Financing of Social Protection

Financing of Social Protection

This document was produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union.

Please cite this publication as:
OECD (2026), *Financing of Social Protection*, OECD Publishing, Paris, https://doi.org/10.1787/b384fd31-en.

ISBN 978-92-64-96667-3 (print)
ISBN 978-92-64-45986-1 (PDF)
ISBN 978-92-64-38609-9 (HTML)

Photo credits: Cover © Javier Bermudez Zayas/Shutterstock.com.

Corrigenda to OECD publications may be found at: https://www.oecd.org/en/publications/support/corrigenda.html.

Foreword

Many OECD and EU countries are facing fiscal strain, exacerbated by high levels of debt accumulated during COVID-19 and the subsequent cost-of-living crisis, high interest rates and an uncertain macroeconomic and geopolitical outlook. Population ageing is expected to add pressure on spending: between 2023 and 2045, spending on pensions is projected to increase by 1.1 percentage points (p.p.) of GDP in the OECD, and by 1 p.p. in the EU. Similarly, spending on health- and long-term care is projected to rise by 1.5 p.p. of GDP in the OECD, and 0.7 p.p. in the EU over the same time period. The degree to which new social programmes will be needed to offset the effects of new technologies on jobs and wages is yet unknown. At the same time, labour income – currently the main resource base for social protection financing – is being squeezed by shrinking working-age populations unless labour supply and / or productivity increase sufficiently to offset this decline. Given the gap between growing demands and potentially declining resources, and without obvious sizable and politically feasible candidates for social spending cuts, many countries are taking stock of their current financing mixes and considering broadening the base of social protection financing.

This report – *Financing of Social Protection* – forms part of the OECD's Future of Social Protection programme of work, overseen by the OECD Employment, Labour and Social Affairs Committee. It also builds on the Report of the High-Level Group on the Future of Social Protection and the Welfare State in the EU of February 2023, and its findings and recommendations on the current financing structure of welfare states in the EU, the major constraints they face, and possible further sources of revenue. The report takes stock of how OECD and EU countries are currently financing their social protection systems, notably the mix between social contributions and general revenue, including earmarked sources; considers challenges related to the social protection coverage of and contributions by self-employed and part-time workers; and looks at the development of the labour share, and how it may be impacted by population ageing and technological progress. It also examines current policy trends and debates across OECD and EU countries, as well as attitudes towards broadening the financing basis for social protection.

This report was prepared by a team in the Social Policy Division of the OECD's Directorate for Employment, Labour and Social Affairs. Juan Siachoque (University of Nottingham) contributed to the drafting of Chapter 3.

The report benefitted from input of many national delegates to the EU's Social Protection Committee and its Indicator Sub-Group, and from the OECD's Working Party for Social Policy and Senior Budget Officials. We are grateful to European Commission officials, in particular Laurent Aujean and Fabiana Pierini (DG EMPL), as well as Terry Ward (Applica) for their guidance and comments. We also acknowledge useful comments from colleagues in the OECD's Directorate for Employment, Labour and Social Affairs, as well as the OECD Centre for Tax Policy and Administration. The OECD gratefully acknowledges the financial support from the European Union, which co-financed this project with the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the OECD Member countries or the European Union.

Table of contents

FIGURES

TABLES

Executive summary

OECD and EU countries face rising expenditure on pensions, health and long-term care as their populations age. Structural change and technology-driven job reallocation may also add to spending needs. At the same time, labour income, the main financing base for social protection in most countries, is under pressure from population ageing as well as non-standard forms of work. With few sizeable and politically feasible spending cuts available, many countries are reviewing their financing mixes and considering broader funding bases.

Social protection expenditure accounts for 23% of GDP in the OECD and EU

Old-age, health and disability benefits are the largest areas of public social spending, ahead of e.g. family, unemployment benefits or social assistance. Between 2023 and 2045, spending on pensions is projected to further increase by 1.1 percentage points (p.p.) of GDP in the OECD, and by 1 p.p. of GDP in the EU. Spending on health- and long-term care is projected to rise by 1.5 p.p. of GDP in the OECD, and by 0.7 p.p. in the EU. Private social spending (such as payments by occupational pension funds) remains limited in the EU, averaging 2.3% of GDP in 2021.

On average, roughly half of public social spending is financed through social security contributions (SSCs)

Financing strategies differ significantly across countries. Across the OECD, SSCs financed 43% of social spending in 2023, down from 47% in 1995. As a share of GDP, they have remained stable, while general-revenue-funded spending expanded. In the EU, employers pay more than half (60%) of social contributions, although their share in total financing decreased by 4 p.p. over the past decade, while employee contributions rose by 2.7 ppts. SSC financing is much higher for earnings-related old-age and unemployment benefits (63%) than for family benefits (23%), reflecting the stronger link with employment-related risks of the first two.

The self-employed account for 14% of employment but only 4% of contributions in the EU

This reflects both formal coverage gaps and the concentration of the self-employed among both low- and high earners. Coverage gaps are largest for unemployment benefits while pension coverage is more robust. While many countries offer voluntary schemes for otherwise uninsured risks, take-up is low, connected to low willingness to pay. Voluntary schemes also struggle with adverse selection effects, and thus incomplete risk pooling. Several countries are expanding coverage for the self-employed, including platform workers, especially since the COVID-19 crisis.

Population ageing will reduce total hours worked

If employment rates follow projected age- and gender-specific trends and hours worked by worker remain unchanged, total hours worked will decline in almost all countries – by around 9% across the OECD and almost 20% across the EU between 2024 and 2060, directly affecting total labour income. Higher employment among under-represented groups and longer working hours could offset this decline on average, though not everywhere. However, this would require costly government action, and yet the full potential is unlikely to be realised.

The labour income share declined between the 1970s and the 1990s, but has remained broadly stable since then

As SSCs are mainly levied on labour income, the share of GDP accruing to labour is key for social protection financing. While there is no consensus on the drivers of its decline, the rise of high-productivity, low labour-intensity firms appears to play a role. Technological change may reduce the labour share by raising capital productivity, even without aggregate job losses. The implications of AI remain uncertain: while it may automate some tasks, it may also create new tasks and jobs.

Tax revenue is likely to decline because of population ageing

Without changes in labour supply, wages, or tax policy, total labour income is projected to decline because of a shrinking working-age population. This will in turn lead to lower tax revenue, about half of which is raised from labour income. In contrast, capital income may be more resilient as older people hold more wealth. Income from capital – including dividends, capital gains and interest – also tends to be more favourably taxed than labour income in most OECD countries. Countries may therefore consider increasing the share of capital income taxation in their tax mix.

Inheritances are set to increase

Average inheritances are expected to increase because of asset appreciation and fewer heirs per bequest due to lower fertility. Inheritance taxes may therefore play a bigger role in countries' tax mix. If well-designed, they can raise revenue while enhancing equity, at lower efficiency and administrative cost than other alternatives. However, they are unpopular: only one-third of respondents to the OECD Risks that Matter Survey considered them "fair or very fair".

Taxes on immovable property are underutilised in many countries

Property taxes are relatively non-distortionary given the immobile tax base but require frequent property revaluations. Higher property tax revenues could help local governments meet spending pressures, including, in some countries, for long-term care, which are expected to increase as populations age.

Benefits unrelated to employment could be financed from general revenue

General revenue could play a greater role in financing benefits and services not designed to insure against employment-related risks, such as poverty prevention and child benefits, or services such as health and long-term care. Such a shift would reduce reliance on funding bases vulnerable to population ageing and automation. However, changing the financing structure may be politically difficult as governance is often

linked to financing (e.g. through autonomous social insurance institutions). Higher general revenue subsidies to insurance-based schemes offer an alternative, though categories such as the self-employed or those with unstable careers benefit less from insurance-based schemes in some countries. General-revenue subsidies may therefore be well-suited for benefits not directly tied to contributions, such as pension credits for care leave and unemployment.

Undeclared work narrows the financing base, weakens risk pooling and leaves workers uninsured

Effective responses may combine enforcement with measures that make formal work more attractive. For workers and firms with the capacity to operate formally, the priority should be compliance, supported by digital technologies. For low-paid vulnerable workers, subsidising social contributions can help encourage formal employment.

1 A stocktaking of current financing mixes in social protection systems

This chapter looks at how EU and OECD countries are currently financing their social protection systems. It gives an overview of recent trends in social spending, before charting the development of broad funding bases over recent years – social security contributions, general revenue financing, and earmarked resources, including the split between employer and employee contributions. It then looks at three specific branches that are likely to be especially impacted by population ageing and / or new or emerging forms of work, applying a life-course approach: family benefits, unemployment insurance and old-age benefits.

1.1. Introduction

Many OECD and EU countries are facing fiscal strain, exacerbated by high levels of debt accumulated during COVID-19 and the subsequent cost-of-living crisis, made worse by higher interest rates and an uncertain macroeconomic and geopolitical outlook. Emerging challenges are expected to add to this pressure on spending. Population ageing will require increased spending on pensions, health and long-term care systems: Between 2023/24 and 2045, expenditure on old-age pensions is projected to increase by 1.1 percentage points (p.p.) of GDP across the OECD on average (from 8.8% of GDP to 9.9% in 2045) and by 1 p.p. (from 9.9 to 10.9% of GDP) across the EU on average (OECD, 2025[1]).[1] Spending on health- and long-term care is forecast to grow by 1.5 p.p. of GDP across the OECD on average between 2023 and 2045 (from 6.9% to 8.4% of GDP), and by 0.7 p.p. across the EU (from 8.6% to 9.3% of GDP, (OECD, 2025[2]; European Commission, 2024[3])). Other emerging challenges add to these spending needs: the green transition will require programmes to support job transitions, the re-skilling of workers, help for households struggling with carbon prices, and investments in housing. The degree to which new social programmes will be needed to offset the effects of new technologies on jobs and wages is currently unknown.

At the same time, labour income – currently the main resource base for social protection financing – is being squeezed by shrinking working-age populations (due to lower birth rates) and a trend toward non-standard forms of employment, including part-time work. A decrease in the aggregate wage bill would negatively impact on the financing of social protection systems (OECD, 2024[4]). Given this gap between growing demands and potentially declining resources, and without obvious sizable and politically feasible candidates for social spending cuts, many countries are taking stock of their current financing mixes and considering broadening the base of social protection financing.

This chapter looks at how EU and OECD countries are currently financing their social protection systems, notably the mix between contributions and general revenue, including earmarked sources. It starts out with a bird's eye view of overall social protection expenditure across the EU and non-EU OECD countries, including the development of privately administered social spending (Sections 1.2 and 1.3). It then goes on to chart the development of broad funding bases over recent years – social security contributions (SSCs), general revenue financing (GR), as well as the financing of overall social protection spending using the ESSPROS database (Section 1.4), including the split between employer and employee contributions (Section 1.5). It then looks at three specific branches that are likely to be especially impacted by ageing populations and / or new or emerging forms of work, applying a life-course approach and partly updating previous work by (Spasova and Ward, 2019[5]): family benefits, unemployment insurance and old-age benefits (Section 1.6).

1.2. What are the most sizable areas of social spending?

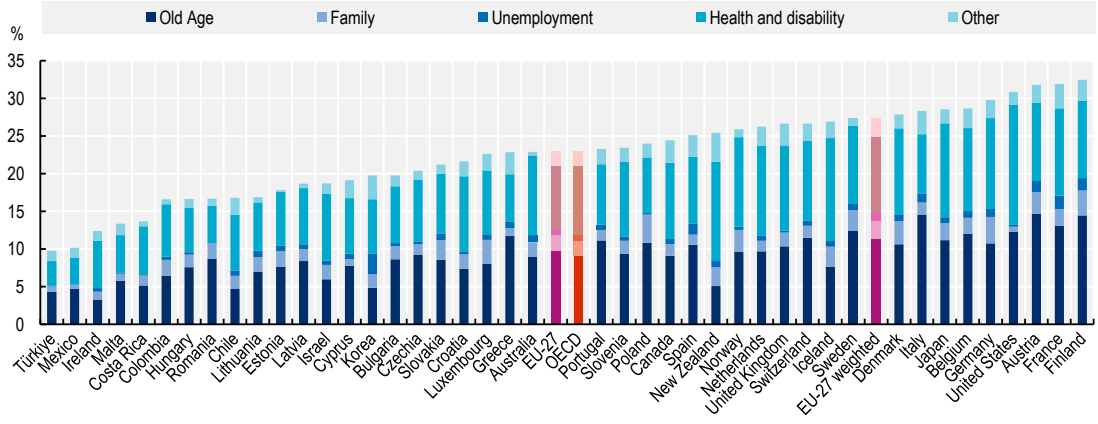
Total (public and private[2]) social protection expenditures accounted for 23% of GDP in OECD and EU countries on average in 2024 (Figure 1.1). Across the OECD and EU on average, old-age benefits (9.1% of GDP on average across the OECD and 9.8% of GDP in the EU on average) and health and disability (9.2% across the OECD and 8.5% in the EU on average) are the largest areas of public social spending.[3]

Public[4] spending on old-age and survivor cash benefits has increased from 5.6% of GDP in 1980 to 8.1% in 2021 across the OECD on average due to population ageing and the maturing of pension systems (not shown). Over the past four decades, population ageing also contributed to an increase in public spending on health from 4.0% in 1980 to 5.9% before the onset of the COVID-19 pandemic in 2019. In the context of the pandemic, public expenditure on health peaked of 6.6% of GDP in both 2020 and 2021. As the pandemic subsided in 2022 public spending on health declined and estimates for 2023 pointed to only a small increase in 2022/23 (OECD, 2024[6]).

The level of spending on old-age benefits[5] and health varies markedly across countries. At over 14% of GDP in 2024, total (public and private) pension spending was highest in Austria, Italy and Finland and lowest at below 5% of GDP in Ireland, Türkiye, Chile, Mexico and Korea. Total spending on health and disability ranged from over 13% of GDP the United States, Iceland and New Zealand to 5% of GDP or less in Türkiye, Mexico, Romania and Malta (Figure 1.1). These cross-country differences are positively correlated with differences in the age-structure of populations and labour markets, the number of older people who have access to pensions and healthcare, and the design of pension and healthcare systems including their generosity. For example, pension spending in Korea is much lower than in Greece or Italy, partly connected to the fact that in 2020 the Korean population was relatively young and the ratio of senior citizens (65+) to persons aged 20-64 was 24, much lower than in Greece (38) and Italy (40) (OECD, 2024[7]).

Figure 1.1. Old-age, health and disability benefits are the biggest spending items

Total social protection expenditure by function as a percentage of GDP, 2024 or last year available



Note: Total social protection expenditure refers to public and private social expenditure (see Box 1). Data include both cash and in-kind benefits. Family benefits include childcare classified as social protection, but education expenditure is generally outside the scope of ESSPROS. The 'health' function includes cash benefits that replace earnings losses due to sickness or injury, as well as medical care. Similarly, the 'disability' function includes cash benefits for working-age people unable to work because of a disability, as well as goods and services other than medical care provided for disabled people. The "Other" category refers to survivors' benefits (normally included with old-age, but separated out here as Figure 1.6 shows financing for old-age benefits separately), housing, and social exclusion (cash and in-kind benefits and services for the socially excluded that are not already in another function, e.g. means-tested payments for working-age people who are not disabled or unemployed, accommodation for vulnerable people etc.) . OECD and EU-27 averages refer to the unweighted average of available countries. The EU-27 weighted average is calculated as the sum of all expenditure in EUR (nominator) divided by EU-27 GDP (denominator), as published by Eurostat. This corresponds to an average weighted by national GDP. For EU countries, data refer to 2024; ESSPROS early estimates by function. For Colombia, Chile, Israel, Switzerland, Türkiye to 2023; Australia, Canada, Costa Rica, Korea, Mexico, New Zealand, the United Kingdom, the United States to 2022; and Japan to 2021. Data on 2021 and 2022 may still contain some COVID-19 emergency measures; cross-country comparisons should therefore be made with caution.
Source: Data for EU countries refer to Eurostat ESSPROS data on Expenditure on social benefits by function (https://ec.europa.eu/eurostat/databrowser/view/spr_exp_func__custom_19311952/default/table) and data for OECD non-EU countries refer to the OECD Social expenditure database (SOCX) https://www.oecd.org/en/data/datasets/social-expenditure-database-socx.html.

Dedicated cash and in-kind support for the working-age population accounts for a much smaller share of total social protection spending: across the OECD on average, family benefits including child allowances, parental leave payments and childcare services accounted for 2.1% of GDP across the OECD on average (2.0% of GDP across the EU on average) while unemployment benefit (UB) spending amounted to 0.8% of GDP across the OECD and the EU on average.[6] With regard to family benefits, the top spenders were Poland (3.7% of GDP), where recent expansions in universal child benefits increased total spending

(OECD, 2025[8]); Germany (3.5% of GDP), where cash child support is similarly high, combined with generous parental leave provision (OECD, 2025[9]); as well as Finland (3.3% of GDP), where over half of family spending is on services (OECD, 2026[10]), including a guaranteed daycare place for children between nine months and six year of age, at low- to no-cost for low-income families (OECD, 2025[11]). Spending is lowest in Mexico, the United States and Türkiye (below 0.7% of GDP). Türkiye and Mexico do provide means-tested support for low-income families, but lack a universal child benefit, while the United States provides a significant share of benefits through tax breaks that are not included in social protection expenditure (OECD, 2026[10]; OECD, 2026[12]), Box 1.1.

Unemployment benefits (UB) spending amounted to 0.8% of GDP across the OECD and EU average, significantly down from pandemic peaks (see below). For instance, in the EU, expenditure on UB was more than twice as high in 2020 than in 2024. High spending in Korea is related to the fact that the value refers to 2022, and is therefore likely still affected by pandemic-related benefit expansions and GDP contraction, although Korea did expand the coverage of its unemployment insurance to non-standard workers in recent years (OECD, 2023[13]). Spending in 2024 was also high in countries with higher unemployment rates and/or higher per-capita spending (France, Finland, Spain, Austria). On the other hand, Mexico, Romania, Türkiye, Malta and Costa Rica show very low levels of UB spending. In the case of Malta, this is connected to very low levels of unemployment (3.1% compared to 6% across the EU on average in October 2025 (EUROSTAT, 2025[14])). In Romania, net replacement rates are low compared to other EU and OECD countries, and only about one in ten jobseekers receive unemployment benefits. Few jobseekers register with the PES because income- and job search support is limited, as spending on active labour market policies is also low in the EU comparison (OECD, 2025[15]). Costa Rica and Mexico do not operate national UB systems (OECD, 2025[16]; OECD, 2022[17]). “Other social spending” is a residual category comprising survivor’s benefits, housing, and social exclusion benefits. Here, New Zealand and France are the highest spenders, with likely drivers a combination of comparatively high spending on housing supports (about 0.5% of GDP, highest spenders after the United Kingdom, Finland and Denmark (OECD, 2026[18])), high levels of means-tested income support (Hyee et al., 2024[19]), and, in the case of France, high expenditure for survivors’ pensions (OECD, 2025[1]).

Box 1.1. Key Data sources and statistical concepts

ESSPROS

The European System of integrated Social PROtection Statistics (ESSPROS) enables the cross-country comparison of the administrative national data on social protection expenditure (cash and in-kind benefits) and revenue in EU Member States.

The scope of social protection under ESSPROS is: “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, by convention, as follows: Sickness/Healthcare, Disability, Old age, Survivors, Family/children, Unemployment, Housing and Social exclusion not elsewhere classified”. (Eurostat, 2026[20]) Household out-of-pocket spending (e.g. healthcare spending not covered by insurance such as non-reimbursed pharmaceuticals and dental services) as well as direct transfers of resources between private households or individuals are not included in this definition.

