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Pension contribution level in nine European countries in 2005

The report compares the pension contribution level in nine European countries in 2005. The countries included are Finland, Sweden, Norway, Denmark, the Netherlands, Germany, France, Great Britain, and Switzerland. The aim of the report is to present the total contribution burden caused by pension provision in different countries when taking into account both statutory pension contributions and contributions to supplementary pension schemes as well as the State's share in pension financing. Comparisons of pension contributions and expenditure usually only include statutory pensions, even though in many European countries occupational pensions constitute a significant part of total pension provision. A comparison which includes only statutory pensions is problematic especially from the Finnish viewpoint. Supplementary pension schemes are rare in Finland and the statutory pension contributions constitute almost on their own the whole contribution, because in Finland the employee's accrual of the statutory earnings-related pension is not restricted through earnings or pension ceilings. A more accurate, and from the Finnish viewpoint more comparable, picture of the total contribution burden in different countries can be obtained by analysing the aggregate contribution levels of both statutory and occupational pensions. The report indicates that excluding supplementary pensions from the comparison gives an inadequate representation of the total contribution burden caused by pension provision in different countries.

Pension contributions are compared to GDP at market and producer prices as well as to the wage sum and the wage sum which also includes the employer's social security contributions. The purpose is to obtain as comparable results as possible by using different indicators. In addition the report presents calculation examples of the pension contributions levied from the individual wage earner.

The contribution level comparison depicts the contribution burden caused by pension provision at a specific point in time for employers, employees and the State. On the basis of the contribution level it is not possible to directly draw conclusions on the pension level in different countries. The contribution level comparison for a certain year does also not indicate which year's pensions are financed through the contributions. Some countries, for instance Finland, fund part of the statutory pension contributions to cover future pensions, whereas in other countries pensions are in practice not funded at all. In 2005 the statutory pension assets in Finland in proportion of GDP were the highest in the EU. The countries at the other extreme of the financing of statutory pensions are represented by Germany and Great Britain, where pension financing is fully based on pay-as-you-go financing. In many countries buffer funds were established in the 1990s to finance the increase in pension expenditure, and the funds are intended to smooth the pension expenditure peaks caused by an ageing population. However, the growth in pension expenditure causes pressure to increase premium incomes in all the countries included in the comparison.

The employer's contribution share as regards statutory pensions is larger than the employee's contribution share in the other comparison countries except Denmark and the Netherlands. In Germany the contribution is divided equally between the employer and the employee. Occupational pension provision is in all countries mainly financed by the employer. The State participates in the financing of statutory pensions in all the countries under comparison. The Danish statutory pension scheme is in practice fully financed from tax revenues. The State's share of the total premium income is significant (about one-third) also in Germany and Norway.

The results of this comparison indicate that when comparing only statutory pension contributions the contribution level was the highest in Finland. By contrast, when the premium incomes for the occupational pension schemes and the State's financing share are included in the comparison, Finland's placing changes considerably. The main conclusion from the comparison is that the contribution levels of the different countries converge when the total contribution burden of the pension schemes are compared instead of just the statutory contributions. Also in Denmark, where the statutory employer and employee pension contributions are the lowest of the countries compared, the total contributions in proportion of the wage sum including the employer's social security contributions and of GDP were one of the highest.

The use of different indicators also changes the placing of the countries somewhat. The most visible change can be observed precisely as regards Denmark, due to the different way of financing the statutory pension scheme as compared to the other countries. As regards certain countries some stability can also be observed despite the use of different indicators. The contribution burden was the highest in Germany and the lowest in Great Britain. As a rule, the contributions for both the statutory and the occupational pension schemes may at least in part be deducted in the taxation. Thus the contribution burden for the employers and the employees is in reality somewhat less onerous than presented in this report.

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