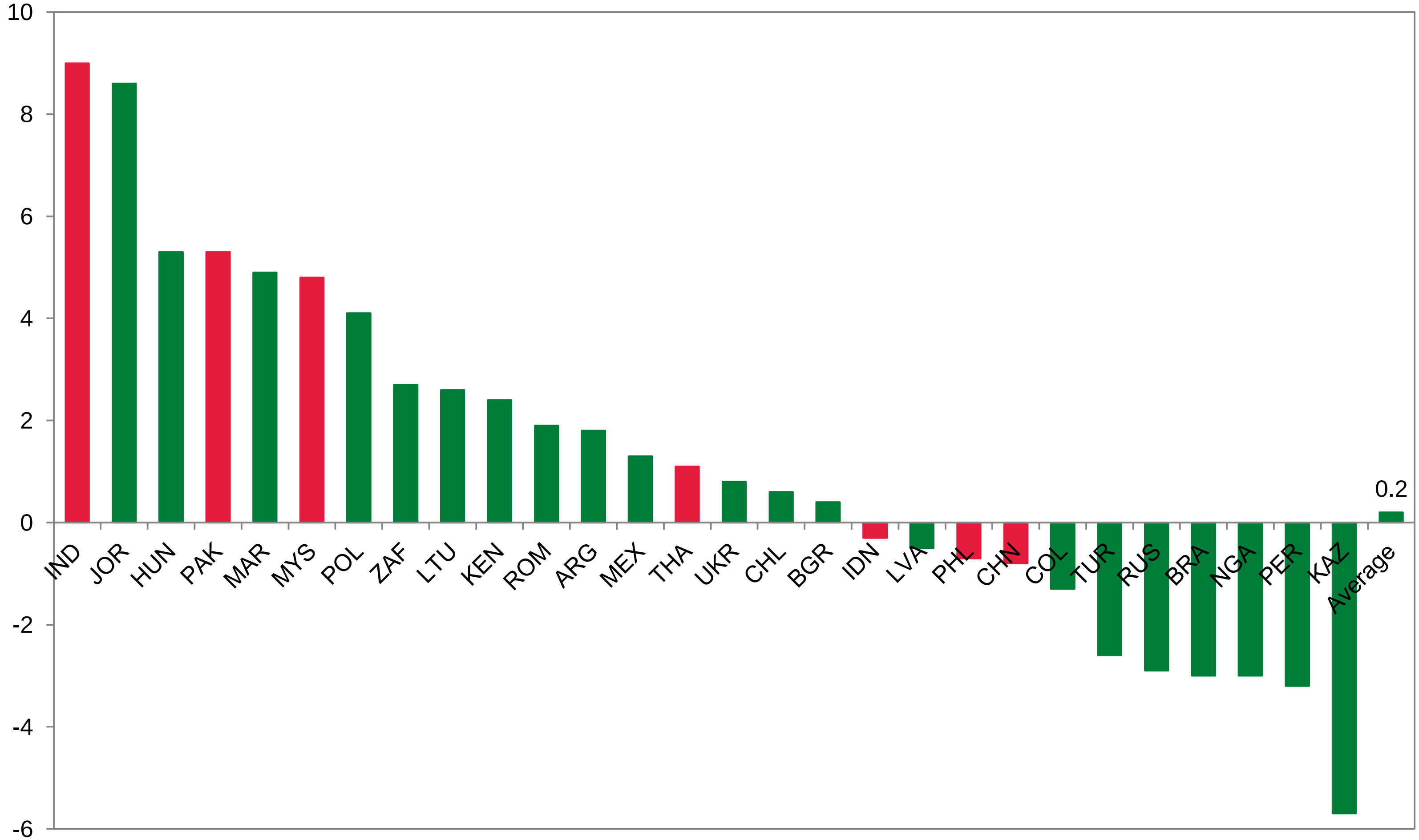
Illustrative Adjustment Needs, percent of GDP



Source: IMF.