ESSPROS provides annual data starting in 1990 on social protection revenues (receipts) and expenditures *by scheme*, including both cash and in-kind benefits. “Schemes” are statistical units that are associated with expenditure or revenues in ESSPROS. These do not necessarily refer to institutions, although in many cases they do. In practice, they can for example refer to bodies or entities

that administer social benefits and/or services and may be run by the government or other bodies (e.g. employer or employee organisations). Often, but not always, they are agencies responsible for the administration of benefits or services, but the same organisation can also be responsible for multiple schemes. For instance, in Austria, the "fund for the equalisation of family burdens" (*Familienlastenausgleichsfonds*) is a scheme – it is a fund that is financed by employer contributions, and pays for several family benefits, most importantly the universal child benefit, but also other smaller programmes. It is not an agency but an account.

SOCX

The OECD Social expenditure database (SOCX) contains information on social protection spending in OECD countries by branch (or *function*). It draws on ESSPROS data for European countries and from a regular questionnaire on social expenditure completed by national authorities for non-EU OECD countries.

In contrast to ESSPROS, which shows total social expenditure, SOCX distinguishes between **public and private social expenditure** based on who controls the relevant financial flows, public institutions or private bodies. Public expenditure includes schemes administered by the central government, social security funds or state and local government. Private expenditure is associated with schemes run by private bodies. This distinction is made according to the characteristics of the scheme related to decision making in ESSPROS.

Private expenditure can further be split up in **mandatory private, and voluntary private social expenditure**. *Mandatory private expenditure* includes, for instance, social benefits or services stipulated by legislation but operated through the private sector, e.g. legislated, employer-provided sick-pay, or benefits accruing from mandatory contributions to private pension funds, statutory or benefits from compulsory private-sector health insurance. Voluntary private social expenditure is voluntary, but involves the redistribution of resources across households, e.g. social benefits administered by NGOs, benefits from voluntary, but tax advantaged individual pension plans, or collective (often employment-related) programmes, such as pensions, childcare support, or employment-related health plans. Household out-of-pocket spending, voluntary private insurance without an element of redistribution, such as life insurance plans, as well as direct transfers between private households or individuals are *not* contained in private social expenditure.

Note that SOCX considers data on the size of private social spending to be of lesser quality than information on public social spending coming from budgetary allocations. For instance, in Germany, employees are entitled to continued wage payments by their employer for the first six weeks of sick leave – these are employer-administered payments and thus private. In ESSPROS, these payments are imputed employers' social contributions, taken from the websites of trade unions and employers' associations (ESSPROS, 2021[21]), supplemented by other sources, including labour force surveys. Private social expenditure may also be underreported because they are not included in national accounts (e.g. social benefits paid by NGOs).

This is not the case for all private expenditure, however, e.g. expenditure by privately-run pension funds is considered very reliable. Private social expenditure is also less quantitatively important: across 22 EU countries with available data on average, private social spending accounted for 2.3% of GDP in 2021, the last year with available data, see Figure 1.3, compared to public social spending above 20% of GDP across EU countries on average (see Figure 1.2).

The OECD Global Revenue Statistics Database only includes the revenue of the general government institutional sector, which is a very different scope from ESSPROS. The two data sources are therefore not comparable.

Gross social expenditure

Data used in this chapter refer to gross expenditure and do not include taxes and social contributions paid on these benefits. They also do not include "tax breaks with a social purpose" (TBSPs), that directly provide social support or aim to stimulate the private provision of social support. TBSPs often have a similar purpose as cash benefits to households, e.g. child tax allowances or child tax credits (such as the CTC in the United States).

Social contributions

Social contributions (SCs) refer to all payments made by employers, employees, self-employed or other protected persons to social protection schemes (mandatory + voluntary) while social security contributions (SSCs) refer to mandatory payments to public statutory social security systems.

EU and OECD averages

Averages shown in the figures as EU-27 and OECD are calculated as simple (unweighted) averages across EU and OECD countries with available data. Eurostat publishes aggregates for the EU-27, that are calculated as the sum of all expenditure in EUR (nominator) divided by EU-27 GDP (denominator). Mathematically, this corresponds to an average weighted by national GDP. Because of the large differences in GDP across EU countries, these two values are not comparable. In the figures, these averages are shown as EU-27 weighted.

Note: For more information see https://www.oecd.org/en/data/datasets/social-expenditure-database-socx.html and the OECD SOCX Manual 2019 Edition: A guide to the OECD Social Expenditure Database (OECD, 2019[22]) and Database - Social protection - Eurostat, https://ec.europa.eu/eurostat/web/social-protection/database.
Source: (Eurostat, 2026[20]; Eurostat, 2025[23]; OECD, 2019[22]).

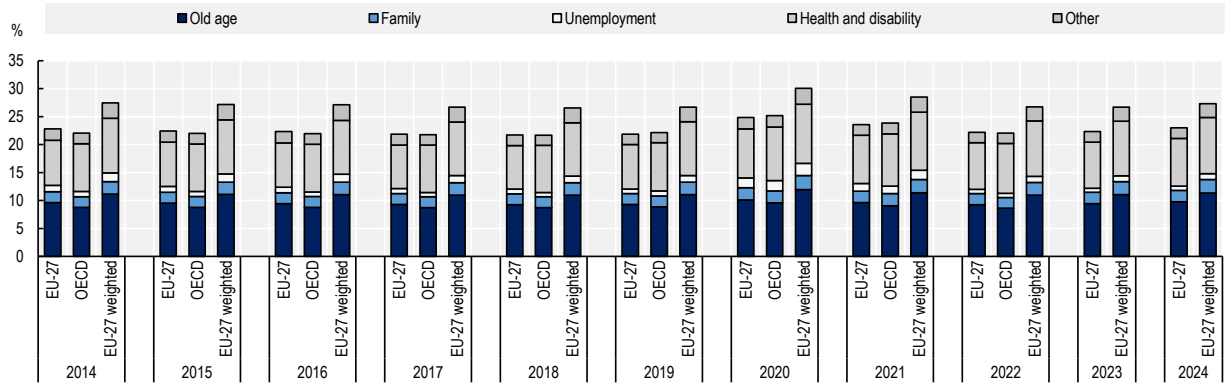
1.3. Social spending trends

1.3.1. Social spending contracted quickly after the strong increase during COVID-19 pandemic, but has lately somewhat rebounded

In the years immediately preceding the COVID-19 pandemic, total social spending as a per cent of GDP was overall stable, with a very slight decline over all areas of social spending driven by a recovery of GDP growth coming out of the Great Financial Crisis (GFC, Figure 1.2). Due to the pandemic, total social protection expenditure increased from 22% of GDP at both the OECD and EU average in 2019 to 25% in 2020.[7] Spending on unemployment benefits more than doubled, but also other benefit functions expanded as a share of GDP, partly due to a contraction of GDP, but mainly because of increased health spending as well as income support for vulnerable groups who did not have access to unemployment benefits (OECD, 2020[24]).[8] Spending then declined almost as rapidly starting from 2021. Spending on unemployment support was back at (or even below) pre-pandemic spending levels in 2022, and total social spending was only slightly above pre-pandemic levels (Figure 1.2). In contrast, it took 10 years of continuous economic growth for social protection expenditure to fall back to pre-crisis levels after the GFC (OECD, 2023[25]).

Figure 1.2. Social spending contracted quickly after the strong increase during COVID-19 pandemic, but has lately somewhat rebounded

Total social protection expenditure by function, EU and OECD average, as a per cent of GDP



Note: Total social protection expenditure refers to public and private social expenditure (see Box 1.). For EU countries, 2024 data refer ESSPROS early estimates by function. Data include both cash and in-kind benefits. The 'health' function includes cash benefits that replace earnings losses due to sickness or injury, as well as medical care. Similarly, the "disability" function includes cash benefits for working-age people unable to work because of a disability, as well as goods and services other than medical care provided for disabled people. The Other category refers to survivors, housing, and social exclusion (cash and in-kind benefits and services for the socially excluded that are not already in another function, e.g. means-tested payments for working-age people who are not disabled or unemployed, accommodation for vulnerable people etc.). OECD and EU averages refer to the unweighted average of available countries. OECD and EU-27 averages refer to the unweighted averages. The EU-27 weighted average is calculated as the sum of all expenditure in EUR (nominator) divided by EU-27 GDP (denominator), the EU aggregate published by Eurostat. This corresponds to an average weighted by national GDP. Data for OECD are not available after 2022.

Source: Data for EU countries refer to Eurostat ESSPROS data on Expenditure on social benefits by function (https://ec.europa.eu/eurostat/databrowser/view/spr_exp_func__custom_19311952/default/table) and data for OECD non-EU countries refer to the OECD Social expenditure database (SOCX) https://www.oecd.org/en/data/datasets/social-expenditure-database-socx.html.

The contraction in social spending was short-lived, however: in the EU on average (where data for 2023 and 2024 are already available), spending as a share of GDP rose again in 2023 and 2024 for old-age benefits and healthcare and to a lesser extent for family and other social expenditure, mainly due to cash supports to households to alleviate the impact of the cost-of-living crisis. Food and energy prices rose considerably in 2022 and 2023, and while inflation concerns abated in 2024, food and energy prices outpaced increments in household incomes in many OECD countries over the 2020 to 2024 period (OECD, 2024[26]).

1.3.2. Private social expenditure is a small share of overall expenditure in most EU countries

Private social expenditure is administered by private bodies, in contrast to public social spending that is administered by central or local government institutions or social security funds see Box 1.1.

On average across the 22 EU countries with available data, private social expenditure only accounted for 2.3% of GDP in 2021 (see Figure 1.3), compared to 24.5% for public social expenditure. However, private social spending is expected to increase as private pension systems introduced over the last decades start to mature. Private social expenditure is most significant in non-EU countries, in particular Switzerland and the United States (13% of GDP). In Switzerland, all employees earning over 22% of the average wage must contribute to private occupational pension funds that complement the basic public pension; similarly, all residents are required to purchase health insurance on the (regulated) marketplace (OECD, 2025[1];

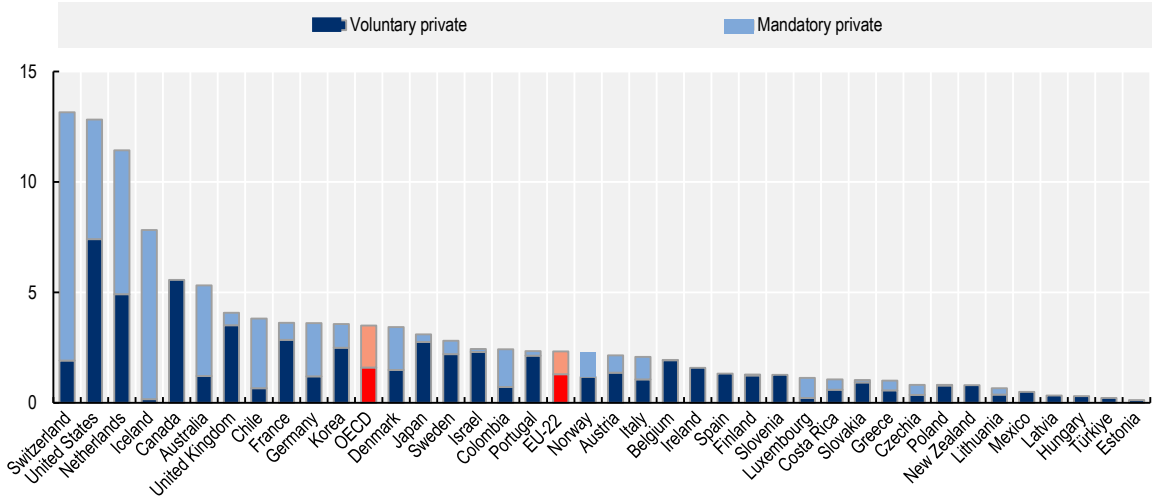
Boes, Weisstanner and Durvy, 2025[27]). In the United States, healthcare is partly private through employer-provided healthcare, but pension-aged and low-income individuals are covered by publicly funded health insurance (Rice, Unruh and Barnes, 2025[28]). Similarly, there is an earnings-related public pension system, but many voluntarily contribute to employer-run private pension funds (OECD, 2025[1]).

The Netherlands stands out as the only EU country with private social spending accounting for more than 5% of GDP (with 11.4%): more than half of all spending on health is administered by competing not-for-profit private insurers and earnings-related pensions are provided by collectively bargained occupational schemes. While there is no statutory obligation for employers to contribute to these occupational pension schemes, about 90% of employees are covered. This explains the high share of voluntary private social protection spending on old-age benefits. See Box 1.2 for additional examples of social protection schemes established by collective agreements.

In Iceland, defined contribution pensions are mandatory but administered by private pension funds, explaining the high share of mandatory private spending, see Figure 1.3 (OECD and EC, 2025[29]; OECD, 2025[1]). In most other EU countries, private social protection spending is only around or below 2% of GDP.

Figure 1.3. Private social expenditure is a small share of overall expenditure in most EU countries

Private social expenditure by type as percentage GDP in 2021



Note: Data refers to private social expenditure (see Box 1.1). OECD and EU averages refer to the unweighted average of available countries. The amount of mandatory private spending in Switzerland includes private (survivor) pension benefits worth 5.7% of GDP in 2021. These pension payments accrue from both mandatory and voluntary private pension contributions in the past, but their share is not separately identifiable.
Source: OECD (2025) OECD Social Expenditure database (https://www.oecd.org/en/data/datasets/social-expenditure-database-socx.html).

As a share of total social protection expenditure, private spending has increased slightly at the EU average over the last two decades from 5.4% in 2000 (or nearest available year) to 6.6% of overall social protection spending 2021 (or latest available year), see Annex Figure 1.A.1.

On average across the OECD, it remained almost constant. Few countries have had big changes in the share of private expenditure. For instance, the Netherlands drastically changed health insurance in 2006: before the reform, the top one-third of earners were covered by voluntary private insurance, while the majority of the population was covered by mandatory publicly-run “sickness funds”. The 2006 reform abolished the sickness funds and introduced a mandate for private insurance for the entire population (IMF, 2018[30]). This reform did not only increase the share of mandatory private spending, but also

decreased voluntary private spending, since health insurance was now mandated for the entire population (not shown). The significant drop in the share of private social spending in Korea is not due to a shift in contribution sources from private to public, but due to a significant expansion of the Korean welfare state over the past two decades: public social spending in Korea in 2000 accounted for 4% of GDP, compared to 16% in 2022. Expansion was particularly strong in pension and health spending, but also unemployment.

Private social spending is mostly in the areas of health (not shown) and pensions – for family benefits, it is zero in most countries, and for unemployment, it is zero or very small (not shown). On average across EU countries, private spending on old-age pensions amounts to 6% of total expenditure and has been stable for the past two decades (Annex Figure 1.A.2.). For pensions, private spending accounts for almost 60% in Iceland, where basic, means-tested public pensions are topped up by a compulsory, defined contribution pension administered by pension funds. The share of private spending increased over the past two decades as the pension funds, introduced in the late 1960s and early 1970s, matured and their performance increased since the 1990s (Ísleifsson, 2015[31]). Similarly, in Australia, a basic public pension is complemented by mandatory employer contributions to private superannuation funds. Private spending is also significant in the United States and Switzerland (see above), as well as in Canada, where workers may voluntarily contribute to government-assisted savings plans (OECD, 2023[32]). As a result, the share of private social spending on the OECD average is significantly higher than on the EU average (14% Annex Figure 1.A.2.).

Box 1.2. The role of collective bargaining in social protection

Social protection schemes established by collective agreements instead of by legislation alone are an important part of the social protection system of many countries, although they are especially important in northern Europe. They often supplement statutory schemes.

- Occupational pension schemes can achieve high coverage rates: for instance, in Denmark, the Netherlands and Sweden, the participation rate in these schemes is close to the coverage rate in countries with mandatory schemes (OECD, 2025[1]). Also, voluntary occupational pension plans are often supported by collective agreements, for instance in Germany, where collective agreements may include defined contribution pension schemes with minimum employer contributions. Over 50% of workers in larger firms participate, but coverage is lower in small firms and among low-wage workers (OECD, 2025[9]).
- In Denmark, Finland, Iceland and Sweden, trade union-affiliated institutions administer (voluntary) unemployment benefits, with contributions partly subsidised by the government (OECD, 2018[33]) – the so-called “Ghent system”.
- Collective agreements also often provide for parental leave benefits (Eurofound, 2025[34]), typically topping-up statutory entitlements. For instance, in Denmark, almost all collective agreements stipulate periods of parental leave on full pay (government-provided leave is capped at about 50% of the average wage and is paid to the employer during periods of employer-provided leave on full pay, (OECD, 2026[35])). Similarly, in Norway, collective or individual agreements top up government-provided parental leave to full pay, and many fathers receive employer-provided parental leave benefits through collective agreements (OECD, 2023[36]).

1.4. Social protection financing mixes

Financing strategies and policy setups differ significantly across countries. The funding mix can differ at similar levels of spending, reflecting different policy institutions (such as privately or publicly-funded

healthcare and pension systems), but also different strategies for balancing the various objectives of social protection – such as risk sharing, income smoothing over time, inequality reduction and poverty alleviation.

Often, contribution-based social protection systems also require transfers from general-revenue funding even if they are designed to balance contributions and expenditure because i) rights to contributory benefits may be accumulated even when not paying into the system, e.g. pension rights acquired during periods of unemployment or parental leave, ii) claims may exceed contributions during extraordinary times (e.g. unemployment schemes in times of economic crises), and iii), contribution bases of schemes for certain professions may shrink because of occupational shifts – e.g. the miners' pension scheme in Germany.

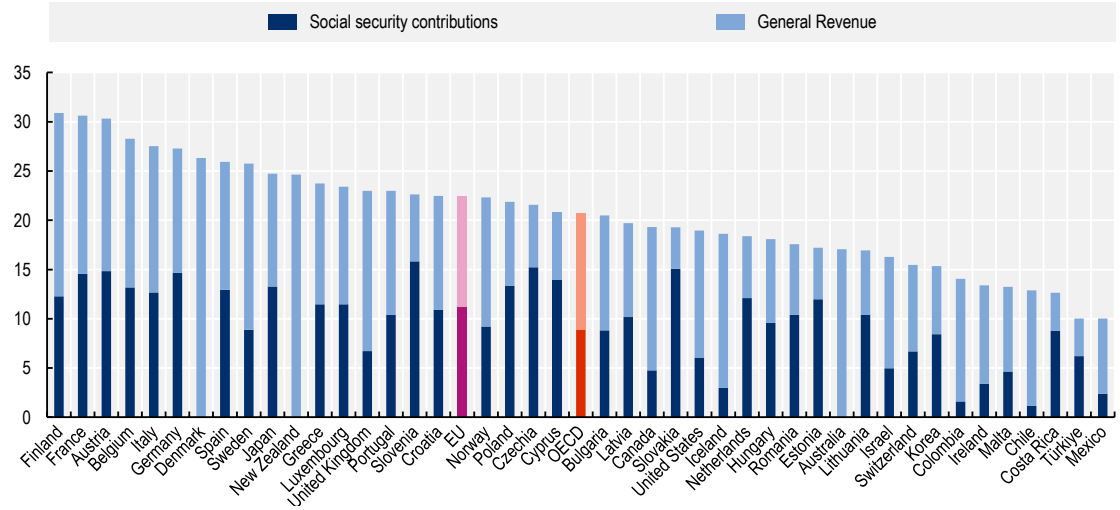
This section uses data on public social spending, but excludes spending administered by private bodies, see Box 1.1 and Annex Figure 1.A.3 in the previous section. This is to facilitate comparisons with non-EU OECD countries since in the OECD revenue statistics, the source on information on social security contributions, only public sector revenue is recorded.

1.4.1. Funding mixes vary widely across countries

On average, roughly around half of public[9] social spending is financed through social security contributions and the other half through general revenue. Some countries mainly rely on tax revenue / general revenue (GR) to grant basic health-care services to all residents and means-tested benefits for working-age support and have a high share of private expenditure for old-age pensions (e.g. Australia, New-Zealand, Canada, the United Kingdom and, to a lesser degree, the United States (Figure 1.4).

