Does France spend too much on pensions compared to OECD averages?

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Public pensions in France would be equivalent to 14% of GDP, an alarming level for many observers. This figure comes from the OECD Economic Survey of France 2021. What concerns OECD economists is not so much the financial sustainability of the system, but the share in public spending, and in GDP points, compared to the OECD average.

The comparison relates only to public systems and not to all pension systems (public and private). Taking private (pre-funded) systems on board, and with due care given to the low availability of data on private pensions, pension expenditure in France increases very marginally (+0.3%). On the other hand, they increase significantly, and quite logically, for countries that substantially rely on pre-funding.

The French pension system is comparatively very transparent, since it is based almost exclusively on the public pillar, and therefore on national accounts, whose data are available and complete. 14-15% of GDP may be a lot, but at least we know where we stand. For other countries, especially those that rely on pre-funding, we do not know too much, or we know less in relation to the available OECD data.

Regarding the sustainability of the system, the issue is on revenue- and contribution-side and hence on the employment situation. On that, the French labour market is abnormally concentrated around the 30-50 year age group, the employment rates before and after this age group being well below the OECD average.

As for the debate on the retirement age, the minimum age for exercising rights is indeed 62 in France. But the "normal" age of departure, according to the harmonized definition of the OECD, is 64.8 years in France, that is... higher than the OECD (64.2 years) and European (64.5 years) averages.

France, we are told, spends too much on pensions. One OECD figure in particular stands out: public pensions are equivalent to 14% of GDP, an alarming level at "nearly double the OECD average" according to The Economist's correspondent in France, "larger than in most other countries" according to CNN, just behind Italy and Greece according to Reuters. Rating agency Fitch is also alarmed by the level of public pension spendings in its latest note on France (although the agency's comments seem more concerned about another figure: the use of the parliamentary "article 49.3" arm-to pass the flagship pension reform and the accompanying "political tensions and social protest"). But are these 14% founded on comparable data?

The 14% figure comes from the OECD's latest economic survey on France, published in December 2021, based on the national accounts for 2019. The report contains a very telling table, reproduced below, in which public spending on pensions in France is compared with the OECD and Euro area averages. This table is accompanied by rather depressing comments on the state of French public spending. Social spending in France (31% of GDP) is well above the OECD average. According to OECD economists, this "deviation from the OECD average is chiefly the result of the pension system". Under the chapter "Reforming public finance to sustain the recovery", the OECD calls for "a medium-term consolidation strategy ", including "reducing pension spending in relation to GDP by raising the retirement age and easing longer careers".

Adding insult to injury, the OECD table includes Germany, a comparison which is not further addressed in the report itself, but which definitely has an impact on the French audience.

Table 1.5. Composition of public spending by main component
2019[1,2]

	France	Allemagne	Euro Area[3]	OCDE[3]	France vs Euro Area (difference)ro	
	% of GDP	% of GDP	% of GDP	% of GDP	% points	Share in total difference (%)
Total public spending	**55.4**	**44.9**	**43.7**	**42.4**	**11.7**	**100**
Primary spending	53.9	44.1	42.7	40.7	11.2	96
Wage bill	12.2	7.8	10.4	10.3	1.8	15
Investment	3.7	2.5	3.3	3.5	0.4	3
Education[4]	4.7	4.1	4.1	4.4	0.6	5
Housing and collective equipment	1.1	0.4	0.5	0.5	0.5	5
Social expenditures	**31.0**	**25.9**	**22.4**	**19.8**	**8.6**	**74**
Pension	14.0	10.2	10.0	8.2	4.1	35
Health	8.5	8.2	5.7	5.6	2.8	24
Family	2.9	2.3	2.2	2.1	0.7	6
Active labour market policies	0.8	0.7	0.6	0.4	0.3	3
Unemployment	1.5	0.9	1.0	0.6	0.6	5
Housing	0.7	0.6	0.3	0.3	0.5	4

Note: 1. Or latest available year. 2. Numbers may not add to totals because of rounding, overlapping across selected spending categories and non-universal coverage of all spending categories.. 3. Non-weighted averages of available data. 4. Excluding pre-primary education.
Source: OECD (2021), OECD Economic Outlook 110 Database, OECD Social Expenditure Database (SOCX); OECD Education at a Glance 2021 Database and National accounts.