Emerging economies are in a stronger overall fiscal position, but some countries are vulnerable

Illustrative Adjustment Needs, percent of GDP



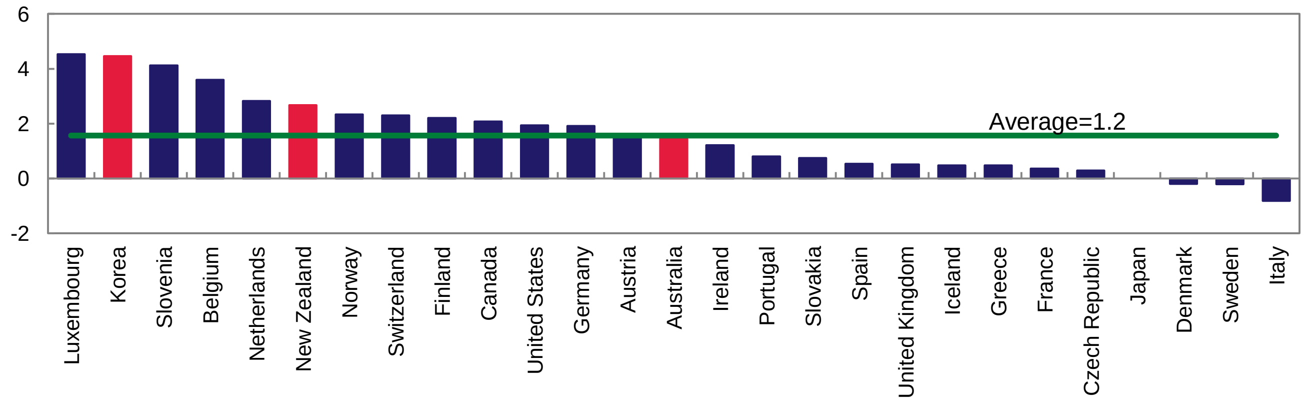
Source: IMF.

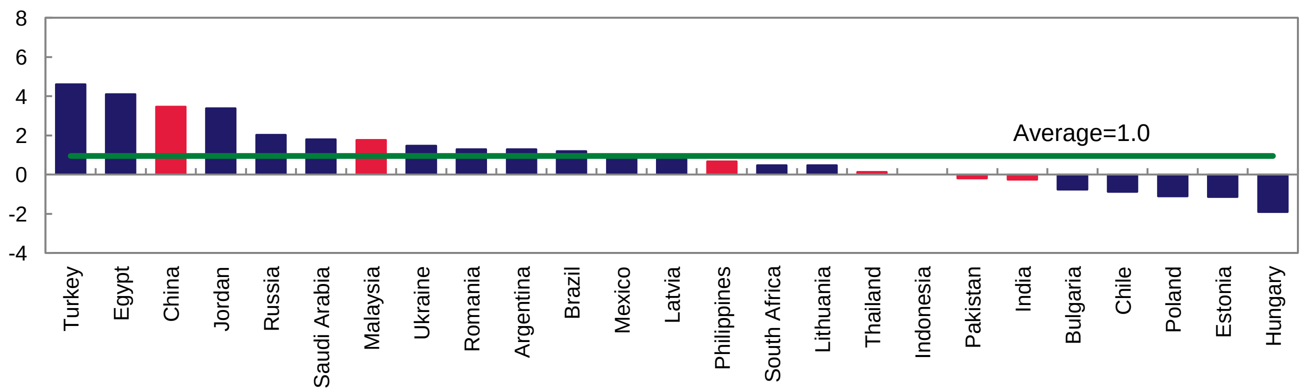
Implications for fiscal policy and pensions

- Fiscal adjustment needs are high in many advanced economies
- Measure of needed fiscal adjustment does not take into account projected increases in pension and public health spending
- Containing increases in pension spending may be needed to support fiscal adjustment
- Emerging economies have more fiscal space

Pension spending pressures will intensify in many countries between 2010 and 2030

Increase in Pension Spending, 2010–2030
(Percent of GDP)