Figure 1.4. Funding mixes vary widely across countries

Public social spending by social security contributions and general revenue funding, as percentage of GDP, 2023 or latest year available



Note: Excluding private social spending, see Box 1.1 The graph displays an approximate breakdown of revenue used for financing public social spending (including public old age and survivor pensions, income support to the working-age population and children, health, and all other social services except health). Shown shares of social contribution financing represent upper bounds, as social expenditure totals exclude administration costs (i.e. the costs incurred with the provision of cash or in-kind benefits), whereas social contributions may finance costs related to the administration of insurance institutions (administration costs of social protection systems in European countries range from 1% to 6% of total spending, while evidence from the United States suggests that the costs of administering a non-means tested benefit represents 1-2% of total spending (Browne and Immervoll, 2017[37]). The share of general government contributions is calculated as the residual by subtracting social contribution revenues from public social spending totals (not strictly comparable with the ESSPROS related data). It therefore includes all sources of social protection financing other than social contributions, including also debt financing and withdrawals or property income from public pension reserve funds or sovereign wealth funds. Data refer to 2023 except for Australia, Canada, New Zealand and Japan (2022) and Bulgaria, Croatia and Romania (2021). OECD and EU averages refer to the unweighted average of available countries.
Source: Adapted from (Immervoll, 2024[38]). OECD Social Expenditure Database (https://www.oecd.org/en/data/datasets/social-expenditure-database-socx.html), ESSPROS, Eurostat Social Protection statistics, OECD Revenue Statistics (for social security contributions).

Denmark also funds its public social protection system almost entirely out of GR. Healthcare is tax-funded, and in Denmark, as well as in Finland, Iceland and Sweden, earnings-related unemployment insurance voluntary and union-run (OECD, 2018[33]). While 70% of de Danish workforce contributes to an unemployment insurance fund (OECD, 2025[39]), these payments are voluntary, and therefore not social security contributions (SSCs) (see Box 1.1). Similarly, there is a GR-financed state pension, and while some 90% of workers are covered by occupational pensions (OECD, 2025[1]), they are outside of the definition of public social spending. A similar combination of mainly GR-financed healthcare and occupational pensions complementing basic, state-funded pensions, explain a comparatively low share of SSC in Sweden, Finland and Norway (below the EU-average of 50% of public social expenditure, Figure 1.4).

In contrast, in many central and southern-European countries, workers acquire entitlements to earnings-related benefits including old-age benefits, unemployment insurance, disability and parental-leave benefits through statutory contributions, which is why the average share of SSCs in public social spending is higher across the EU on average (50%) than across the OECD (43%).[10] Some countries mainly rely on contribution-based benefits to provide income replacement for those with prior contributions, with a limited role for general-revenue financed, means-tested transfers for those who do not have the required contribution history (Hyee et al., 2024[19]), but operate a general-revenue financed healthcare system (e.g. Italy, Korea or Spain). Other countries combine a contribution-funded healthcare system and insurance-based out-of-work benefits (including old-age pensions) with means-tested safety-net benefits for low-income households, and universal benefits for children (e.g. Austria, France and Germany). These two groups of countries have a similar share of SSCs in public social spending, around the EU average of 50% (Figure 1.4).

Finally, a group of central European countries (Slovak Republic, Czechia, Slovenia and Estonia) funds over 70% of public social spending from SSCs. This high share is due to contribution-funded health- and old-age pension systems (the biggest spending items, see Section 2), combined with a limited role for means-tested income-support and universal child benefits (Hyee et al., 2024[19]; OECD, forthcoming[40]).

1.4.2. The share of SSCs in social spending has only declined slightly

As SSCs are levied exclusively on labour income, there have been concerns about a shrinking funding base – because of a falling labour share caused by globalisation or technological change, a rising incidence of non-standard work, or a falling labour force because of population ageing (see Chapter 3 as well as (OECD, 2024[4]; European Commission, 2023[41]; Immervoll, 2024[38])). However, since the mid-1990s, the share of SSCs in public social spending has only slightly decreased across the OECD on average – from 47% in 1995 to 43% in 2023 (Figure 1.5). In the EU, the trend is the same: the share of SSCs declined from about 54% to 50% over the same period (Annex Figure 1.A.3). Indeed, SSCs as *a share of GDP* have remained stable on average, both across the OECD and the EU. SSC did not fall, but their share in

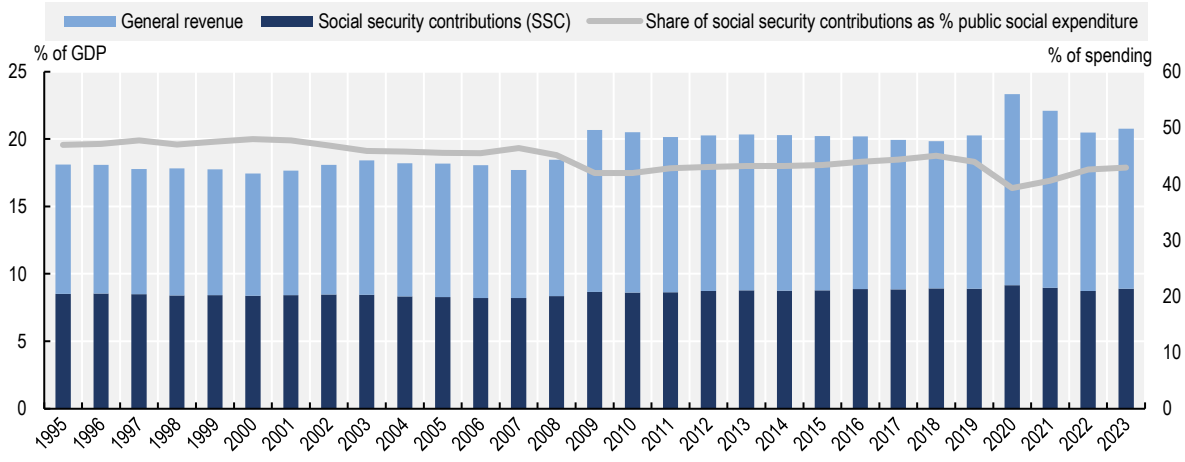
financing was driven down by expanding, GR-funded spending (Annex Figure 1.A.3). The share of SSCs in social spending declined more in the United States, and to a lesser extent Japan, than in the EU, particularly in the years leading up to the GFC, but otherwise trends appear similar across major economies (see Annex Figure 1.A.4.).

The share of SSC in social spending did fall markedly during the GFC and the COVID-19 pandemic, when employment rates collapsed, while social spending increased sharply because of emergency measures to provide income support to workers, and, in the case of the COVID-19 pandemic, increased health spending. But it recovered in line with employment. In 2020, the share of SSCs in public social spending fell by almost 5 p.p.; but in 2023, it was only 1 p.p. below its pre-pandemic level (Figure 1.5). In individual countries, substantial changes did take place in the long term, however. For instance, France went from over 80% of public social expenditure financed by social security contributions in 1980 to just under half in 2023. Spain and Portugal display a similar trend (not shown).

Some countries have expanded contribution-financed benefits in recent years however, as the COVID-19 pandemic underlined the advantages of earnings-related income support for household consumption smoothing and as a stabiliser of aggregate demand. Some countries are currently extending, or considering extending, contribution-based provisions for the self-employed and other non-standard workers, e.g. Ireland, Italy, Latvia, Luxembourg or Portugal (OECD, 2024[4]). Ireland recently introduced an earnings-related jobseeker benefit, while the United Kingdom is considering introducing such a benefit (see Chapter 2).

Figure 1.5. Social security contributions as a share of GDP have remained stable

Public social spending by social security contributions and general revenue funding across the OECD on average, as a percentage of GDP (left axis), and share of social security contributions across the OECD on average, as percentage public social expenditure (right axis), 1995-2023



Note: Unweighted average of OECD countries with available data, see also notes to Figure 1.4. Figure includes public social expenditure only, see Box 1.1.
Source: OECD Social Expenditure Database (https://www.oecd.org/en/data/datasets/social-expenditure-database-socx.html), ESSPROS, Eurostat Social Protection statistics, OECD Revenue Statistics (for social security contributions).

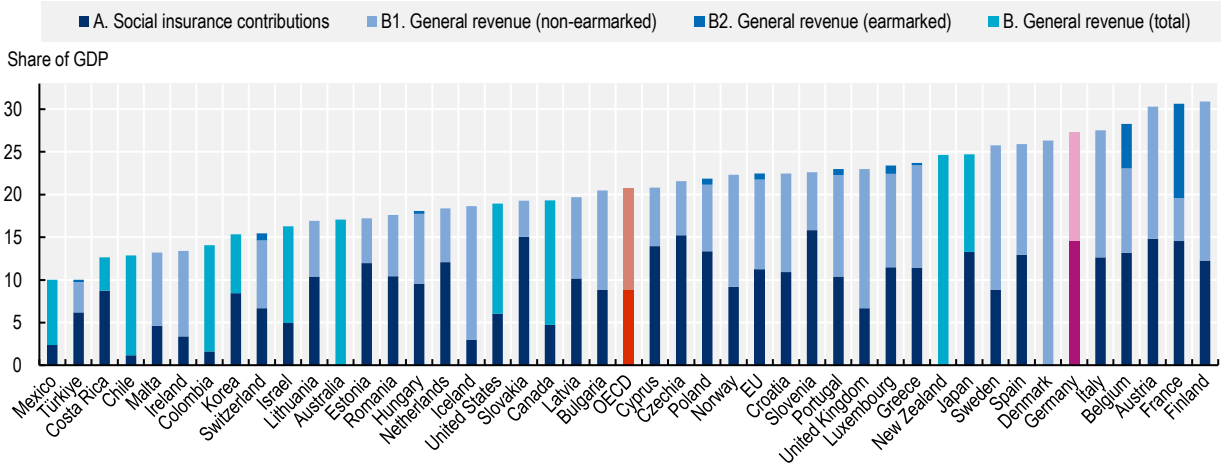
1.4.3. Earmarking

Tying government revenue to specific expenditure categories narrows budgetary flexibility and can crowd out public resources for other spending areas (Buchanan, 1963[42]; Immervoll, 2024[38]). The OECD Recommendation of the Council of Budgetary Governance (OECD, 2025[43]) therefore recommends "… the use of a single, centrally-controlled treasury fund for all public revenues […] with the use of special-purpose funds, and earmarking of revenues for particular purposes, kept to a minimum; […]." However, attaching a clear use to government revenues can resonate with the public and political stakeholders, and may decrease the volatility of funding for specific areas (Immervoll, 2024[38]). It may also make the introduction of new taxes more politically palpable.

Quantitatively, earmarking only accounts for a significant share of public social spending in France (11% of GDP and over a third of public social spending) and Belgium (5% of GDP and around a fifth of public social spending, Figure 1.6, share of earmarking is approximate, see figure notes). In France, there is a "Generalised Social Contribution" (*contribution social généralisée*, CSG) which accounts for over two-thirds of all general revenue funding for social spending. It is earmarked for health- and means-tested social benefits, including the means-tested element of old-age pensions. In contrast, social security contributions finance earnings-related insurance benefits, such as unemployment insurance and earnings-related old-age pensions. Despite its name, the CSG is not a social security contribution but a tax, because paying it does not build entitlements to social benefits. The CSG is levied on employment income, replacement income including retirement pensions, unemployment benefits, sickness benefits etc., as well as on asset income, investment- and gambling income. In Belgium, earmarked funding for social spending is mainly from VAT (MISSOC, 2025[44]).

Figure 1.6. Earmarking of general revenue is relatively rare

Public social spending by financing source, 2023 or last year available



Note: Countries are ranked by public social expenditure as percentage GDP. Approximate breakdown of revenue used for financing public social spending (including public old age and survivor pensions, income support to the working-age population and children, health, and all other social services except health). Shown shares of social contribution financing represent upper bounds, as social expenditure totals exclude administration costs (i.e. the costs incurred with the provision of cash or in-kind benefits), whereas social contributions may finance costs related to the administration of insurance institutions (administration costs of social protection systems in European countries range from 1% to 6% of total spending, while evidence from the United States suggests that the costs of administering a non-means tested benefit represents 1-2% of total spending (Browne and Immervoll, (2017[37])). The share of general government contributions is calculated as the residual by subtracting social contribution revenues from public social spending totals. It therefore includes all sources of social protection financing other than social contributions, including also debt financing and withdrawals or property income from public pension reserve funds or sovereign wealth funds. Breakdowns of the "general government contributions" category into "earmarked taxes" and "non-earmarked general revenue" are available for European countries only, and the earmarked category refers to proceeds from taxes and levies which, by law, can be used only to finance social protection (European Commission, 2022[45]). In principle, the earmarked category includes revenues that finance programmes at central-government or state/local level. For the United Kingdom, the share of earmarked general revenue refers to 2018, the last year available in the European Union ESSPROS data.
Source: OECD Social Expenditure Database (https://www.oecd.org/en/data/datasets/social-expenditure-database-socx.html), OECD Revenue Statistics (for social contributions), ESSPROS (for breakdowns of the "general revenue" category in European countries).

1.5. Social contributions by source

According to the textbook economic model of tax incidence, it should not be relevant whether social contributions (SCs)[11] are levied from employers or employees – the actual burden of SCs depends on the relative elasticities of labour supply and demand. As labour demand has a higher empirical elasticity to labour cost than labour supply has to net earnings, employers should be able to roll over employer SSC onto workers through lower nominal earnings (Fullerton and Metcalf, 2002[46]). The empirical literature, however, has been mixed, with some studies finding full-, and others only partial shifting of employer SSCs onto workers.

The specific programme design seems to affect the incidence of SSCs. For instance, (Saez, Matsaganis and Tsakloglou, 2012[47]) show that employers struggle to offer younger workers lower salaries following a reform to increase employer SSCs for workers entering the labour market after a specific cut-off point that increases employer SSCs, while (Bozio et al., 2025[48]) show that employers find it easier to roll over SSCs that have a strong link to individual benefit entitlements, than contributions where this link is less immediate.

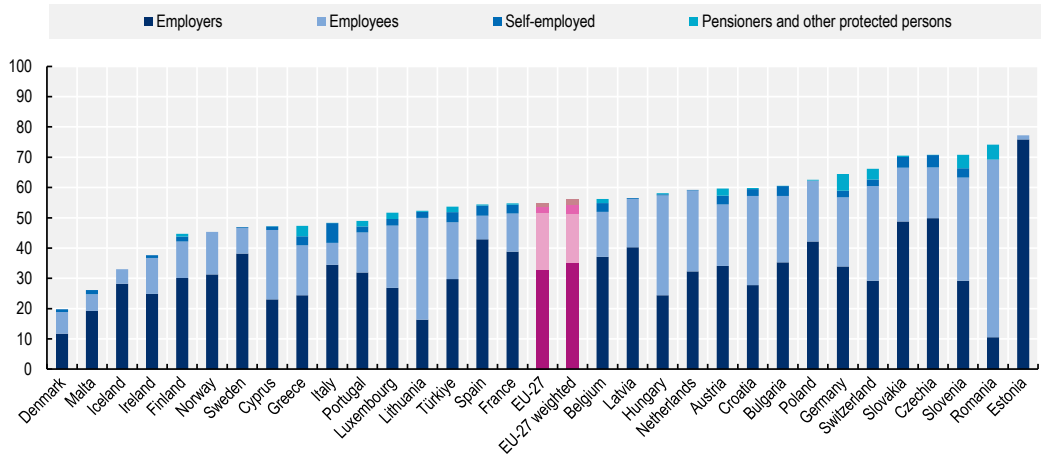
More than half (60%) of social contributions across the EU are levied on employers (Figure 1.7). In Estonia, almost all contributions are (statutorily) borne by employers (at a comparatively lower total spending level, see Figure 1.1). The share of employers in overall SC is also over 80% in Sweden and Iceland, although these countries have a higher-than-average share of general revenues (GR) financing in overall spending.[12] On the other end, in Romania, only 14% of all SC are employer contributions. This is the result of a reform in 2018 that shifted social contributions almost entirely onto employees reducing the employer share by over 37 p.p. (not shown). The reform aimed to increase gross wages by converting employer contributions into employee contributions, as contributions to private pension accounts are paid by employees and calculated as a share of gross wages (Pop and Urse, 2018[49]). While gross wages did rise sharply following the reform, net wages were soon eroded by inflation in 2021 and 2022 (OECD, 2025[15]).

Across the EU, on average, employer contributions as a share of total social protection financing decreased by 4 p.p. over the past decade, while employee contributions increased by 2.7 p.p. (not shown),[13] likely in response to competitive downward pressure on labour costs (European Commission, 2023[41]). In addition to the Romanian reform mentioned above, Lithuania implemented a reform in 2018 that decreased the employer social contributions by 37 p.p., and increased employee SC by 18 p.p. (not shown) as part of a reform package with the goal to reduce the total tax wedge on labour and to simplify the social security system by abolishing transfers from the state social insurance fund to private funds (in the hopes that higher net wages would induce workers to increase their voluntary pension savings). Wages were mandatorily indexed to guarantee an increase in nominal wages (Anciūtė et al., 2020[50]).

The self-employed only contribute 4% of total social contributions across the EU on average (Figure 1.7), although they account for 14% of total employment in 2024 (OECD, 2026[51]). Self-employed workers have generally less access to social protection than dependent employees and are overrepresented at the top and bottom of the earnings distribution, see Chapter 2.

Figure 1.7. Employer contributions account for over half of all social contributions across the EU

Breakdown of social contributions in overall social protection financing, by source, in per cent, 2023



Note: Countries are ranked in terms of the share of social contributions SC in total financing of social protection (from lowest to highest). This breakdown is not available for other OECD countries. The residual to 100% is general revenue and other receipts (i.e. property income and miscellaneous). Data include public and private social contributions, see Box 1.1. The EU-27 average refers to the unweighted average of available countries. The EU-27 weighted average is calculated as the sum of contributions in EUR (nominator) divided by EU-27 total contributions (denominator), the EU aggregate published by Eurostat. This corresponds to an average weighted by social contributions.
Source: Eurostat, ESSPROS Database; https://ec.europa.eu/eurostat/databrowser/view/spr_rec_scon__custom_19102843/default/table.

1.6. Financing mixes by function

This section looks at the financing mix for three specific branches or functions of social protection: old-age benefits, family benefits and unemployment benefits. These functions were chosen because they touch upon the key life stages, maintaining a life-course approach, and are especially likely to be impacted by demographic change (pensions, family benefits), as well as new and emerging forms of work and labour market transformations (unemployment benefits).

The results presented in this section are estimates by the OECD Secretariat of the financing mix by function using the methodology presented by (Spasova and Ward, 2019[5]), see Box 1.3 for an explanation of the methodology, data and limitations of this approach. This section also partly updates their previous analysis (based on 2015 data). The results presented in this section are therefore not directly available from the ESSPROS database. For some non-European OECD countries, data is also available from a dedicated questionnaire.

Overall, old-age and unemployment benefits, that are earnings-related in most countries, are estimated to have a much higher share of social contributions financing than family benefits: 64% across the EU-22 on average for unemployment- and 63% for old-age benefits, compared to 23% for family benefits (Figure 1.8).

For old-age benefits, estimates suggest that more than three-quarters of benefits are financed by social contributions in Hungary, Ireland, Latvia, Romania and Czechia (Figure 1.8, Panel A). This can be explained by a limited role for means-tested basic pensions for those who lack the minimum contribution periods in these countries: in Hungary, Latvia and Romania, such a benefit does not exist, while in Czechia and Ireland, these schemes cover less than 20% of total pension expenditure (European Commission, 2024[52]). In other countries with contributory pension systems, non-contributory pensions play a larger role. For instance, Canada operates two old age benefits that are entirely funded by general tax revenues (Old Age Security and the Guaranteed Income Supplement). However, the Canada Pension Plan is funded by social security contributions and the Canada Pension Plan Fund's investment income.