OECD economists look at the share of public spending devoted to pensions, expressed as a percentage of GDP. Admittedly, the OECD recommends other measures, in particular to raise the employment rate of older workers, but these are only to accompany, and not to replace the main recommendation: raising the retirement age. "The relatively low average effective retirement age implies high public spending on pensions and low labour participation rates among older workers, which adversely affect medium-term growth."

The financial sustainability of the system itself is not really addressed in the OECD report. Citing the European Commission and the French Conseil d'Orientation des Retraites (COR), the OECD acknowledges that "under the current legislation, public expenditures on pensions are set to remain broadly stable until 2040 and decline thereafter" to reach the Euro area average by 2070. According to the latest COR report, the balance between inflows and outflows would probably be negative in most future scenarios – but it would be negative at stable proportions at around 1% of GDP per year.

Coming back to the above table and zooming on note 2 states saying that "Numbers may not add to totals because of rounding, overlapping across selected spending categories and non-universal coverage of all spending categories". And indeed, upon closer inspection, the table contains elements from two different databases: the COFOG database for the top of the table and the SOCX database for the lower part. Note 3 specifies that the averages used (OECD and euro zone) are unweighted, i.e. the pension system of Luxembourg (640000 inhabitants) is treated on an equal footing with that of Germany (83 million). The difference between weighted and unweighted averages can be significant. The weighted average for the euro area is 12.1%, compared to the 10% unweighted shown in the table.

Above all, this comparison relates only to public pension systems and not to all pension systems (public and private). This makes sense in a chapter on budget cuts and fiscal consolidation. But if so, the entire COFOG classification, not a few extracts, should be shown in order to give an overview of French public spendings in an OECD comparison. Over the period 2007-2019, a full COFOG comparison would show the enormous effort made to reduce expenditure on public services in France (-1.6 pt GDP, compared with -0.5 OECD average) and, at the same time, the huge increase in "economic affairs" expenditure, i.e. subsidies and aid to businesses (+1.7 in France, +0.0 OECD average) which today exceed the level of expenditure on public services.

If, on the other hand, the objective is to compare pension expenditure as a percentage of GDP, then it would be useful to extend the comparison to private (pre-funded) pension systems, and to the extent possible, by:

- Extending SOCX data collection to private systems ("mandatory private" and "voluntary private") when the data is available, which unfortunately is not always the case. For example, according to SOCX data, the UK spending on private pensions only amount to 0.6% of GDP. As for the Netherlands, the SOCX database does not report any figure on private pensions.
- Comparing with the benefits paid from retirement savings plans drawn from the OECD "Pension Markets in Focus" database, which is broader in coverage than the SOCX database but obviously based on a separate methodology.
- Comparing with the data on occupational and individual pensions drawn from the European Commission annual report "Ageing report 2021", these are also incomplete in coverage and obviously only cover the European Area (EU + Norway).

The table below summarises these different data for France and for selected countries, as well as for the OECD and the Euro area averages.

Pension expenditure in France increases very marginally (+0.3%) when private pensions are taken on board, reaching a total of 14.6%-15% of GDP depending on the source (OECD or EC). Even if private / pre-funding contributions were to rise sharply in France, it is still very far from reaching maturity (the phase of disbursement and payment of benefits). In any event, pre-funding in France is not intended to represent a significant share of the workers' retirement income (except for high income households).

On the other hand, pension expenditure increases significantly and quite logically, for countries where pre-funding is more prominent. In the United States, for example, the figure rises from 7.8% (public system only) to over 16% of GDP (public and private), the highest level of all OECD countries. The OECD average rises from 8.6% to 10.6%. For the "frugal" states (Denmark, Finland, the Netherlands, Austria and Sweden), expenditure rises to levels that are not too far from France.