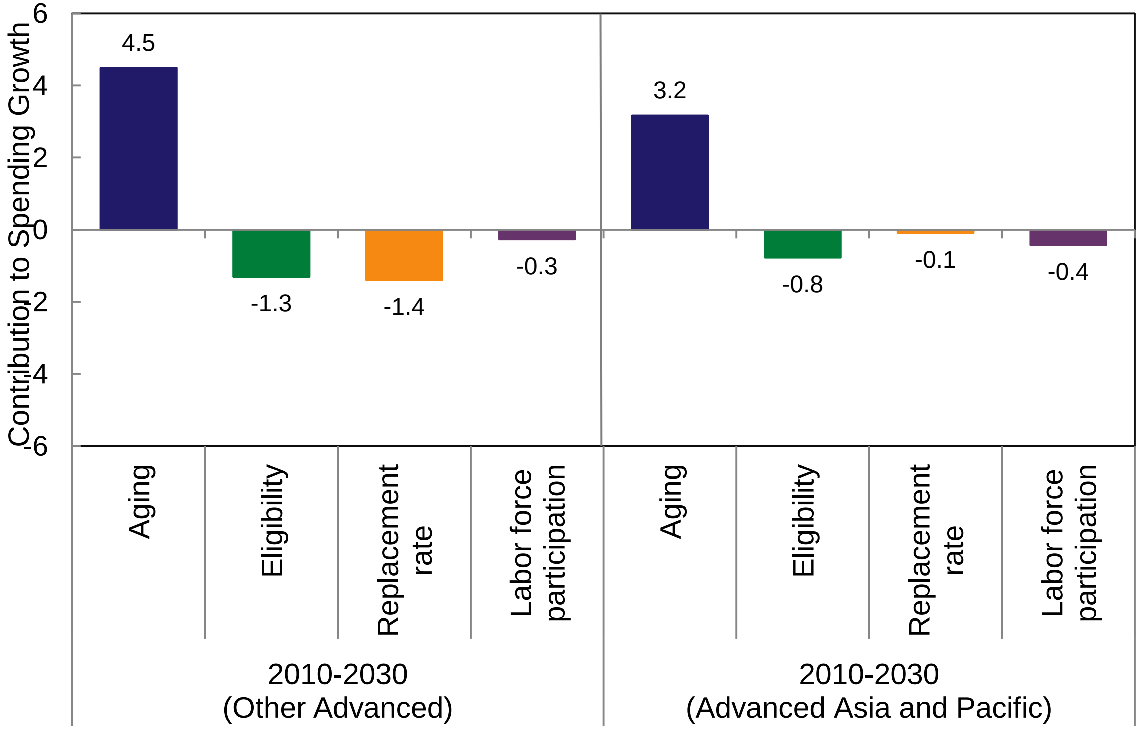




Sources: OECD, EC, ILO, UN, and IMF staff estimates.

Enacted reforms are expected to help contain impact of population aging on spending in advanced economies