Contributory pension systems also receive general-revenue transfers when expenditures exceed contributions. The pension system balance (contributions minus expenditures) was negative in 16 out of 25 EU countries with available data in 2022, with an average deficit amounting to 1.6% of GDP. Deficits were especially high in Bulgaria and Italy (4.7% of GDP), Austria (3.6% of GDP) and France and Croatia (3.3% of GDP). This deficit is expected to raise until 2024, mainly due to population ageing (European Commission, 2024[3]).

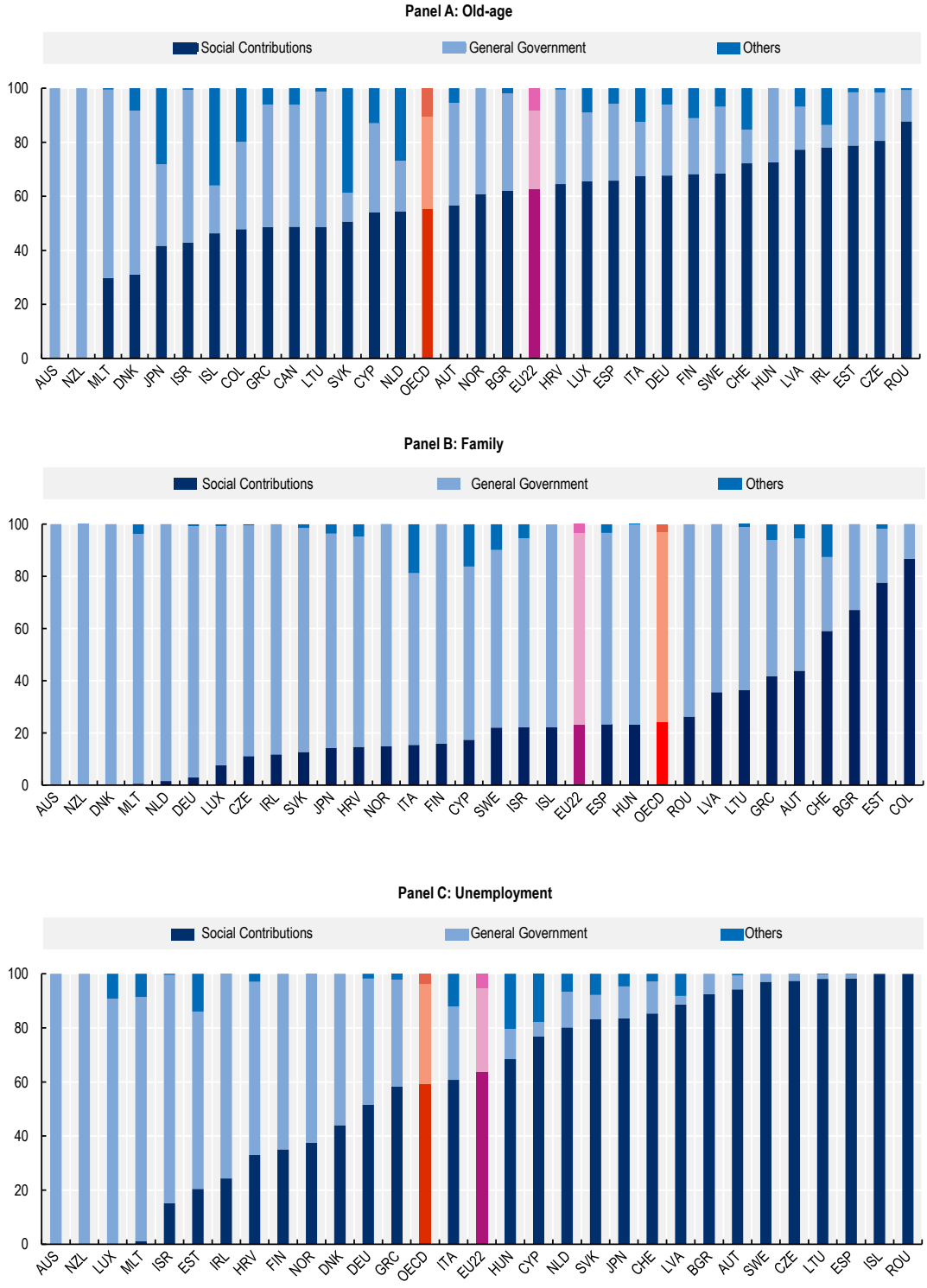
In Australia and New Zealand, in contrast, there is no public contributory pension system. GR-funded means-tested pensions are complemented by privately-run individual savings accounts (OECD, 2025[1]). The share of contribution funding across the EU on average has remained roughly equal since 2015, when it was 65% on average in the EU22 (Spasova and Ward, 2019[5]).

In contrast, almost three-quarters of family benefit financing are from taxation (Figure 1.8 Panel B). Means-tested or universal child-benefits are the biggest spending item in the family benefit category and are mostly GR funded. But there are exceptions: for instance, in Austria, universal child benefits are funded from employer contributions (see Box 1.1), leading to an above-average share of contribution financing of 44%. Contribution-based financing is thus completely de-coupled from universal entitlement. Many countries also fund maternity and paternity leave from SCs, which, if combined with limited expenditure on universal or means-tested child benefits, can lead to a high incidence of contribution-based spending, as is the case in Bulgaria and Estonia, where contributions fund over 60% of family benefit financing. In Colombia, 87% of family benefits are contribution financed: maternity and paternity leave are only available for those with prior contributions, and some benefits and services including housing, unemployment or educational services provided by the Family Compensation Funds (*Cajas de Compensación Familiar*) differ by whether families are formal workers (paying contributions) or informal workers. Some of them are therefore financed by contributions.

Similar to pensions, unemployment benefits are estimated to be largely social contribution financed (64% across the EU22 on average, slightly above the OECD average of 59%, Figure 1.8 Panel C). Some countries, such as Germany, operate both a contribution-based unemployment insurance as well as a means-tested unemployment assistance benefit, social contributions therefore account for around 50% of total financing. While safety-net benefits for jobseekers without the necessary contribution history exist also in countries who almost exclusively finance their unemployment benefits from SCs, such as Austria, Spain, Sweden and Romania, they are social assistance benefits not exclusively for jobseekers, and therefore not included in the unemployment benefit category. On the other hand, in Australia, New Zealand and Luxembourg unemployment benefits are not financed by social contributions.

Figure 1.8. Old-age and unemployment benefits have a larger share of social contribution financing than family benefits

Breakdown of the financing mix by function, 2023 or last year available (% of total financing of benefits)



Note: Data for EU countries are based on estimations of the financing sources of social protection by function as in as in (Spasova and Ward, 2019[5]). Data refer to total social protection financing. "Others" refer to other type of receipts (i.e. property income and miscellaneous).
Panel A. Old age: Data for Colombia refer to CREMIL, CASUR, FOMAG, Colpensiones, RAIS, and CM. For Japan, "Old age" here includes old-age, invalidity, and survivors' pensions. In term of expenditure, among the three categories, Old age would account for about 80%, while invalidity, and survivors' pensions to 10% respectively. Data for Australia, Israel and New Zealand refer to 2022, and for Canada to 2022/23.
Panel B. Family: Data for Colombia refer to contributions to the contributory health regime linked to maternity and paternity leave benefits, budgetary contributions for the *Renta Ciudadana* programme (*Familias en Acción* programme), and revenues from ICBF. For Japan, Family includes family benefits, ECEC, parental leave, and related benefits. Data for Australia, Israel and New Zealand refer to 2022.
Panel C. Unemployment: For Japan, "Unemployment" includes unemployment benefits and ALMP services. Data for Australia, Israel and New Zealand refer to 2022. For all panels, OECD and EU averages refer to the unweighted average of available countries shown in the figure.
Source: For EU countries, estimates based on Eurostat ESSPROS Data by scheme. For non-EU countries, data are from an OECD questionnaire. For EU Member States: Not available: France, Portugal, Slovenia. Data not shown as the estimation *method* leads to non-meaningful results: Belgium, Poland. Estimates to be interpreted cautiously: Austria, Italy, the Slovak Republic (see Box 1.3).

Box 1.3. Estimation of the financing mix of social protection revenue for selected functions

The ESSPROS data published by Eurostat contains expenditure and revenue (receipts) by social protection *scheme* (see Box 1.1). The schemes are defined in ESSPROS as statistical units that allow the association of expenditure and receipts to the same scheme. Data show the total amount of expenditure for each individual scheme by function, and the financing mix for each scheme separately. Since many schemes administer social programmes in more than one function (e.g. old-age and / or survivors' and/or disability benefits), and in turn several programmes within one function are funded by more than one scheme, with different funding mixes, it is not straight-forward to derive the financing mix for each function. The data does not contain information on whether resources within a scheme are internally allocated to specific functions or programmes, that is, whether specific funds, e.g. from social contributions, are earmarked for specific programmes.

The report uses the same methodology as (Spasova and Ward, 2019[5]) to estimate the mix of funding sources for the selected social protection functions (that is, Old-Age, Family and Unemployment). This methodology assumes that the division of funding for a particular scheme applies to all the functions covered by that scheme. The funding mix for each function is then calculated by aggregating across schemes according to the share of expenditure going to each function.

That is, the methodology assumes that the funding mix for every scheme applies to all the functions covered by that scheme, which will not hold for all countries and schemes. The funding mix for any function is then the aggregate across schemes, weighted by the share of financing coming from each scheme.

As an example, consider a country X with two schemes of the same revenue size. Scheme 1 is financed by 50% of social contributions and 50% of general taxation, while Scheme 2 is financed by 100% social contributions. The methodology used in (Spasova and Ward, 2019[5]) assumes that all programmes funded by these schemes have this same funding mix. Now assume that 30% of expenditure from Scheme 1 is spent on Old-age benefits, and 70% of expenditure from Scheme 2 is spent on Old-age benefits. Old-age benefits in country X are then financed by 15% of general taxation and 85% social contributions.

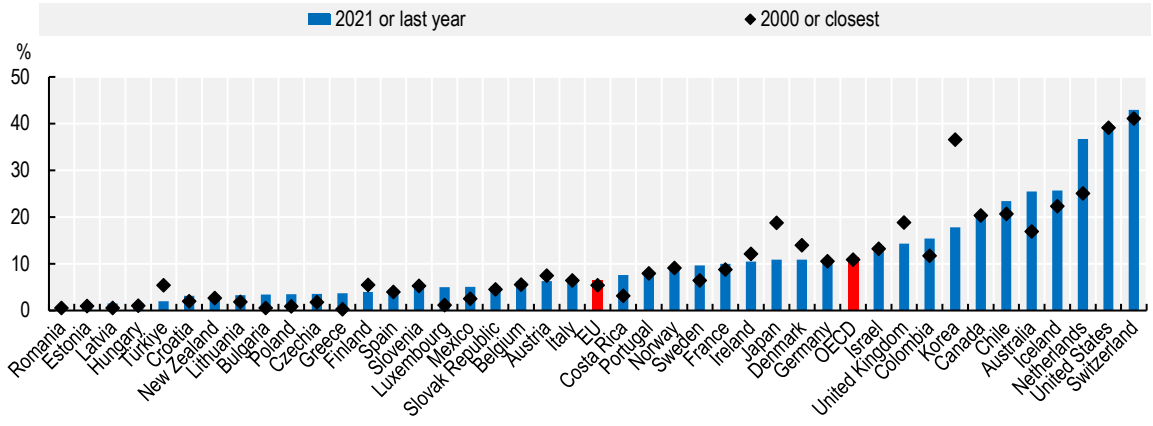
Possible limitations for this estimation process:

- ESSPROS data by scheme are not available from Eurostat for France, Portugal and Slovenia.
- In addition to social contributions and general revenue, there is an additional revenue source named "other receipts". Other receipts include partly transfers from other schemes, that have their own mix of funding sources. These are not identifiable in the data and therefore cannot be

taken into account in the estimates. In a large majority of cases, these transfers are small (under 5% of total funding) and, therefore, have little effect on the results. But in some cases, they are significant. This is especially the case for Belgium and Poland (around 30-40%) and Austria, Italy, and the Slovak Republic (around 10-15%). For Belgium and Poland, transfers from other schemes are so large that the results of the estimation method are not meaningful, and are therefore excluded from the analysis. For Austria, Italy, and the Slovak Republic, results should be interpreted with caution. This is not due to the quality of the underlying data, but is intrinsic to the estimation methodology.

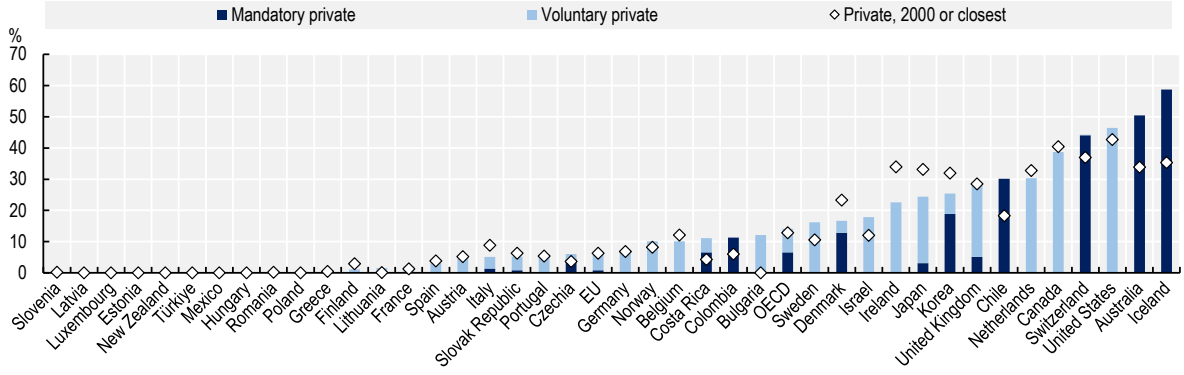
Annex 1.A. Additional Statistics

Annex Figure 1.A.1. Share of private expenditure as percentage of total social protection expenditure



Note: Instead of 2000, data refer to 2002 for Ireland and Poland, 2003 for Romania and Slovenia, 2005 for Bulgaria, 2010 for Colombia, 2011 for Costa Rica, and 2013 for Croatia. Instead of 2021, data refer to 2022 for Australia, Canada, Costa Rica, Korea, Mexico, New Zealand, the United States; and 2023 for Colombia, Chile and Israel.
Source: OECD Social Expenditure Database.

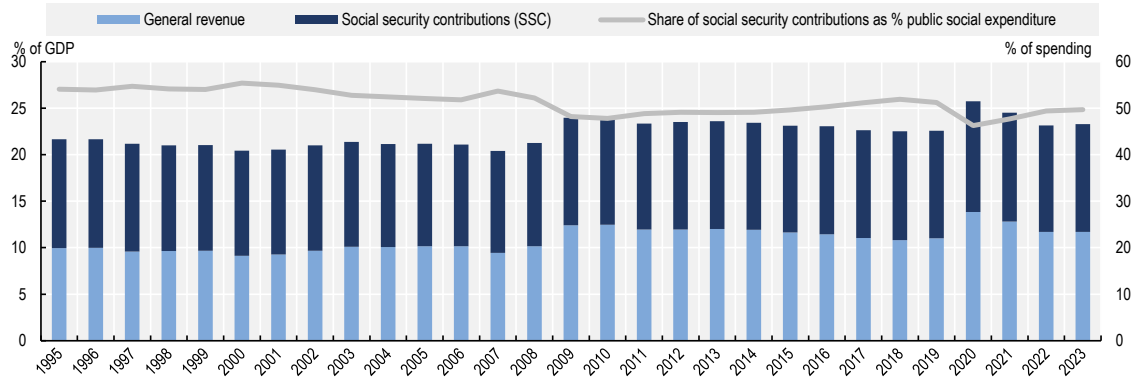
Annex Figure 1.A.2. Share of mandatory and voluntary private spending in overall old age spending in 2021 or latest available year compared to 2000 or closest available year



Note: Instead of 2000, data refer to 2002 for Ireland and Poland, 2003 for Romania and Slovenia, 2005 for Bulgaria, 2010 for Colombia, and 2011 for Costa Rica. Instead of 2021, data refer to 2022 for Australia, Canada, Costa Rica, Korea, Mexico, New Zealand, the United States; and 2023 for Colombia, Chile and Israel.
Source: OECD Social Expenditure Database.

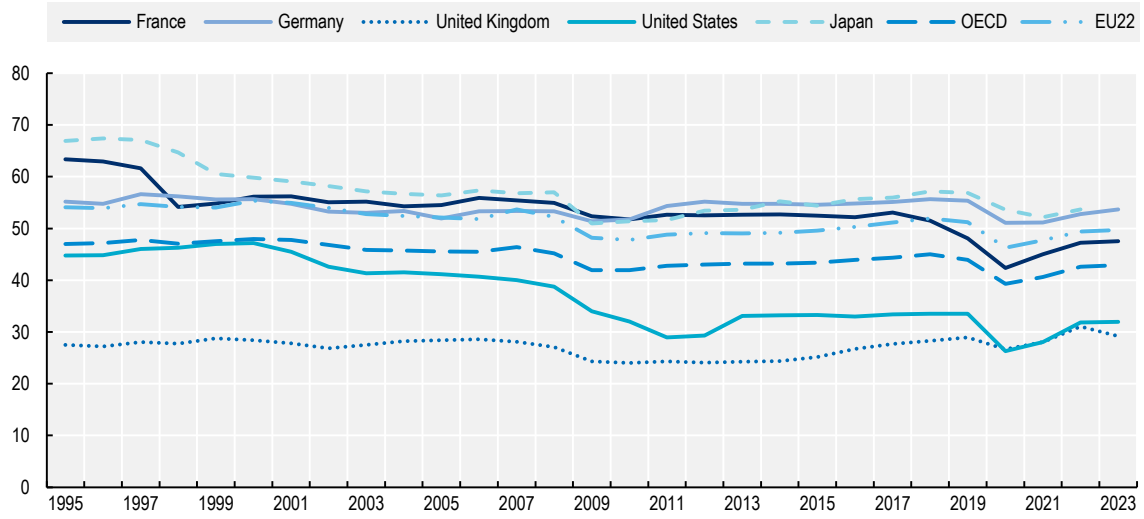
Annex Figure 1.A.3. Public social spending by social security contributions and general revenue funding in the EU22

As a percentage of GDP (left axis) and as a share of public social expenditure (right axis), 1995-2023



Note: EU average refers to the unweighted average.
Source: OECD Social Expenditure Database (https://www.oecd.org/en/data/datasets/social-expenditure-database-socx.html), OECD Revenue Statistics (for social security contributions).

Annex Figure 1.A.4. The share of SSCs in public social expenditure in selected countries



Note: OECD and EU average refers to the unweighted average.
Source: OECD Social Expenditure Database (https://www.oecd.org/en/data/datasets/social-expenditure-database-socx.html), OECD Revenue Statistics (for social security contributions).