2019, as % of GDP	Public pensions		Private pensions			Total
source	OECD SOCX	EC	OECD SOCX	EC	OECD PMF	estimate
France	14.3	14.8	n.a.	n.a.	0.3	14.6 > 15.0
Germany	10.4	10.3	n.a.	n.a.	0.3	10.6 > 10.7
UK	6	n.a.	0.6	n.a.	2.8	6.6 > 8.8
US	7.8	n.a.	n.a.	n.a.	8.3	16.1
The "Frugal" 5						
Austria	*13.4*	*13.3*	n.a.	n.a.	*0.25*	*13.6 > 13.7*
Finland	*13.3*	*13.0*	n.a.	n.a.	*1.6*	*14.6 > 14.9*
The Netherlands	*6.6*	*6.8*	n.a.	*5.1*	*4.0*	*10.5 > 11.9*
Denmark	*9.9*	*9.3*	*2.3*	*4.8*	*6.0*	*11.6 > 15.9*
Sweden	*7.8*	*7.6*	n.a.	*4.0*	n.a.	*10.5 > 11.6*
OECD	8.6	n.a.	2.0	n.a.	n.a.	10.6
Euro area average	10.7	10.6	n.a.	n.a.	0.6	10.6 > 11.3
Of which unweighted	*12.1*	*12.1*				

Some conclusions can be drawn, with all the necessary cautions, given the low availability of data on private pensions in an OECD/EU comparison.

First, the French pension system happens to be a very transparent one, at least in an international context. Since it is based almost exclusively on the public pillar, and therefore on national accounting, the data is available and complete. It is equivalent to 14-15% of GDP. It may be a lot, but at least there is nothing fishy about it. For countries relying on pre-funding, the picture is far less clear because of the lack of comparable data. In any case, the French 14-15% is certainly not any close to "double the OECD average" and, it seems, it is not too distant from the "frugal four" countries.

The use of the OECD average is questionable. When it is treated as an end itself, the objective is not necessarily to achieve a fair and efficient system, but to be as close as possible to the average of OECD countries (ranging from Colombia to South Korea, from Hungary to Canada). If France were to adopt the Dutch pension structure overnight, its level of public pension spending would fall from 14.3% to 8.6% of GDP, while private pre-funding would jump from 0.3% to 5.7% of GDP. The 5.7% would then disappear from national accounting, France in turn would be in line with the OECD average, while the total level of government spending would fall below 50% of GDP and everything would be fine (as far as OECD comparisons are concerned).

And if indeed, we are to make use of comparisons and averages, then we should go through the entire exercise and compare the social utility of pension systems. There is certainly a lot to improve in the French system, but there are still some striking indicators: the poverty rate of the over-65s in France (4.4%) is three times lower than the OECD average (13.1%), the replacement rate of the public pillar (60.4%) is well above (42.2% OECD average). Pre-funded systems may offer higher replacement rates, but they do so with less certainty of population coverage rates, especially when union density and social dialogue are lacking: 80-90% in the Nordic and the "frugal" countries, but only 50% in the United Kingdom, and 37.4% in the United States.

With regard to sustainability of the French system, a negative balance equivalent to 1% GDP per year, as foreseen in the downside risk scenario, would leave the system at an annual financing rate of around 93%. The 7% missing are not to be found on the benefit and expenditure side (which will remain stable as mentioned above), but on the contribution side and therefore, on the broader state of the labour market and the employment situation. This is also what the OECD study points out: France has a labour market that is abnormally concentrated around the 30-50 year cohorts, the employment rate before and after this age group being well, well below the OECD average. In fact what is worrying in France is not retirement age as such (62 years), but the huge, and quite unique gap in an OECD context, between the age of exit from the labour market (60.4 years) and the effective retirement age (64.5). At the end of the day, and as far as financing and contributions are concerned, a pension system is like a combine harvester: it can be perfected at will, but if certain plots of land are not well maintained (young people and older people in the labour market), it doesn't do much good.

As for the retirement age, some clarification certainly is needed. The minimum age *for exercising* pension rights is indeed 62 years in France. But the "normal" retirement age, with full benefits and according to the harmonised OECD definition is currently 64.8 years in France, *higher than* the OECD (64.2) and EU (64.5) averages. For the next generation (an individual entering the labour market at age 22), it is 66 in France compared with 66.1 OECD and 66.4 EU average.

