

Unfunded pensions in the EU and in the UK public sector

- Much EU pension provision is unfunded
- UK has most funded assets in absolute terms
- Some other countries have more funded assets relative to GDP

Pension fund assets EU bn and % of GDP

Country	Value of Assets Euro Bn	Assets as a % of GDP
Austria	23	12
Belgium	28	12
Denmark	163	108
Finland	52	41
France	56	4
Germany	257	13
Ireland	40	47
Italy	218	20
Netherlands	530	141
Norway	44	31
Portugal	10	10
Spain	25	5
Sweden	236	107
Switzerland	267	117
UK	1261	101

Source: European Pension Fund Managers Guide 2000 – William Mercer

■ Some EU countries have high expenditure on State Pensions

■ Demographic ageing

■ Contribution rates will have to increase significantly in future

■ State pension liabilities are “off balance sheet”

Support ratios

Year	2000	2030	2050
Austria	4.1	2.3	1.9
Belgium	3.6	2.2	2.1
Denmark	4.2	2.6	2.5
Finland	4.2	2.2	2.1
France	3.8	2.3	2.0
Germany	3.8	2.2	1.9
Greece	3.6	2.4	1.8
Ireland	5.5	3.4	2.3
Italy	3.5	2.0	1.5
Luxembourg	4.3	2.5	2.5
Netherlands	4.6	2.4	2.3
Portugal	4.1	2.9	2.1
Spain	3.8	2.4	1.6
Sweden	3.5	2.4	2.2
UK	3.9	2.5	2.2
EU 15	3.8	2.3	1.9

Sustainable contribution rates and contribution gaps (in percent of GDP)

	Projected contribution rate in 1995	Sustainable contribution rate 1995-2050	Contribution
Major industrial countries	6.5	8.3	1.8
Canada	3.8	5.8	2.0
France	12.1	15.4	3.3
Germany	10.3	13.7	3.4
Italy	16.0	18.5	2.5
Japan	3.9	7.2	3.3
Sweden	7.1	8.0	0.9
United Kingdom	4.2	4.3	0.1
United States of America	4.7	5.5	0.8

Source: Chand & Jaeger (1996)

UK pension expenditure

Source of pension	Funded/Pay as you go	1999 Pension expenditure £ bn
Basic State pension	Pay as you go	33.4
SERPS	Pay as you go	4.3
Unfunded public sector schemes	Pay as you go	12.6
Funded pension schemes	Funded	26.1
Personal pensions	Funded	3.0
Total		79.4

Type of scheme	Value of accrued rights 1996
State pension scheme, basic and SERPS	£944bn
Occupational pension schemes	874

	Assets 1998
Self administered	£700bn
Insured	140
Personal pensions	275
Total	1115

- Does funding solve the demographic time bomb?
- Reasons for funding
- Risks of funded and unfunded schemes
- A mixture of funded and unfunded schemes is sensible