References

Anciūtė, A. et al. (2020), "Labour Tax & Child Benefits Reform in Lithuania: For Better or Worse?", *European Economy Economic Brief*, Vol. 059, https://doi.org/10.2765/600512. [50]

Boes, S., D. Weisstanner and B. Durvy (2025), *Health Systems in Action (HSiA) Insights – Switzerland, 2024*, European Observatory on Health Systems and Policies, WHO Regional Office for Europe, http://eurohealthobservatory.who.int. [27]

Bozio, A. et al. (2025), "Does Tax-Benefit Linkage Matter for the Incidence of Payroll Taxes?", *Review of Economic Studies*, https://doi.org/10.1093/restud/rdaf059. [48]

Browne, J. and H. Immervoll (2017), "Mechanics of replacing benefit systems with a basic income: comparative results from a microsimulation approach", *The Journal of Economic Inequality*, Vol. 15/4, pp. 325-344, https://doi.org/10.1007/s10888-017-9366-6. [37]

Buchanan, J. (1963), "The Economics of Earmarked Taxes", *Journal of Political Economy*, Vol. 71/5, pp. 457-469, https://doi.org/10.1086/258794. [42]

ESSPROS (2021), *ESSPROS qualitative information on Germany*, https://ec.europa.eu/eurostat/web/social-protection/database/qualitative-information. [21]

Eurofound (2025), *Collective bargaining beyond pay: An analysis of collective agreements in selected low-paid sectors*, Publications Office of the European Union, https://www.eurofound.europa.eu/en/publications/all/collective-bargaining-beyond-pay-analysis-collective-agreements-selected-low-paid. [34]

European Commission (2024), *2024 Ageing Report: Economic & budgetary projections for the EU Member States (2022-2070)*, https://doi.org/10.2765/022983. [3]

European Commission (2024), *The 2024 pension adequacy report – Current and future income adequacy in old age in the EU. Volume II*, Publications Office of the European Union, https://data.europa.eu/doi/10.2767/550848. [52]

European Commission (2023), *The future of social protection and of the welfare state in the EU*, Directorate-General for Employment, Social Affairs and Inclusion (European Commission), https://op.europa.eu/en/publication-detail/-/publication/842d8006-c3b3-11ed-a05c-01aa75ed71a1/language-en/format-PDF/source-283143938. [41]

European Commission (2022), *European system of integrated social protection statistics ESSPROS — Manual and user guidelines*, https://doi.org/10.2785/883901. [45]

EUROSTAT (2025), *Euro area unemployment at 6.4%*, https://ec.europa.eu/eurostat/web/products-euro-indicators/w/3-02122025-bp. [14]

Eurostat (2026), *European system of integrated social protection statistics — ESSPROS, Manual and User Guidelines, 2026edition*, https://doi.org/10.2785/3898460. [20]

Eurostat (2025), *ESSPROS: Compendium of methodological clarifications – 2025 edition*, https://doi.org/10.2785/8405175. [23]

Fullerton, D. and G. Metcalf (2002), "Chapter 26 Tax incidence", in *Handbook of Public Economics*, Elsevier, https://doi.org/10.1016/s1573-4420(02)80005-2. [46]

Hyee, R. et al. (2024), "How Reliable Are Social Safety Nets in Situations of Acute Economic Need? Extended Estimates for 14 OECD countries", *IZA Discussion paper No 17477*, https://docs.iza.org/dp17477.pdf. [19]

IMF (2018), *Health care reforms in the Netherlands: How effective is 'regulated competition'?*, https://www.elibrary.imf.org/view/journals/002/2018/131/article-A003-en.xml. [30]

Immervoll, H. (2024), "Financing social protection in OECD countries: Role and uses of revenue earmarking"*, OECD Social, Employment and Migration Working Papers*, No. 312, OECD Publishing, Paris, https://doi.org/10.1787/0d53155c-en. [38]

Ísleifsson, Ó. (2015), "The road to solvency: How the Icelandic pension funds achieved actuarial balance in the 1990s", *Tímarit um viðskipti og efnahagsmál*, Vol. 12/1, pp. 43-63, https://doi.org/10.24122/tve.a.2015.12.1.3. [31]

MISSOC (2025), *Missoc Comparative Tables: Financing*, https://www.missoc.org/missoc-database/comparative-tables/. [44]

OECD (2026), *OECD Economic Surveys: Denmark 2026*, OECD Publishing, Paris, https://doi.org/10.1787/3d6cb4b8-en. [35]

OECD (2026), *OECD TaxBEN policy descriptions*, https://www.oecd.org/en/topics/sub-issues/income-support-redistribution-and-work-incentives/how-do-countries-calculate-tax-liabilities-and-social-benefit-entitlements.html. [12]

OECD (2026), *PF1.1: Public spending on Benefits (indicator)*, https://www.oecd.org/en/data/datasets/social-expenditure-database-socx.html. [10]

OECD (2026), *PH3.1 Public spending on housing allowances. Indicator*, https://www.oecd.org/content/oecd/en/data/datasets/oecd-affordable-housing-database.html. [18]

OECD (2026), *Self-employment rate* (indicator), https://doi.org/10.1787/fb58715e-en (accessed on 17 August 2026). [51]

OECD (2026), *Social Protection Financing and Non-standard Forms of Work*, Annex II, circulated to the SBO and WPSP. [53]

OECD (2025), *Expanding Social Protection and Addressing Informality in Latin America*, OECD Publishing, Paris, https://doi.org/10.1787/86c1fd38-en. [16]

OECD (2025), *Health at a Glance 2025: OECD Indicators*, OECD Publishing, Paris, https://doi.org/10.1787/8f9e3f98-en. [2]

OECD (2025), *OECD Economic Surveys: Finland 2025*, OECD Publishing, Paris, https://doi.org/10.1787/985d0555-en. [11]

OECD (2025), *OECD Economic Surveys: Germany 2025*, OECD Publishing, Paris, https://doi.org/10.1787/39d62aed-en. [9]

OECD (2025), *OECD Economic Surveys: Poland 2025*, OECD Publishing, Paris, https://doi.org/10.1787/483d3bb9-en. [8]

OECD (2025), *OECD Reviews of Labour Market and Social Policies: Romania 2025*, OECD Reviews of Labour Market and Social Policies, OECD Publishing, Paris, https://doi.org/10.1787/f0532908-en. [15]

OECD (2025), *OECD TaxBEN policy description: Denmark 2024*, OECD Publishing, https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/incomes-support-redistribution-and-work-incentives/TaxBEN-Denmark-latest.pdf&ved=2ahUKEwi27q_PjfeRAxXGV6QEHalOLksQFnoECBsQA. [39]

OECD (2025), *Pensions at a Glance 2025: OECD and G20 Indicators*, OECD Publishing, Paris, https://doi.org/10.1787/e40274c1-en. [1]

OECD (2025), "Recommendation of the Council on Budgetary Governance", *OECD/LEGAL/0410*, https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0410. [43]

OECD (2024), *Latest health spending trends: Navigating beyond the recent crises*, OECD Publishing, Paris, https://doi.org/10.1787/df0bb1ba-en. [6]

OECD (2024), *Megatrends and the Future of Social Protection*, OECD Publishing, Paris, https://doi.org/10.1787/6c9202e8-en. [4]

OECD (2024), *OECD Economic Outlook, Volume 2024 Issue 2: Resilience in uncertain times*, OECD Publishing, Paris, https://doi.org/10.1787/d8814e8b-en. [26]

OECD (2024), *Society at a Glance 2024: OECD Social Indicators*, OECD Publishing, Paris, https://doi.org/10.1787/918d8db3-en. [7]

OECD (2023), *Benefit Reforms for Inclusive Societies in Korea: Income Security During Joblessness*, OECD Publishing, Paris, https://doi.org/10.1787/96b7fd64-en. [13]

OECD (2023), *Exploring Norway's Fertility, Work, and Family Policy Trends*, OECD Publishing, Paris, https://doi.org/10.1787/f0c7bddf-en. [36]

OECD (2023), *Pensions at a Glance 2023: OECD and G20 Indicators*, OECD Publishing, Paris, https://doi.org/10.1787/678055dd-en. [32]

OECD (2023), *Social Expenditure (SOCX) Update 2023: The rise and fall of public social spending with the COVID-19 pandemic*, OECD Publishing, Paris, https://doi.org/10.1787/12563432-en. [25]

OECD (2022), *OECD Economic Surveys: Mexico 2022*, OECD Publishing, Paris, https://doi.org/10.1787/2e1de26c-en. [17]

OECD (2020), "Supporting livelihoods during the COVID-19 crisis: Closing the gaps in safety nets", *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris, https://doi.org/10.1787/17cbb92d-en. [24]

OECD (2019), *The OECD SOCX Manual, 2019 Edition: A guide to the OECD Social Expenditure Database*, https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/social-spending/socx_manuel_2019.pdf. [22]

OECD (2018), *The Future of Social Protection: What Works for Non-standard Workers?*, OECD Publishing, Paris, https://doi.org/10.1787/9789264306943-en. [33]

OECD (forthcoming), *Faces of Poverty and social exclusion - comparative synthesis report*, OECD. [40]

OECD and EC (2025), *Country health profiles 2025*, https://www.oecd.org/en/about/projects/country-health-profiles.html. [29]

Pop, L. and D. Urse (2018), "Major fiscal reforms in Romania and their impact on pensions", *ESPN Flash Report*, Vol. 26, https://employment-social-affairs.ec.europa.eu/policies-and-activities/social-protection-social-inclusion/analytical-support-and-exchange-information-social-protection-and-inclusion_en. [49]

Rice, T., L. Unruh and A. Barnes (2025), *Health Systems in Action (HSiA) Insights – United States of America, 2024*, http://eurohealthobservatory.who.int. [28]

Saez, E., M. Matsaganis and P. Tsakloglou (2012), "Earnings Determination and Taxes: Evidence From a Cohort-Based Payroll Tax Reform in Greece", *The Quarterly Journal of Economics*, Vol. 127/1, pp. 493-533, https://doi.org/10.1093/qje/qjr052. [47]

Spasova, S. and T. Ward (2019), *Social protection expenditure and its financing in Europe. A study of national policies*, European Commission, https://op.europa.eu/en/publication-detail/-/publication/6f462a37-0059-11ea-8c1f-01aa75ed71a1/language-en. [5]

Notes

[1] 32 OECD countries with available data. These projections are consistent with the 2024 Ageing report (European Commission, 2024[3]).

[2] Private social expenditure includes mandatory and voluntary payments from private actors, e.g. employer-provided sick-pay stipulated by legislation, or benefits accrued from mandatory contributions to private insurance funds (including mandatory private health or pension insurance). While SOCX presents data on private social spending, it is deemed of lesser quality than public social spending that is recorded in budget data, see Box 1.1.

[3] According to the Eurostat EU-27 GDP-weighted average (see Box 1.1) the share of total social protection spending is significantly higher at 27.3% of GDP. Consequently, the sub-items old age benefits (11% of GDP) and health and disability (10% of GDP) are also higher.

[4] Administered by public bodies, see Box 1.1.

[5] Old-age benefits exclude survivors' benefits because the financing of old-age benefits is discussed separately in Section 1.6.

[6] According to the Eurostat EU-27 GDP-weighted average (see Box 1.1), these shares are a bit higher: family benefit spending amounts to 2.4% of GDP, and spending on unemployment benefit to 1.1% of GDP.

[7] According to the Eurostat EU-27 GDP-weighted average (see Box 1.1), the levels are significantly higher: 30% in 2020. The increase due to the COVID-19 pandemic was also stronger: total social spending increased by 3.4 p.p. of GDP from 2019 to 2020.

[8] Over 80% of the increase in public social expenditure was due to a spending increase rather than GDP contraction, (OECD, 2023[25]).

[9] Only public social spending is shown here, as the OECD revenue statistics only include revenue of the government institutional sector, not private contributions, see Box 1.1.

[10] Note that Korea and Japan also finance about half of their social protection systems by social contributions, at a similar spending size as the EU average.

[11] Since this section looks at total social protection financing, it includes social security contributions (levied by the state) as well as social contributions to private schemes (mandatory and voluntary), see Box 1.1.

[12] Note that, in contrast to Figure 1.3, ESSPROS data contains private social spending, that includes occupational pension schemes and publicly supported voluntary unemployment insurance, see Box 1.1.

[13] The trend was less pronounced according to the GDP-weighted EU average reported by Eurostat (see Box 1.1): employer contributions as a share of total social protection financing decreased by 1.4 p.p. over the same period, while employee contributions remained stable.

2 Social protection financing and non-standard forms of work

Non-standard forms of work put additional pressure on social protection financing and on its redistributive mechanisms. The self-employed and part-time workers generally pay lower social security contributions than other workers. As this often results in lower entitlements to earnings-related benefits, they may rely on support financed from general revenues when their income falls. This chapter reviews the social protection coverage of the self-employed, the reasons for their low participation in voluntary schemes, their capacity to contribute, and recent and planned reforms to extend coverage. It also looks at the incidence of platform work. The chapter then reviews trends in part-time employment and their implications for social protection financing.

2.1. Introduction

The self-employed and part-time workers generally pay lower social security contributions than other workers often resulting in lower entitlements. They may therefore rely on general-revenue funded support if their income falls. For the self-employed, lower contributions reflect more limited access to social protection, low take-up of voluntary schemes where they exist, and, in some cases, underreporting of earnings (see also Chapter 3). Their incomplete social protection coverage also enables firms to engage in regulatory arbitrage by choosing work arrangements with fewer social protection entitlements, and thus lower social security contributions. For workers, choosing non-standard employment is especially attractive if contributions are lower than for standard dependent work, while entitlements are broadly similar (e.g. subsidised schemes). Aligning social protection coverage across employment forms can help decrease the incentive for regulatory arbitrage.

Similarly, part-time work negatively impacts the aggregate wage sum as it contracts hours worked, already diminished by a shrinking labour force due to below-replacement-level fertility rates, and therefore puts pressure on social protection financing (OECD, 2024[1]). Total hours worked per worker are on a downward trend across EU and OECD countries. Between 1995 and 2024, average annual hours worked by worker decreased by 6.6% across the EU and by 4.8% across the OECD on average. As most social security contributions are levied on income irrespective of working hours, a rising incidence of part-time work can also undermine the capacity to pay principle that is implicit in many earnings-related social insurance schemes that include an element of redistribution.

2.2. Social protection financing and self-employment

About one in seven (14%) of all workers are self-employed in the EU on average, slightly fewer than across the OECD (16%, (OECD, 2026[2])). Cross-country variation is wide, with around one in five working-age people active in the labour market being self-employed in Italy and Poland, compared to 5% in Norway, and 8% in Denmark (Figure 2.1). The share of self-employment has been on a downward trajectory since the second half of the 20th century, primarily driven by the decline in the share of the labour force working in agriculture, as well as small craft and retail businesses (OECD, 2024[1]). The share of self-employed workers in total employment decreased by 4.1 ppts across the OECD, and by 4.5 ppts across the EU on average since 1996, with particularly large declines in Romania (-28 ppts), Republic of Türkiye (-23 ppts) and Portugal (-17 ppts), see Annex Figure A A.1.

While the self-employed account for 14% of total employment, social contributions by the self-employed only account for 4% of all contributions across the EU on average, see Chapter 1. This is due to i) the more limited formal coverage by social protection and ii) an overrepresentation at the low and top end of the earnings distribution. This section discusses these two topics, concentrating on formal social protection coverage for the three social protection functions that have been selected as focus areas in this report: family, unemployment and old age benefits.

2.2.1. The self-employed are less likely to be statutorily covered by social protection

Coverage gaps for the self-employed tend to emerge in benefit programmes that are mainly contribution financed, as general-revenue financed benefits typically do not condition on prior contributions. As a result, family benefits, three-quarters of which are financed by general revenue across the EU on average (see Chapter 1), are the social protection branch for which the self-employed are best covered: they receive child benefits in the same way as dependent employees in all countries. However, in some countries, they do not receive maternity income-replacement benefits, particularly where these benefits are tied to, or part of, the sickness income-replacement insurance. For instance, in Germany, self-employed workers do not have access to maternity cash benefits unless they have opted to pay for income replacement in the case

of sickness scheme. This also applies to most self-employed in Austria. But self-employed mothers and fathers can still receive parental leave benefits in the same way as employees. In Poland and Romania, the self-employed have voluntary coverage, i.e. may opt in to maternity benefits (SPC and EC, forthcoming[3]).

Coverage gaps are largest for unemployment benefits, and other types of insurance closely tied to the workplace, such as work accident insurance (SPC and EC, forthcoming[3]). Even where self-employed workers are enrolled in mandatory schemes, compliance is typically weaker than for dependent employees (OECD, 2018[4]). Only ten EU countries provided the same access to unemployment benefits to the self-employed as to employees, and six countries provide no access. Across 38 OECD countries, only nine provide full unemployment benefits to self-employed workers, while 17 provide no access. Six countries offer the self-employed the option to enrol in unemployment insurance voluntarily, although enrolment rates are typically low (see below), and six countries provided partial access, e.g. lower benefit amounts or longer contribution periods than for employees (Figure 2.1).

Countries where the self-employed cannot access unemployment benefits often offer means-tested benefits for those without entitlement to insurance benefits or other resources (such as unemployment or social assistance benefits), including for those who have lost self-employed income. These safety-net benefits are typically less generous and less accessible than unemployment insurance benefits because of income- and asset tests. Payments are also not balanced by contributions. Excluding the self-employed from contribution-based schemes can therefore increase spending on means-tested benefits and create a degree of free-riding.[1]

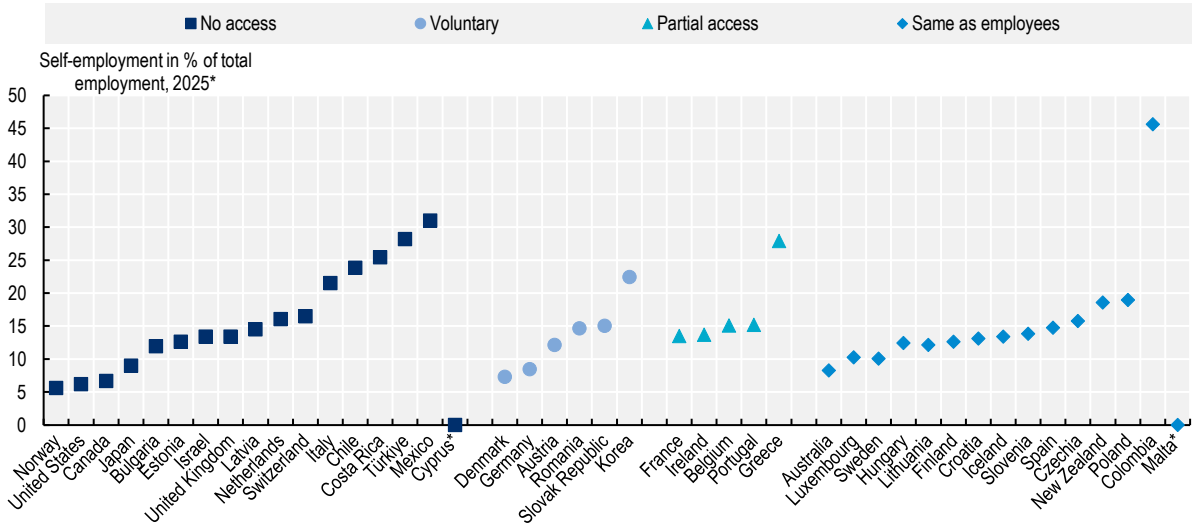
A lack of coverage affects more workers in countries with a high incidence of self-employment, e.g. Italy, where more than one in five workers is self-employed, than in Norway, where the share of self-employed is very low. In general, countries with a high incidence of self-employment do not seem to offer stronger coverage (Figure 2.1).

Some countries provide partial access to unemployment insurance, e.g. in France, there is a separate scheme for self-employed workers, the *Allocation des Travailleurs Indépendants* that is general-revenue financed and provides a lower maximum benefit receipt duration as well as lower benefit amounts than for employees.

Providing unemployment benefits to the self-employed can be difficult due to moral hazard considerations, as the self-employed control the success of their business in ways employees do not (OECD, 2024[1]), and it is difficult to establish unemployment without an employer to confirm a layoff (OECD, 2023[5]). But there are also practical difficulties in calculating contributions and benefits – the self-employed have fluctuating earnings as they may be paid by clients for larger chunks of work at irregular intervals. They also often have some control of the timing of their payments and therefore potentially more scope to manipulate their income to maximise their benefit entitlements (OECD, 2018[4]). Similarly, providing work accident insurance to the self-employed is associated with moral hazard since they control their own work environment.