Annex: Public and private pensions in OECD economies

	Public pensions		Private pensions			Total	
Source 2019 In % GDP	SOCX-OECD	EC	SOCX-OECD	EC	Pension Markets in Focus	Lower bound	Higher bound
Australia	5.71	n.a.	3.65	n.a.	5.78	9.36	11.49
Austria	13.43	13.32	n.a.	n.a.	0.25	13.57	13.68
Belgium	12.1	12.17	n.a.	n.a.	0.45	12.55	12.62
Canada	5.67	n.a.	n.a.	n.a.	3.27	8.94	8.94
Chile	3.21	n.a.	1.93	n.a.	2.62	5.14	5.83
Colombia	5.7	n.a.	0.63	n.a.	n.a.	6.33	6.33
Costa Rica	4.77	n.a.	0.26	n.a.	0.74	5.03	5.51
Czech Rep.	8.46	7.99	0.05	n.a.	0.4	8.04	8.86
Denmark	9.94	9.25	2.33	4.78	5.99	11.58	15.93
Estonia	7.81	7.75	n.a.	0.05	0.05	7.8	7.86
Finland	13.32	13.04	n.a.	n.a.	1.59	14.63	14.91
France	14.28	14.76	n.a.	n.a.	0.28	14.56	15.04
Germany	10.36	10.31	n.a.	n.a.	0.33	10.64	10.69
Greece	15.98	15.71	0.06	n.a.	0.1	15.77	16.08
Hungary	7.87	8.32	n.a.	n.a.	0.15	8.02	8.47
Iceland	4.99	n.a.	5.48	n.a.	5.83	10.47	10.82
Ireland	4.02	4.56	n.a.	1.01	n.a.	5.03	5.57
Israel	4.01	n.a.	n.a.	n.a.	n.a.		
Italy	15.72	15.39	n.a.	n.a.	0.4	15.79	16.12
Japan	9.79	n.a.	0.23	n.a.	n.a.	10.02	10.02
Korea	3.31	n.a.	0.09	n.a.	n.a.	3.4	3.4
Latvia	7.47	7.14	n.a.	0.01	0.12	7.15	7.59
Lithuania	7.13	7.14	n.a.	0.01	0.11	7.14	7.25
Luxembourg	9.5	9.22	n.a.	n.a.	0.18	9.4	9.68
Mexico	3.12	n.a.	n.a.	n.a.	0.55	3.67	3.67
Netherlands	6.56	6.81	n.a.	5.13	3.95	10.51	11.94
N-Zealand	4.94	n.a.	n.a.	n.a.	n.a.		
Norway	9.72	10.97	n.a.	n.a.	0.22	9.94	11.19
Poland	10.83	10.64	n.a.	n.a.	0.04	10.68	10.87
Portugal	13.4	12.72	n.a.	0.32	1.26	13.04	14.66
Slovakia	8	8.33	n.a.	n.a.	0.14	8.14	8.47
Slovenia	9.62	9.96	n.a.	n.a.	0.17	9.79	10.13
Spain	12.39	12.34	n.a.	0.55	0.53	12.87	12.92
Sweden	7.75	7.64	n.a.	3.97	n.a.	10.54	11.61
Switzerland	7.27	n.a.	4.22	n.a.	5.16	11.49	12.43
Türkiye	7.5	n.a.	n.a.	n.a.	0.06	7.56	7.56
UK	5.95	n.a.	0.61	n.a.	2.81	6.56	8.76
US	7.78	n.a.	n.a.	n.a.	8.34	16.12	16.12
OECD	8.6	n.a.	1.98	n.a.		10.58	10.58

SOCX: incl. Old Age pension& early retirement pension, Survivors Pension, Incapacity related disability & occupational injury and disease https://www.oecd.org/social/expenditure.htm & https://stats.oecd.org/Index.aspx?DataSetCode=SOCX_DET#
EC: The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070) https://economy-finance.ec.europa.eu/publications/2021-ageing-report-economic-and-budgetary-projections-eu-member-states-2019-2070_en

OECD Pension Markets in Focus 2022 - Table A.B.5. Total benefits paid from retirement savings plans, 2010-2021 https://www.oecd.org/pensions/pensionmarketsinfocus.htm & https://www.oecd.org/daf/fin/private-pensions/Pension-Markets-in-Focus-2022-Statistical-Annex.xlsx