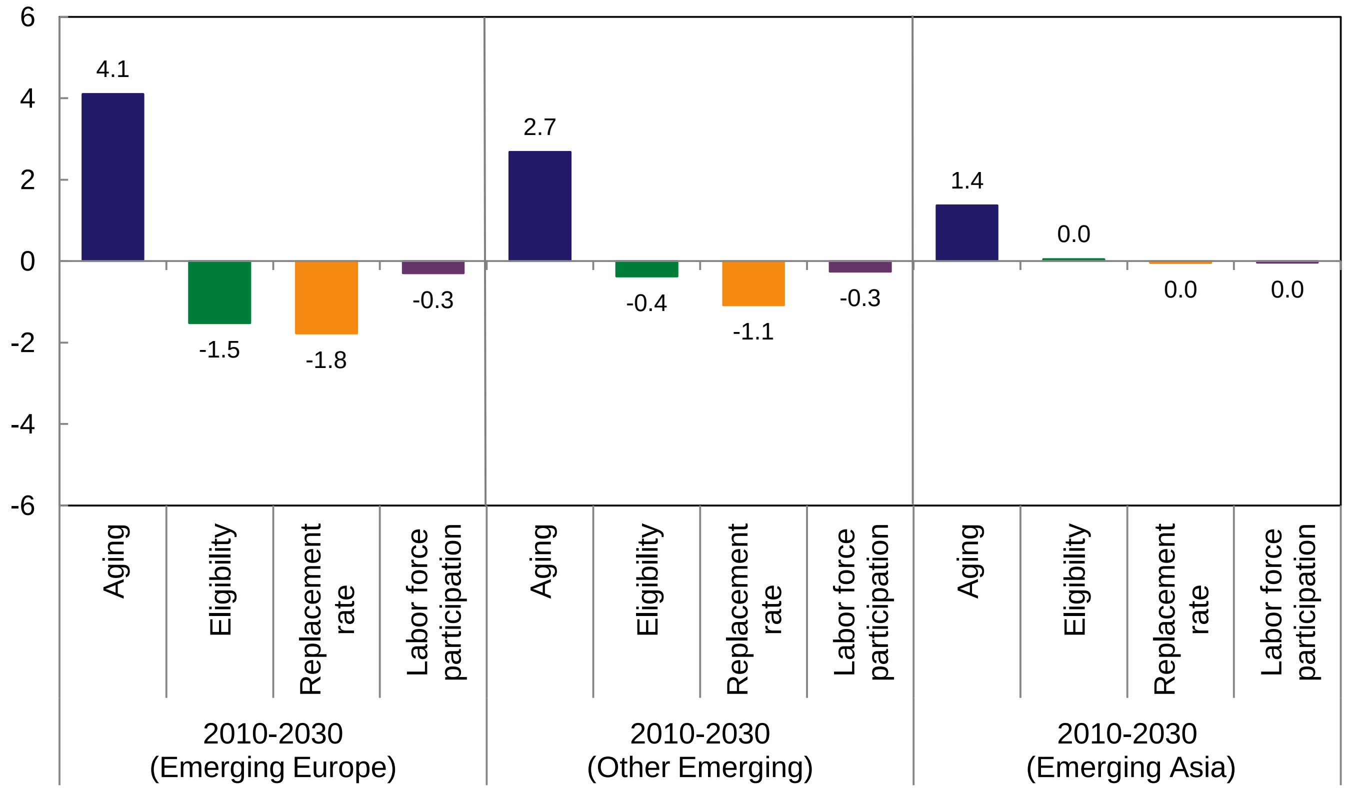
Evolution of Public Pension Expenditures, 2010–2030
(Percent of GDP)



Sources: OECD, EC, ILO, UN, and IMF staff estimates.

Enacted reforms are expected to help contain impact of population aging on spending in most emerging regions except for Asia

Evolution of Public Pension Expenditures, 2010–2030
(Percent of GDP)



Sources: OECD, EC, ILO, UN, and IMF staff estimates.

III. Considerable uncertainty and upside risks to projections

Demographic and macroeconomic risks	
High longevity (>1 percentage point of GDP in 2030 spending)	Czech Republic, Russia, Slovakia, and Ukraine
Low productivity (>0.5 percentage points of GDP in 2030 spending)	Italy, Portugal, and Spain
Labor force participation (>0.5 percentage points of GDP in 2030 spending)	Czech Republic, Japan, Korea, the United Kingdom, and the United States

Considerable uncertainty and upside risks to projections

Other risks	
Reform reversal (Reform impact >5 percentage points of GDP in 2030 spending)	Austria, France, Hungary, Italy, and Poland
Shortfalls in private DB plans (DB plans 30 percent or more underfunded in 2009)	Belgium, Japan, and Sweden
High share in private DC plans (Pension fund assets >40 percent of GDP)	Australia, Canada, Denmark, Finland, Iceland, Ireland, Netherlands, Switzerland, the United Kingdom, and the United States

IV. Conclusions

- Public pension spending has increased in advanced and emerging economies since 1970s
- Aging will put pressure on pension spending in coming decades, with many emerging economies starting from lower levels
- Upside risks to projections and uncertainties
- Containing increases in pension spending in advanced economies may be needed to support fiscal adjustment
- Some but not all emerging economies have fiscal space that could be used to expand pension coverage

Thank you!