Figure 2.1. Access to unemployment benefits for the self-employed is incomplete in many countries

Statutory access to unemployment benefits for self-employed workers, 2025 or latest available year, and incidence of self-employment, 2024



Note: *No data on the incidence of self-employment for Cyprus and Malta. Data for Bulgaria, Chile, Estonia, Iceland, Lithuania, Norway, Romania, the Slovak Republic, the United Kingdom and the United States refer to 2024. Partial access: more stringent entitlement criteria (e.g. longer contribution periods or higher minimum earnings thresholds) and/or less generous benefits (amounts and maximum duration) and/or limited coverage (some types of self-employed not covered). Some countries provide unemployment benefits for selected types of self-employed workers, but not most self-employed, e.g. Italy for some types of para-subordinate workers. Voluntary: in some countries with voluntary participation, self-employed workers who opt into the insurance scheme may also choose their contributions levels.
Source: Incidence of self-employment: (OECD, 2026[2]), "Labour Force Statistics: Summary tables", OECD data explorer, (https://data-explorer.oecd.org). Statutory access to unemployment benefits: European Union and EFTA countries: (SPC and EC, forthcoming[3]), MISSOC: Comparative tables Unemployment, 2025-2007-01, https://www.missoc.org. Non-European/non-EFTA countries: (ISSA, 2026[6]).

These moral hazard considerations are largely absent in the areas of family benefits and pensions. Statutory coverage for old-age pensions is more robust than for unemployment benefits: the self-employed have to contribute to earnings-related pensions schemes in all countries except Denmark and Germany.[2]

However, they only pay the same contributions as the equivalent sum of employer and employee contributions in Czechia, Estonia, Finland, Hungary, Lithuania, Luxembourg, Portugal and Slovenia. In all other countries, they either have a reduced contribution rate or flat rate contributions or only contribute to the basic pension system. For instance, in Poland, self-employed workers only have to pay contributions on the minimum contribution base (60% of the average wage), although they may increase their contributions voluntary. As a result, pensions of self-employed workers are on average 22% lower than those of dependent workers across the OECD on average. Some countries, including Austria and Costa Rica, also explicitly top up lower contribution rates by self-employed workers (OECD, 2025[7]).

The reason for lower pension coverage is likely the double-contribution issue (the self-employed would have to pay nominally higher contributions since they do not have an employer), paired with their often low incomes (see below). Historically, the self-employed were also more likely to be able to liquidate their business upon retirement (e.g. farmers or certain craftspeople), but business assets are less substantial among the self-employed that operate in the service sector. The reason for lower pension coverage is likely the double-contribution issue (the self-employed would have to pay nominally higher contributions since they do not have an employer), paired with their often low incomes (see below). Historically, the self-

employed were also more likely to be able to liquidate their business upon retirement (e.g. farmers or certain craftspeople), but business assets are less substantial among the self-employed that operate in the service sector.

2.2.2. Participation in voluntary schemes tends to be low

Many countries do offer voluntary schemes for self-employed workers if they are not covered in a compulsory scheme, especially for the risks of sickness (cash benefits) and maternity, but also unemployment, old-age and work accidents. However, take-up (the share of self-employed workers opting to participate) in these schemes tends to be low: for instance, in 2024, in Austria, only 0.6% of workers opted in to the unemployment insurance scheme for the self-employed workers, and in Slovakia 2%. In Finland the take-up rate was 10-15% in 2023, and in Slovakia 2%. In Germany, fewer than 10% of all self-employed who were not already compulsorily covered by law opted to participate in the old-age pension scheme in 2023, even though this scheme benefits from public subsidies, while take-up for supplementary pensions was significantly higher at 57% in Belgium in 2022. Take-up is higher in Spain, where 49% of the self-employed in agriculture participate in the voluntary UI scheme in 2024 (SPC and EC, forthcoming[3]; SPC and EC, 2024[8]; MISSOC, 2025[9]).

One reason for low participation in voluntary benefits is low willingness to pay more for social protection across the board, but especially for unemployment benefits. The OECD Risks That Matter (RTM) survey shows that across 27 participating OECD countries on average, only 19% of all self-employed respondents would be willing to pay an additional 2% of their income for better provision of/better access to unemployment supports, even though only 32% believe that they would receive adequate public support if they were to become unemployed (Figure 2.2, Panel A). Willingness to pay more for unemployment supports is lowest in Belgium, France, and Ireland with under 10% willingness to pay more, increasing up to 30% in Türkiye and Slovenia (Figure 2.2, Panel A).

One reason for low participation in voluntary benefits is low willingness to pay more for social protection across the board, but especially for unemployment benefits. The OECD Risks That Matter (RTM) survey shows that across 27 participating OECD countries, on average, only 19% of all self-employed respondents would be willing to pay an additional 2% of their income for better provision of / better access to unemployment supports, even though only 32% believe that they would receive adequate public support if they were to become unemployed (Figure 2.2, Panel A). Willingness to pay more for unemployment supports is lowest in Belgium, France, and Ireland with under 10% willingness to pay more, increasing up to 30% in Türkiye and Slovenia (Figure 2.2, Panel A).

The willingness to pay more for old-age supports is higher, at 33% on average among RTM participating countries, in-line with the fact that some self-employed have a low unemployment risk (or assess their own risk to be low), whereas most expect to reach retirement age. However, willingness to pay is still low, considering that 29% of self-employed respondents across RTM-27 countries do not expect adequate benefits in old-age (Figure 2.2, Panel B). Here, willingness to pay is highest in Latvia at almost 50% of self-employed respondents, where 38% of respondents expect adequate old-age benefits, as well as Israel and Slovenia with about 45% of respondents (and a significantly lower satisfaction with income support in old-age, see Figure 2.2, Panel B). Willingness to pay more for social protection, as well as satisfaction with current provision, is broadly similar between employees and the self-employed on the cross-country average and in most countries (see Annex Figure 2.A.2. for employees).

Myopia (i.e. short-sighted decision making), and inefficient under-saving for retirement because of other behavioural distortions, was one of the main reasons why compulsory social security schemes were initially introduced for dependent employees (e.g. (Diamond, 1977[10])). In the absence of significant business assets, this would also apply to the self-employed.

Voluntary schemes can also struggle with adverse selection problems, where workers more likely to be affected by a risk are more likely to opt in (e.g. those with poorer health are more likely to opt into sickness benefits, or those planning a family more likely to opt into maternity or paternity benefits), which leads to incomplete risk pooling, and the need for higher public subsidies, see Box 2.1.

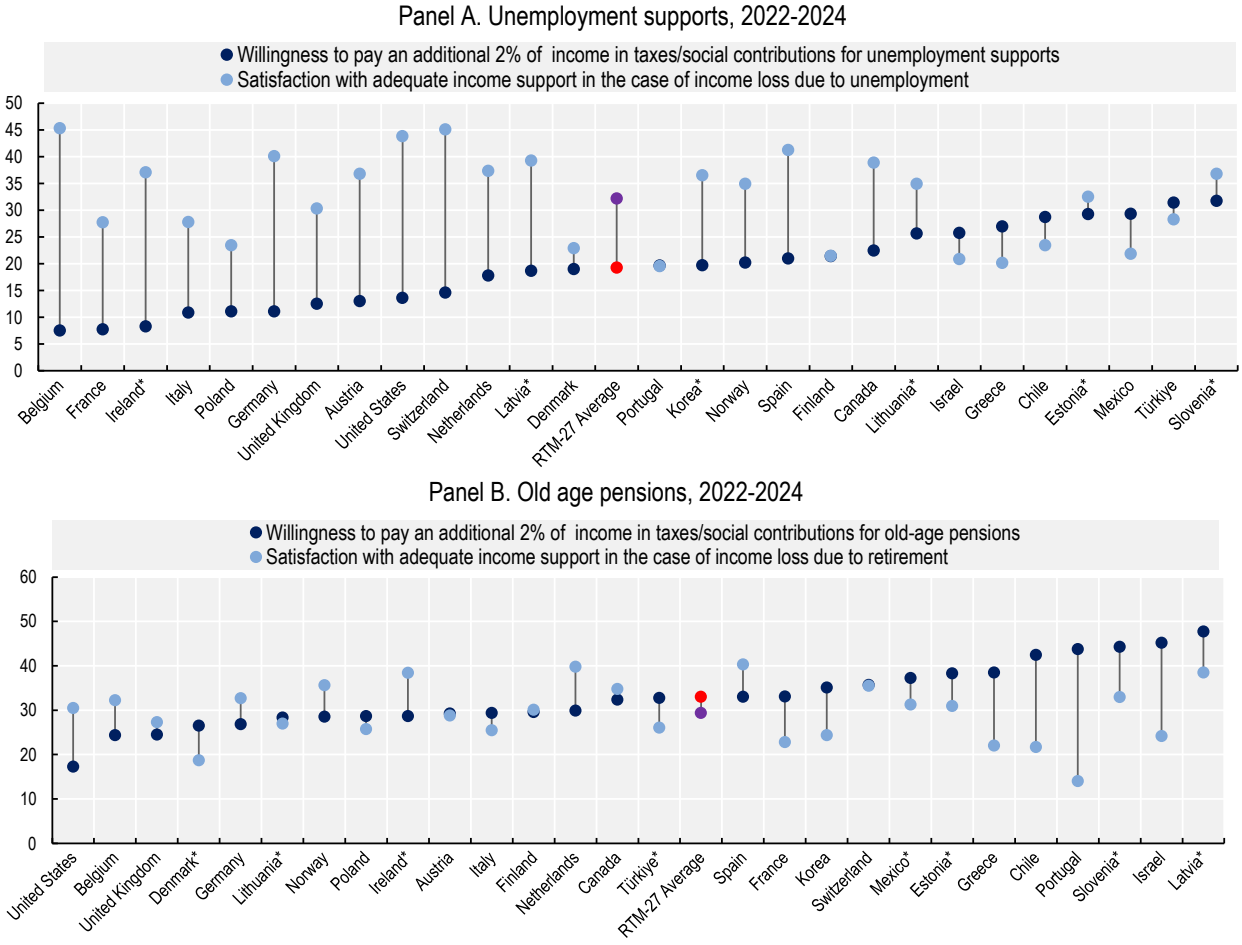
Box 2.1. Adverse selection in voluntary social insurance schemes

Voluntary social insurance schemes risk adverse selection of participants: if premiums are uniform, those with the highest risk have the biggest incentive to join. For schemes that do not rely on general-revenue subsidies, this can lead to a vicious circle of contribution hikes and lower-risk members leaving while subsidised schemes may require higher-than-expected inflows of funds. Compulsory insurance limits this by mandating low-risk individuals to participate.

Country examples of adverse selection include:

- In 2014, a health insurance reform in the United States limited private insurers' ability to adjust premiums to health status and medical history. Exploiting geographical differences across counties in Colorado, (Panhans, 2019[11]) shows that, for each USD 1 increase of the insurance premium of an average plan, the average medical expenditures of the insured population increased by USD 0.88 – higher premiums made the insurance pool more expensive, implying that those who expected higher medical costs were more likely to remain insured. Furthermore, for every USD 100 increase in the insurance premium, the likelihood that an insurance holder had a chronic health condition increased by 2 ppts.
- The Swedish unemployment insurance system consists of a basic unemployment benefit, that is supplemented by voluntary unemployment insurance funds affiliated with trade unions (OECD, 2018[4]). Landais et al. (2021[12]) show that workers who join an unemployment insurance fund are 2.3 times more likely to become unemployed than workers who do not, with under half of this effect due to adverse selection (workers having private knowledge of their higher unemployment risk) and about half due to moral hazard (workers who have the insurance being more likely to become unemployed). In 2007-8, a reform linked employee contributions to unemployment risk and raised average premiums by 300%. Membership in the Unemployment Insurance Funds dropped by around 10 p.p. in the following years. Groups that were particularly likely to exit the system included older workers over the age of 60, who have the lowest unemployment risk of all age groups, and young workers under the age of 25, who typically have low earnings and short unemployment durations (OECD, 2018[4]).
- In 1998, the Netherlands introduced a new disability insurance scheme that included experience rating for firms: firms whose employees were more likely to become disabled were charged higher premiums, to increase their incentive to improve preventive measures and re-integration efforts. Employers had the option to opt out of the public scheme and either buy private insurance or carry any disability benefit costs themselves. Benefit levels and entitlement criteria were independent of the employer choice. (Deelen, 2005[13]) shows that firms with a higher share of older and female employees were significantly less likely to opt out of the public insurance, and that opt-out decisions significantly varied by sector.
- Self-employed workers in Austria can opt into a short-term sickness benefit programme. In 2016, close to half of those who were covered received a benefit. The average benefit duration was 22 days, nearly twice the average sick-leave duration among dependent employees, who are subject to mandatory insurance, highlighting moral hazard risks. In response to the resulting deficits in the programme, the minimum benefit amount was cut significantly in 2017 (OECD, 2018[4]).

Figure 2.2. Willingness to pay more for social protection is low among the self-employed



Note: Data refer to the share of respondents who stated that they would be willing to pay an additional 2% of income in taxes/social contributions to benefit from better provision of and access to: Unemployment supports/Old age pensions as well as the share of respondents who agree or strongly agree with the statement "I think that the government does/would provide my household and me with adequate income support in the case of income loss due to unemployment/retirement." Data refers to self-employed (working-age) respondents. RTM-27 is an unweighted average of the 27 countries participating in the RTM survey. Countries are ordered by increasing willingness to pay for supports.
* The difference between the self-employed and employees is statistically significant at $p < 0.05$. For Panel A, this is the case in Ireland for the willingness to pay more and for willingness to pay more for unemployment supports, and for Estonia, Latvia, Lithuania, Korea, and Slovenia for the satisfaction with income support in the case of unemployment. For Panel B, this is the case for Lithuania and Mexico for the willingness to pay more for old-age pensions, and for Denmark, Estonia, Ireland, Latvia, Türkiye, and Slovenia for the satisfaction income support in retirement.
Source: Data refer to pooled waves for 2022 and 2024 of the OECD Risks that Matter Survey (https://www.oecd.org/en/about/programmes/oecd-risks-that-matter-rtm-survey.html).

2.2.3. The self-employed are overrepresented at the bottom earnings distribution, which partly explains low contributions

Another reason for the lower-than-expected share of contributions from the self-employed is that the income distributions of dependent workers and the self-employed are different, with the self-employed being overrepresented at the bottom and top end of the earnings distribution. Across the EU on average, the self-employed are more than twice as likely to be in the bottom 10% of the earnings distribution and are still overrepresented in deciles two and three – even if contributions were equivalised between self-employed and dependent employees, they would therefore pay less in contributions. They are slightly

overrepresented among the 10% with the highest earnings too, which can limit contributions in countries with a contribution ceiling (Figure 2.3).

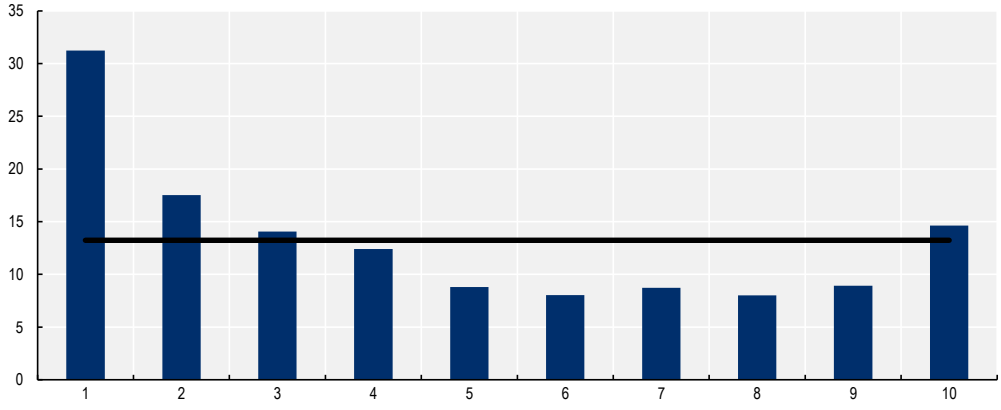
Similar to gender earnings patterns for employees, self-employed women are more concentrated at the bottom end of the income distribution: women account for 35% of all self-employed across the EU on average, but for half of all self-employed in the bottom decile of the income distribution, compared to 27% of the self-employed in the top decile (Figure A A.3).

Cross-country differences in the incidence of self-employment across the earnings distribution are quite significant: The self-employed are more concentrated in the middle of the income distribution than at its extremes only in Belgium. In Hungary, the self-employed are particularly overrepresented among low earners: they account for over 60% of the bottom 20% of earners, but only for 22% of all earners. Overrepresentation at the bottom is also more accentuated than on average in Denmark, Greece Croatia, Lithuania and Poland (see Overrepresentation at the bottom is also more accentuated than on average in Denmark, Greece Croatia, Lithuania and Poland (see Figure A A.4).

These results are under the caveat that income data for the self-employed is more unreliable than that of employees (Zardo Trindade and Goedemé, 2020[14]). The self-employed have a clear incentive to underreport income to tax- and social security institutions, which can lower their income in surveys that rely on administrative data for incomes. But they may also underreport earnings in questionnaire responses because they fear that their incomes will be transmitted to the tax authorities. Recall errors in surveys may also be more important for the self-employed who often have irregular income. Using matched data from the tax authorities and a household survey, (Cabral, Gemmell and Alinaghi, 2020[15]) estimate for New Zealand that the self-employed underreport about 20% of their earnings to the tax authorities, but only about 6-10% to household surveys, making survey-based income more reliable. In contrast, (Consolini and Donatiello, 2013[16]) show for Italy, that self-employment income in tax data is higher than self-reported income from the EU-SILC.

Figure 2.3. The self-employed are overrepresented at the bottom and top of the earnings distribution

The self-employed as a share of all workers, by wage / earnings decile, in per cent, EU-average, 2024



Note: The black line indicates the overall incidence of self-employment across the EU on average (13%). Status as self-employed or employee is self-identified. For workers with missing information, employment type is assigned as the type with the higher income (employee or self-employed earnings). Unweighted average.
Source: Secretariat calculation based on the EU-SILC 2024.

2.2.4. Recent and planned policy reforms to expand coverage for the self-employed

Several countries are implementing or considering reforms to improve the social protection coverage of the self-employed. This trend picked up in the wake of the COVID-19 pandemic, that showed that the self-employed need income support, at least during sudden crises. Emergency programmes designed for immediate relief often suffered from incomplete coverage, delayed payments and design flaws leading to overpayments. They were also necessarily not balanced by contributions (Dely, Hyee and Prinz, 2025[17]).

Incomplete social protection coverage of the self-employed also enables firms to engage in regulatory arbitrage by choosing work arrangements with fewer social protection entitlements, and thus lower social security contributions. For workers, choosing non-standard employment is especially attractive if contributions are lower than for standard dependent work, while entitlements are broadly similar (e.g. subsidised schemes). In addition to the enforcement of the correct classification of workers (through labour inspections and the judicial system), aligning social protection coverage across employment forms can help decrease the incentive for regulatory arbitrage. Trade unions can also play a role in supporting misclassified workers to assert their re-classification through the judicial process (OECD, 2019[18]).

Voluntary schemes are not generally the best way to achieve broad coverage of self-employed workers, as they tend to suffer from low take-up and adverse selection (those who have the highest risk have the greatest incentive to join), which leads to incomplete risk pooling, see Section 2.2.2.

This section reviews current reform efforts to expand coverage for the self-employed, based on answers to the short OECD policy questionnaire “financing of national social protection systems”, circulated to EU, OECD and OECD accession countries, in September 2025, as well as the MISSOC comparative tables (https://www.missoc.org/missoc-database/comparative-tables/), unless otherwise stated.

- Ireland introduced a new earnings-related unemployment benefit, “Jobseeker’s Pay-Related Benefit” in March 2025. For the self-employed, there is a separate benefit, “Jobseeker’s Benefit (Self-Employed)” that also provides benefits tied to previous earnings, for the same duration, but lower amounts. However, self-employed with an annual income below EUR 5 000 may voluntarily opt in to the unemployment benefit, whereas there is no insurance for employees with an income below EUR 1 800.
- The Netherlands are considering introducing a compulsory invalidity insurance for the self-employed (who can currently opt in voluntarily), funded by social contributions.
- The Czech Republic is increasing the contribution base for the pension insurance for the self-employed gradually between 2024 and 2026 to improve future pension adequacy.
- Finland has launched a project to design a “combination insurance model” that is supposed to improve access to unemployment benefits for workers who combine dependent and self-employment.
- Finland also reformed pension contributions for self-employed workers, with a view to improving their pension adequacy. Currently, the contribution base for the pension insurance for the self-employed in Finland is an estimate of how much the self-employed worker would earn if they performed the same work as an employee (based on the sector’s median earnings, their working hours and their skills) (Rantala, 2025[19]). This is reviewed by insurance companies every three years. For employees, the contribution base is taxable income. From 2028 onwards, the self-employed will be able to choose whether to base their contributions on the imputed income, or on their actual taxable income. After a transition period, the insured income would have to be at least 50% of actual earned income. The reform will also enable the self-employed to lower their pension contributions if their actual income is below their imputed income. A pension evaluation commissioned by the government also suggested lowering the threshold under which no contributions are due (around EUR 9 400 per year in 2026, compared to around EUR 860 for

employees), and to abolish the minimum requirement of four months' income for compulsory insurance, which does not exist for employees either.

- The Slovak Republic increased the minimum assessment base for the pension insurance for the self-employed with an annual income above EUR 8 580 from 50% to 60% of the average wage of two years ago (EUR 914 in 2026). For employees, no such minimum contribution base exists. At the same time, the Slovak Republic also increased the health-insurance contribution rate for the self-employed from 15 to 16%.
- Romania significantly increased the ceilings for the contribution base of the self-employed to the health insurance (from 12 times the minimum wage in 2025 to 72 times the minimum wage) in 2026. There is no ceiling for employees.
- Italy introduced a new unemployment benefit for para-subordinate professionals (unlicenced freelancers, e.g. graphics designers) on an experimental basis from 2021 to 2023, then made it permanent in 2024 (European Commission, 2025[20]). Freelancers whose income drops by more than 50% compared to their average income over the last three years, and whose annual income is below a threshold, are entitled to 25% of their average income over the last three years. This benefit could only be claimed once every three years and is financed by social security contributions. Recipients have to participate in training courses offered by the PES related to their professional field. Professional associations contribute to the design and choice of the courses (OECD, 2023[5]).
- Cyprus extended parental leave and accidents-at-work coverage to the self-employed (European Commission, 2025[20])
- Türkiye is planning to increase the coverage of social protection for non-standard forms of work, in particular for the self-employed, low-income and seasonal workers, including special programmes for low-income tradesmen, artisans, farmers and seasonal workers. Legislation is currently in development.
- Belgium is considering increasing the minimum contribution rates for self-employed workers both in the standard as well as in the voluntary supplementary pension scheme for the self-employed.

2.2.5. Platform work is a small share of total employment

According to the EUROSTAT pilot survey on digital platform employment, covering 17 EU and EFTA countries,[3] 3% of working-age people reported to have worked for a digital labour platform at least one hour per month (Eurostat, 2023[21]). This estimate is somewhat lower than the share estimated by the Contingent Worker Supplement of the Current Population Survey (CPS) for the United States in 2017[4] (6-7% of workers), but this estimate includes independent contractors and freelancers who do not find clients on digital platforms (Abraham et al., 2023[22]; Bernhardt et al., 2022[23]). In Canada, the share of working-age people who had earned money through a labour platform was 1.7% in 2023, and 0.4% of workers said that work through digital platforms was their main job (Hardy, 2024[24]). In Australia, the share of the population who undertook digital platform work during the last four weeks was estimated to be just under 1% in 2022-2023 (Australian Bureau of Statistics, 2023[25]). While these measurements are not directly comparable (e.g. some measure platform work undertaken over the past month vs. year), and the measurement of platform work is not straightforward (e.g. there is no single definition of what should be included in platform work (OECD/ILO/European Union, 2023[26])), these measurements indicate that overall, the group of platform workers is small.

However, they seem especially vulnerable, because, like other self-employed, they have limited access to social protection, are not covered by employment protection legislation or minimum wages, and are typically not allowed to engage in collective bargaining, although exceptions exist in the EU for some self-employed, in particular economically dependent solo self-employed persons (European Commission, 2022[27]). Unlike other self-employed, they also operate with little or no business capital, and if they are

dependent on a few or only one client, they also do not enjoy entrepreneurial freedoms, e.g. setting their own prices or working hours. From a social protection financing perspective, there is also the concern that firms might substitute employees for platform workers to benefit from lower labour cost (regulatory arbitrage, (OECD, 2018[4])), which can undermine social protection funding base.

In recent years, several court decisions have classified platform workers as employees as many jurisdictions have "primacy of facts" principles that define platform workers as employees if they meet minimum standards of dependence (OECD, 2024[1]). The 2024 EU Platform Work Directive introduces a legal presumption of employment when platforms exercise "direction and control" over workers, which should be integrated into national regulations by the end of 2026. Spain already legislated in 2021 with the "Rider"s law' that classified platform workers as employees when platforms exercise direction and control (ETUC, 2022[28]; OECD, 2026[29]).

Mexico introduced a range of measures for digital platform workers in 2025, which should benefit up to 700 000 platform workers. Platform workers earning at least the minimum wage are covered by health insurance, maternity, disability and retirement, as well as childcare services, while those earning below the minimum wage are covered only for accidents at work. Platforms must provide information on workers who provide services through their platform to the social security agency and pay contributions (that is, for the purpose of social protection, they act as the employer). Similarly, in Estonia, digital platforms must provide income data on workers to the Tax and Customs Board (although they do not have to pay contributions). This transmission is expected to increase compliance with taxes and social contributions (SPC and EC, forthcoming[3]).

Belgium is planning to introduce an obligation for digital platforms to insure the self-employed who find work through their platform against workplace accidents using private insurance (SPC and EC, forthcoming[3]) in 2028.

2.3. Social protection financing and part-time work

Total hours worked per worker are on a downward trend across EU and OECD countries. Between 1995 and 2024, average annual hours worked by worker decreased by 6.6% across the EU and by 4.8% across the OECD on average (see Annex Figure A A.5). Decreases were particularly large (i.e. more than 15 p.p.) in Chile, Ireland and Iceland. Around a quarter of this reduction in hours worked occurred across the EU since 2019, which indicates that i) the decline in hours worked started before the COVID-19 crisis, and ii) that this is a continuing trend. Evidence from Europe suggests that it may be driven by an increasing preference for leisure as incomes rise (OECD, 2024[1]).

The fall in hours worked per worker negatively impacts the aggregate wage sum as it contracts hours worked, already diminished by a shrinking labour force due to below-replacement-level fertility rates, and therefore puts pressure on social protection financing (see Chapter 3 for an estimation of the potential of increasing hours worked per worker to counteract the effects of population ageing). Part-time workers also accumulate lower entitlements to earnings-related benefits such as unemployment, sickness or old-age pensions, and the resulting benefits may be insufficient to lift them above the poverty line.

As most social security contributions are levied on income irrespective of working hours, a rising incidence of part-time work can also undermine the capacity to pay principle. Many earnings-related benefits contain an element of redistribution, with the implicit assumption that low earnings are connected to low earnings capacity (due to low wage rates, unpaid work, periods of unemployment etc.). For instance, mandatory pension schemes typically provide higher replacement rates for low earners (OECD, 2025[7]). A rising incidence of part-time work will increase the number of low earners and therefore put additional pressure on these redistributive mechanisms.

2.3.1. One in seven workers works part-time in the EU

Around 14% of employees worked part-time across the EU, and 13% across the OECD on average, in 2024.[5] Women are more than twice as likely to work part-time across the OECD average (20% vs. 7.5% for men), and more than three times as likely across the EU on average (22% vs. 6.6% for men), connected to the uneven sharing of unpaid work between men and women (see, e.g. (OECD, 2024[1])). Cross-country differences are striking, with over 35% of employees working part-time in the Netherlands, and over 20% in Germany, Austria and Switzerland, while the part-time rate is below 5% in all central and eastern European countries as well as the Baltics and Portugal (Figure 2.4).

About 15% if all part-time workers across the OECD on average were involuntary part-time workers in 2025 (they would have liked to work more hours, but could not find a job offering them). Across EU countries this share is slightly higher at 17%. Underemployment has decreased strongly since the Great Financial Crisis (GFC): in 2014, 25% of part-time workers were involuntary part-time workers across the OECD, and 30% across the EU, on average (OECD, 2026[30]).

Part-time work can help workers who would struggle with full-time work to participate in the labour market. For instance, people with disability are twice as likely to work part-time across 32 OECD countries with available data that people without disability (OECD, 2022[31]).

Over the past three decades, women's part-time rate *declined* across the EU and the OECD on average, against a backdrop of increasing female labour force participation. While the share of women working part-time increased slightly at the beginning of the 2000s up until shortly after the GFC, it has been on a downward trajectory since the beginning of the 2010s, dropping from 24% in 1995 to 22% in 2024 across the EU on average, and from 24% to 20% over that period across the OECD on average (OECD, 2024[1]; OECD, 2026[32]).

There is no clear link between rising women's labour force participation and a higher incidence of part-time work. Some countries, notably Austria, Finland, or Italy, did experience rising women's labour force participation (in the range of 10-15 p.p.) combined with rising part-time employment among women (in the range of 9-14 p.p., see (OECD, 2024[1]; OECD, 2026[32])). However, other countries experienced an equivalent increase in women's labour force participation combined with a decrease in part-time work. Examples include Canada, Switzerland, France, Mexico, or Israel, where labour force participation increased by 10-15 p.p., while the share of women working part-time decreased by around 4-7 p.p. The decrease in part-time work was driven by prime-aged (25-54) and older women (55-64), who show increasingly robust late-career labour force attachment. In contrast, part-time rates for young women (15-24) increased even more strongly than for young men, likely driven by higher enrolment in post-secondary education, that has now caught up to, and in places surpassed, male enrolment.

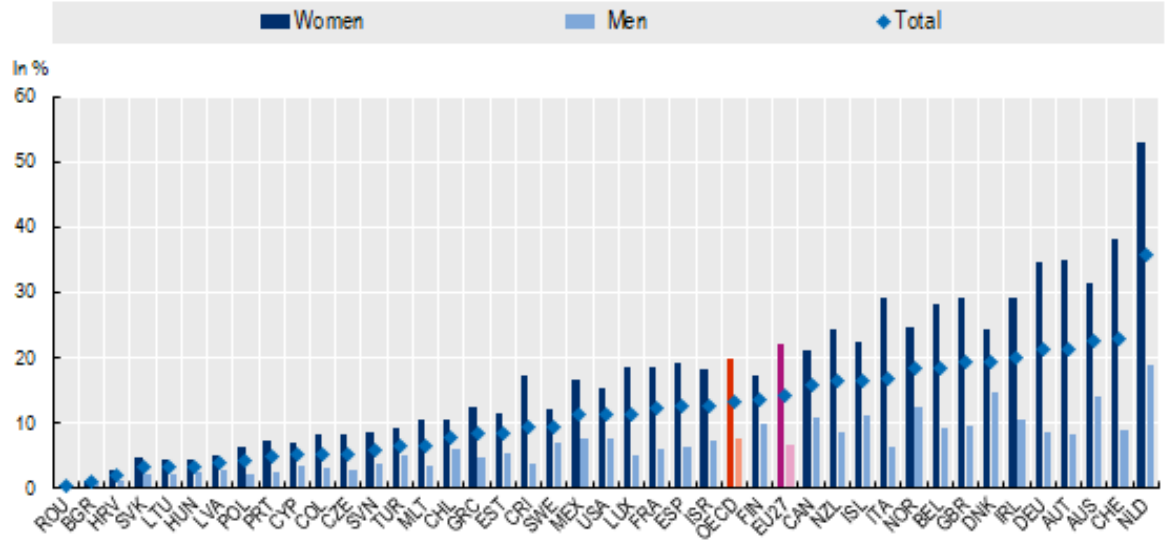
Men, in contrast, increasingly work part-time. The share of men who work part time increased from 4.2% in 1995 to 6.6% in 2024 across the EU on average, and from 6% to 7.5% across the OECD on average. Increases were particularly strong in the Netherlands (8 p.p.), Austria and Germany (6 p.p.), Finland and Norway and Spain (5 p.p.), and Belgium and Denmark (4 p.p.). The part-time rate for men rose in all countries except the United States, Sweden and Greece.

It is not clear from the available data what drives the increasing propensity for men to work part-time. Labour market slack seems to have played a part at the beginning: men's part-time rates accelerated with the Great Financial Crisis (GFC), in line with indicators of involuntary part-time work. However, while underemployment fell with the economic recovery, men's part-time rate did not return to pre-GFC levels. Men may have curtailed work to participate in unpaid care, but this is difficult to assess with available data. Workers may also increasingly value leisure as wages increase. This is consistent with part-time work increasing most in higher-income countries (see (OECD, 2024[1]) for an in-depth discussion).

Should the trend towards part-time work among men and young women continue, it could depress aggregate labour supply and the wage sum, affecting the financial stability of social protection systems. Part-time work exacerbates the squeeze that population ageing puts on labour earnings, the main funding base of social protection systems. The sustainability of pay-as-you-go pension systems in particular hinges on productivity growth compensating for negative population growth even if labour supply is constant (Aaron, 1966[33]). This means that even higher productivity growth would be necessary to preserve social protection funding if the incidence of part-time work increases in the long term.

Figure 2.4. One in seven workers is part-time in the EU

Part-time employment rate by sex, 15-64 years, 2024



Note: Part-time in this figure is defined as dependent employees who usually work less than 30 hours per week in their main job. Korea does not have data on dependent employment by full- and part-time status, no data on Japan.
Source: (OECD, 2026[32]), Incidence of full-time and part-time employment based on OECD-harmonised definition (indicator), https://data-explorer.oecd.org/s/438.

2.3.2. Part-time workers sometimes do not fully contribute to social protection

Part-time workers are typically statutorily covered by social protection in the same way was full-time workers, but there are important exceptions.

In Austria, workers earning below the "marginal threshold" for employee contributions (EUR 551 per month in 2025) are not covered by health insurance or pension insurance, and therefore not liable for social contributions (they are covered for accidents at work). Workers with marginal earnings can opt into health and pensions insurance voluntarily, but often, workers with marginal earnings already have health insurance, e.g. because they are students or pensioners. Recent and planned reforms are chipping away at this advantage: In 2024, workers who have marginal employment contracts with two or more employers were included in the compulsory unemployment insurance system following a constitutional court decision (SPC and EC, forthcoming[3]). Austria is also planning to introduce mandatory health insurance contributions for those with marginal earnings during the current government term (2025-2029).

Similarly, in Germany, "mini jobs" with a monthly income up to EUR 603 per month in 2026 are not subject to employee social security contributions except for pensions (they may however apply for an exemption from pension insurance payments), and employers pay a flat rate. "Midi-jobs", with an income between the

"mini" threshold and EUR 2 000 per month benefit from reduced social security contributions, while their contributions to pension insurance build full entitlements. Similar contribution-free lower thresholds exist in the United Kingdom, Ireland and Canada (OECD, 2026[34]).

Some countries offer rebates in social security contributions for low-income workers, but these can be adjusted by working time to improve targeting to low-wage workers, instead of workers working fewer hours. For instance, in France, employers can reduce employer social security contributions for workers earning less than 1.6 times the minimum wage. For part-time workers, this reduction is adjusted by hours worked (OECD, 2026[34]). Similarly, Belgium calculates the potential monthly income for part-time workers using their salary and stated hours of work to determine whether they are entitled to a social security contribution rebate for low-income workers (Harding, Paturot and Simon, 2022[35]).

Japan limits social security coverage to full-time workers for some risks, but current reforms aim to extend coverage. For instance, only workers who work at least 20 hours per week and at least 31 days per month are currently covered by unemployment benefits. Starting in October 2028, employment insurance coverage will be extended to workers working at least 10 hours per week. From 2026, Japan will also extend pension insurance coverage to part-time employees working in smaller firms (up to 50 employees).

Malta has also extended social protection coverage for part-time workers by allowing those with multiple jobs to pay social security contributions on their combined wage. Broadening the contribution base will improve the accumulation of pension rights.

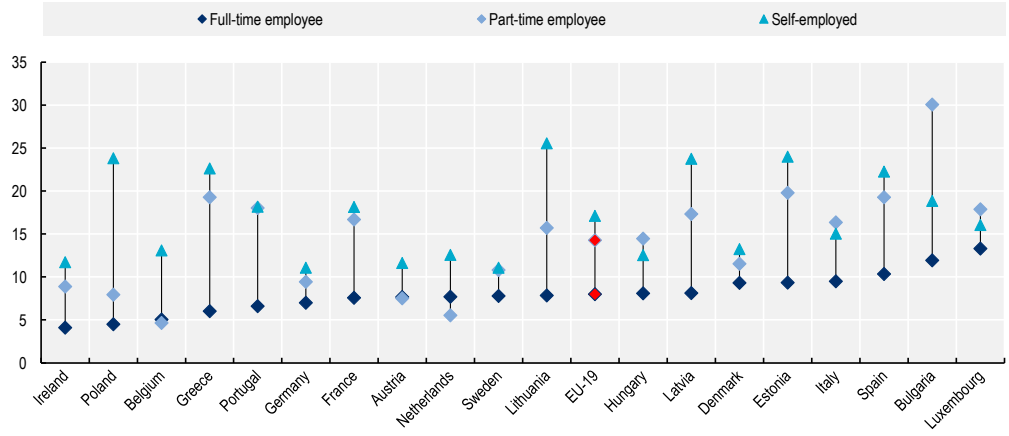
2.4. Non-standard workers are at higher risk of poverty

Improving the coverage of non-standard workers is not only important for improving the financing base of social protection. Many non-standard workers likely lack the capacity to accumulate savings to cushion potential earnings shocks. Under the caveat that earnings from self-employment are less reliable than employee earnings (see Section 2.2),[6] across countries with available data, part-time workers are 1.8 times as likely to be at-risk of poverty[7] than full-time workers, while the self-employed have a 2.1 times higher poverty risk (Figure 2.5). In all countries with available data, full-time employees have a poverty rate of under 15%, and the risk is under 8% across countries on average – full-time work is very protective against poverty. Poverty risks are very high for the self-employed in Poland (where the poverty risk for full-time workers is only 4%), Greece, Lithuania and Estonia with over 20% of self-employed workers.

Thus, incomes of other household members, or earnings-replacement benefits, do not on average compensate for lower incomes of non-standard workers, even though students and pensioners are more likely to work part-time, many women working part-time have a full-time working partner, and many self-employed with low incomes are topping up income from dependent work, including most platform workers (Eurostat, 2023[21]).

Figure 2.5. Non-standard workers are at higher risk of poverty

Share of non-standard workers at-risk of poverty, in per cent, 2024



Note: Poverty line: 60% of equivalised median household income (Eurostat definition). The standard OECD definition is 50% of equivalised median household income. Part-time work is self-defined. Employees with missing information on part-time work are assumed to work full-time. Status as self-employed or employee is self-identified. For workers with missing information, employment type is assigned as the type with the higher earnings (employee or self-employed earnings). Poverty rates by employment type cannot be shown for Croatia, Cyprus, Czechia, Finnland, Malta, Romania, Slovenia, and the Slovak Republic because the size of at least one employment-type/AROP cell is below the minimum of 30 observations suggested by Eurostat for statistical reliability. EU-19: unweighted average of countries with available information.
Source: Secretariat calculation based on the EU-SILC 2024.

References

Aaron, H. (1966), "The Social Insurance Paradox", *Canadian Journal of Economics and Political Science*, Vol. 32/3, pp. 371-374, https://doi.org/10.2307/139995. [33]

Abraham, K. et al. (2023), *The Independent Contractor Workforce: New Evidence On Its Size and Composition and Ways to Improve Its Measurement in Household Surveys*, National Bureau of Economic Research, Cambridge, MA, https://doi.org/10.3386/w30997. [22]

Australian Bureau of Statistics (2023), "Digital platform workers in Australia", https://www.abs.gov.au/articles/digital-platform-workers-australia. [25]

Bernhardt, A. et al. (2022), "Independent Contracting, Self-Employment, and Gig Work: Evidence from California Tax Data", *ILR Review*, Vol. 76/2, pp. 357-386, https://doi.org/10.1177/00197939221130322. [23]

Cabral, A., N. Gemmell and N. Alinaghi (2020), "Are survey-based self-employment income underreporting estimates biased? New evidence from matched register and survey data", *International Tax and Public Finance*, Vol. 28/2, pp. 284-322, https://doi.org/10.1007/s10797-020-09611-8. [15]

Deelen, A. (2005), "Adverse selection in disability insurance: empirical evidence from Dutch Firms", *CPB Discussion Paper Nr 46*, https://www.cpb.nl/system/files/cpbmedia/publicaties/download/adverse-selection-disability-insurance-empirical-evidence-dutch-firms.pdf. [13]

Dely, B., R. Hyee and C. Prinz (2025), "What worked well in social protection during the COVID-19 pandemic?", *OECD Social, Employment and Migration Working Papers*, No. 325, OECD Publishing, Paris, https://doi.org/10.1787/b31ac155-en. [17]

Diamond, P. (1977), "A framework for social security analysis", *Journal of Public Economics*, Vol. 8/3, pp. 275-298, https://doi.org/10.1016/0047-2727(77)90002-0. [10]

ETUC (2022), *Platform Reps: Spain: Country report 2022*, European Trade Union Confederation, https://www.etuc.org/sites/default/files/page/file/2023-05/ETUC_country%20report_Spain-EN.pdf. [28]

European Commission (2025), *Joint Employment Report 2025 – As adopted by the EPSCO Council on 10 March 2025*, Publications Office of the European Union, https://doi.org/10.2767/9542551. [20]

European Commission (2022), *Communication from the Commission. Guidelines on the application of Union competition law to collective agreements regarding the working conditions of solo self-employed persons*, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=intcom:C%282022%296846 (accessed on 18 August 2026). [27]

Eurostat (2023), "Employment statistics - digital platform workers", *Statistics explained*, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Employment_statistics_-_digital_platform_workers. [21]

Harding, M., D. Paturot and H. Simon (2022), "Taxation of part-time work in the OECD", *OECD Taxation Working Papers*, No. 57, OECD Publishing, Paris, https://doi.org/10.1787/572b72d3-en. [35]

Hardy, V. (2024), "Defining and measuring the gig economy using survey data", *Labour Statistics: Research Papers*, https://www150.statcan.gc.ca/n1/pub/75-004-m/75-004-m2024001-eng.htm. [24]

Immervoll, H. et al. (2022), "De-facto gaps in social protection for standard and non-standard workers: An approach for monitoring the accessibility and levels of income support", *OECD Social, Employment and Migration Working Papers*, No. 271, OECD Publishing, Paris, https://doi.org/10.1787/48e282e7-en. [37]

ISSA (2026), *Social Security Around the World. Country profiles*, ISSA, https://www.issa.int/databases/country-profiles. [6]

Jäntti, M., V. Törmälehto and E. Marlier (eds.) (2013), *Improvements of data quality through the combined use of survey and administrative sources and micro simulation model*, Publications Office of the European Union, https://doi.org/10.2785/45854. [16]

Königs, S. and J. Terrero-Dávila (2025), "Who climbs the income ladder?: Cross-country evidence on income mobility from tax record data", *OECD Social, Employment and Migration Working Papers*, No. 322, OECD Publishing, Paris, https://doi.org/10.1787/eadbbcbf-en. [38]

Landais, C. et al. (2021), "Risk-Based Selection in Unemployment Insurance: Evidence and Implications", *American Economic Review*, Vol. 111/4, pp. 1315-1355, https://doi.org/10.1257/aer.20180820. [12]

MISSOC (2025), *Missoc Comarative Tables: Financing*, https://www.missoc.org/missoc-database/comparative-tables/. [9]

OECD (2026), *Average annual hours actually worked per worker*, https://data-viewer.oecd.org/?chartId=2326e6d8-c5c1-4be6-b6ef-980c4a52cf6b. [36]

OECD (2026), *Incidence of full-time and part-time employment based on OECD-harmonized definition (indicator)*, https://data-explorer.oecd.org/s/438. [32]

OECD (n.d.), *Incidence of involuntary part-time employment (indicator)*, https://data-explorer.oecd.org/. [30]

OECD (2026), "Labour Force Statistics: Summary tables", *OECD Employment and Labour Market Statistics* (database), https://doi.org/10.1787/data-00286-en (accessed on 26 February 2026). [2]

OECD (2026), *OECD Employment Outlook 2026: Geographic Disparities in Jobs and Incomes*, OECD Publishing, Paris, https://doi.org/10.1787/7e710f54-en. [29]

OECD (2026), *OECD TaxBEN policy descriptions*, https://www.oecd.org/en/topics/sub-issues/income-support-redistribution-and-work-incentives/how-do-countries-calculate-tax-liabilities-and-social-benefit-entitlements.html. [34]

OECD (2025), *Pensions at a Glance 2025: OECD and G20 Indicators*, OECD Publishing, Paris, https://doi.org/10.1787/e40274c1-en. [7]

OECD (2024), *Megatrends and the Future of Social Protection*, OECD Publishing, Paris, https://doi.org/10.1787/6c9202e8-en. [1]

OECD (2023), *Benefit Reforms for Inclusive Societies in the United States: Income Security During Joblessness*, OECD Publishing, Paris, https://doi.org/10.1787/32d8f005-en. [5]

OECD (2022), *Disability, Work and Inclusion: Mainstreaming in All Policies and Practices*, OECD Publishing, Paris, https://doi.org/10.1787/1eaa5e9c-en. [31]

OECD (2019), *OECD Employment Outlook 2019: The Future of Work*, OECD Publishing, Paris, https://doi.org/10.1787/9ee00155-en. [18]

OECD (2018), *The Future of Social Protection: What Works for Non-standard Workers?*, OECD Publishing, Paris, https://doi.org/10.1787/9789264306943-en. [4]

OECD/ILO/European Union (2023), *Handbook on Measuring Digital Platform Employment and Work*, OECD Publishing, Paris, https://doi.org/10.1787/0ddcac3b-en. [26]

Panhans, M. (2019), "Adverse Selection in ACA Exchange Markets: Evidence from Colorado", *American Economic Journal: Applied Economics*, Vol. 11/2, pp. 1-36, https://doi.org/10.1257/app.20170117. [11]

Rantala, J. (2025), *Self-employed persons also deserve decent pension security: Rapporteur's report on developing the pension system for the self-employed (Reports and Memorandums of the Ministry of Social Affairs and Health 2025:35).*, Ministry of Social Affairs and Health (Finland), https://urn.fi/URN:ISBN:978-952-00-6000-8. [19]

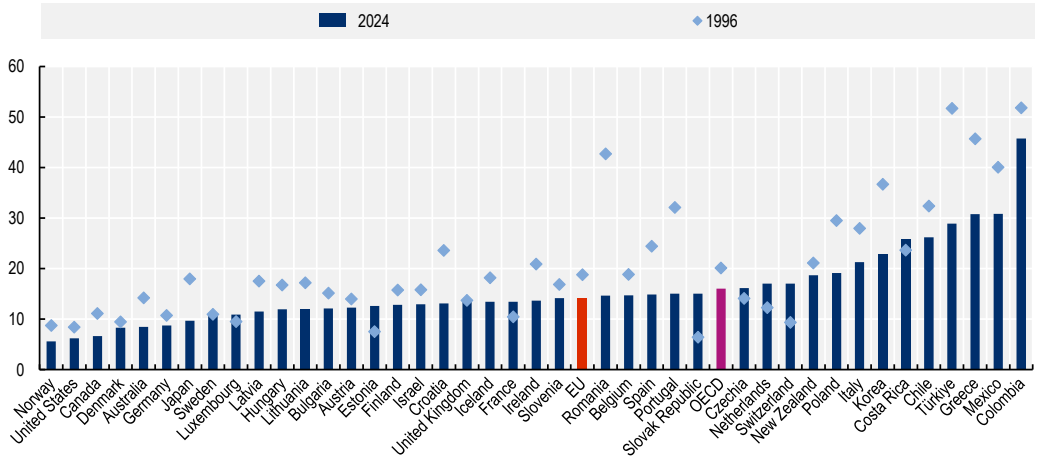
SPC and EC (2024), *Access to social protection for workers and the self-employed. (Partial) Update of the monitoring framework - 2023*, https://ec.europa.eu/social/BlobServlet?docId=27549&langId=en. [8]

SPC and EC (forthcoming), *Access to social protection for workers and the self-employed. Update of the monitoring framework 2025*, European Commission. [3]

Zardo Trindade, L. and T. Goedemé (2020), *The comparability of the EU-SILC income variables: review and recommendations. 2020 edition*, Publications Office fo the European Union, https://doi.org/10.2785/047001. [14]

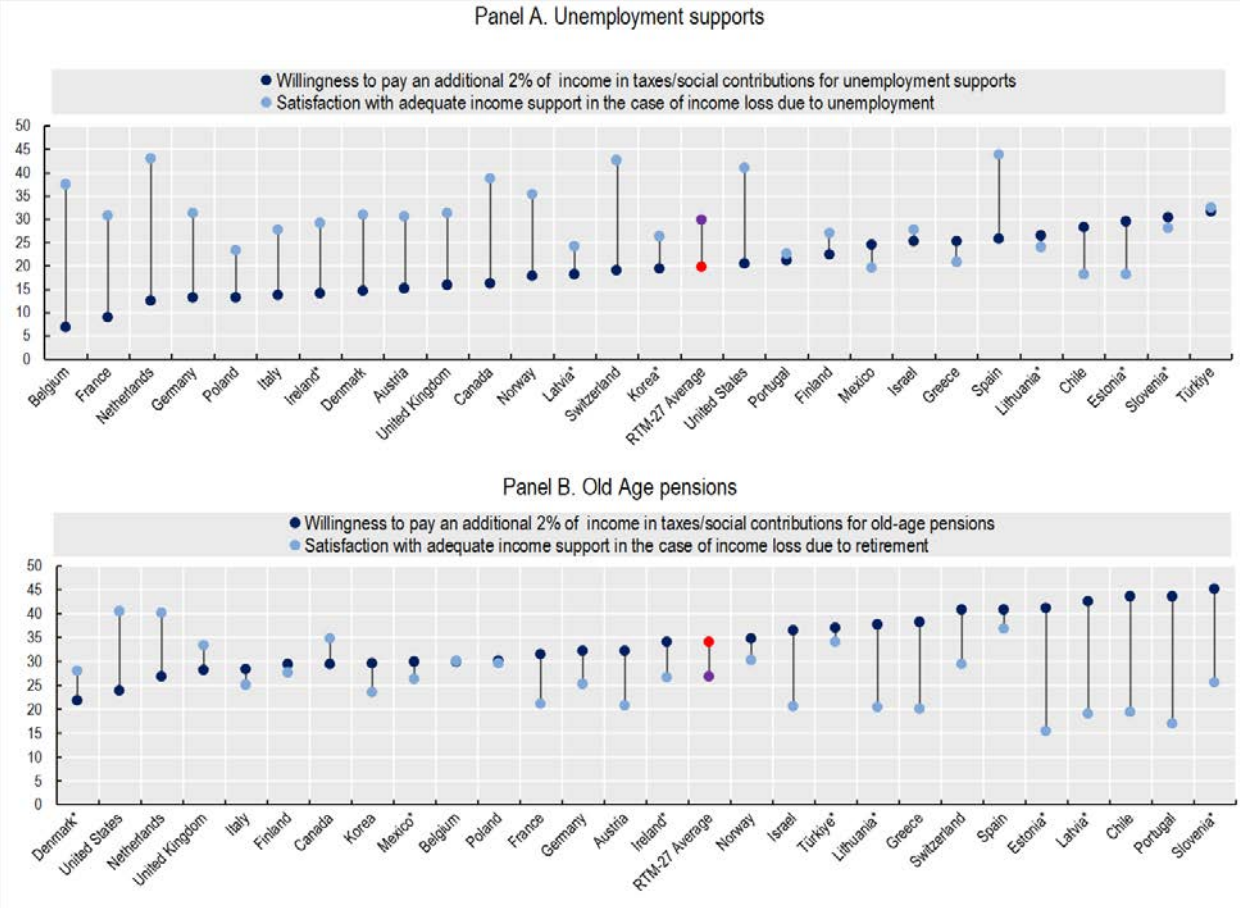
Annex 2.A. Additional Statistics

Annex Figure 2.A.1. Self-employment as a share of total employment, 1996 and 2024 or nearest available year



Note: The earliest year available is 1998 for Latvia, Luxembourg and Switzerland; 1999 for Romania, 2000 for Bulgaria and Türkiye; 2001 for Colombia; 2002 for Croatia; 2005 for Lithuania; 2007 for Chile; 2010 for Costa Rica. The latest available year is 2018 for Latvia.
Source: Annual labour force survey, summary tables, via OECD data explorer, https://data-explorer.oecd.org/.

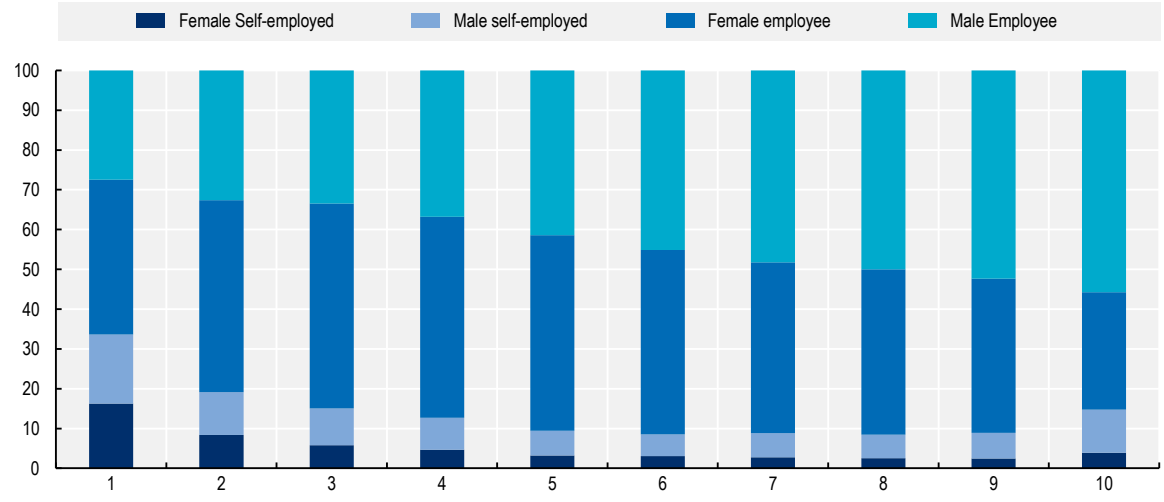
Annex Figure 2.A.2. Willingness to pay more for social protection among dependent employees



Note: Data refer to the share of respondents who stated that they would be willing to pay an additional 2% of income in taxes/social contributions to benefit from better provision of and access to: Unemployment supports/Old age pensions as well as the share of respondents who agree or strongly agree with the statement "I think that the government does/would provide my household and me with adequate income support in the case of income loss due to unemployment/retirement." Data refers to employees workers (working-age) respondents. RTM-27 is an unweighted average of the 27 countries participating in the RTM survey. Countries are ordered by increasing willingness to pay for supports. Countries mentioned by * mean that the difference between the self employed and the employees is statistically significant at $p < 0.05$. For Panel A, this is the case in Ireland for the willingness to pay more and for Estonia, Latvia, Lithuania, Korea, and Slovenia for the satisfaction with adequate income support. For Panel B, this is the case for Lithuania and Mexico for the willingness to pay more and for Denmark, Estonia, Ireland, Latvia, Türkiye, and Slovenia for the satisfaction with adequate income support.
Source: Data refer to pooled waves for 2022 and 2024 of the OECD Risks that Matter Survey (https://www.oecd.org/en/about/programmes/oecd-risks-that-matter-rtm-survey.html).

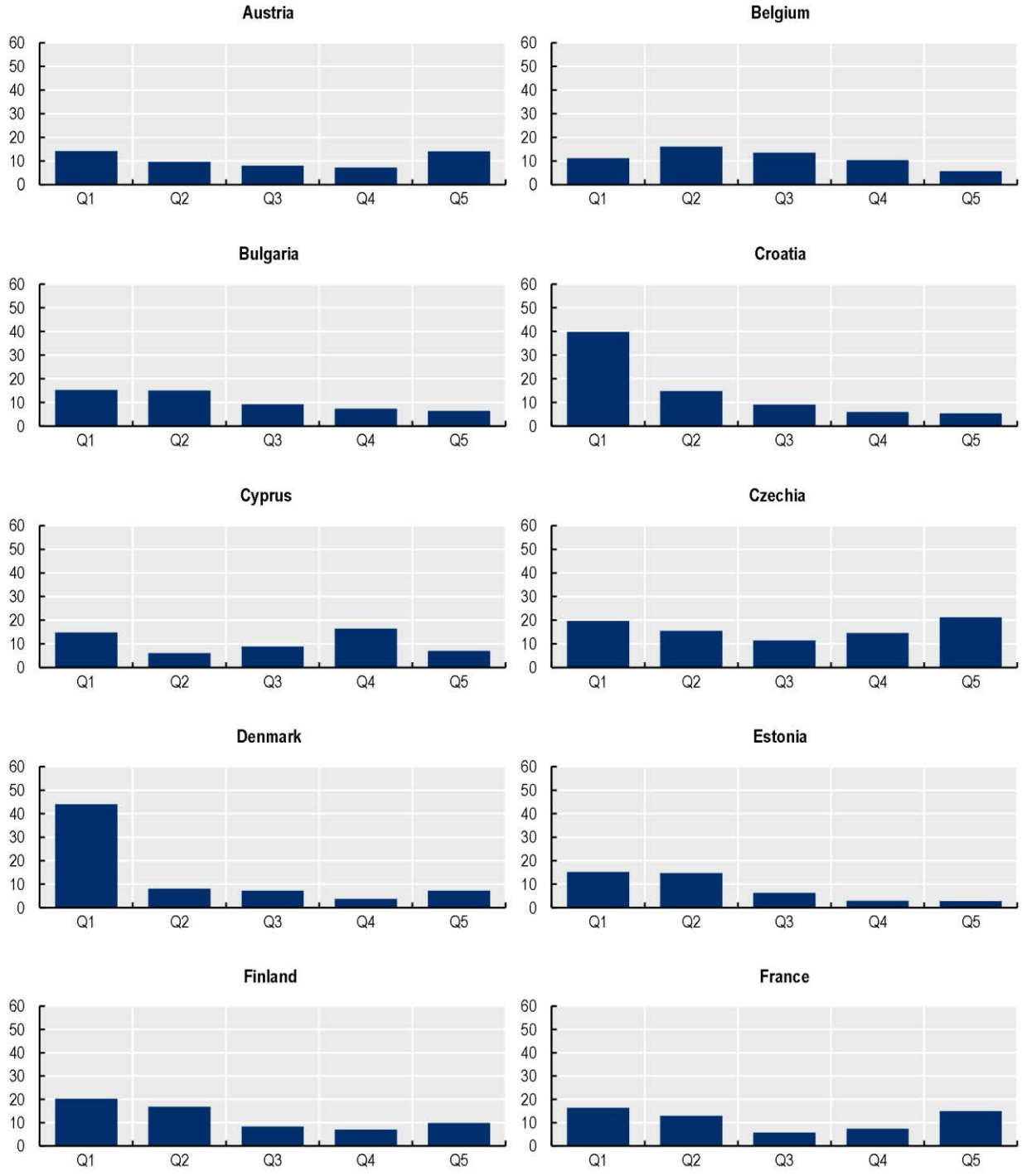
Annex Figure 2.A.3. Self-employed women account for 16% of the bottom decile of the earnings distribution

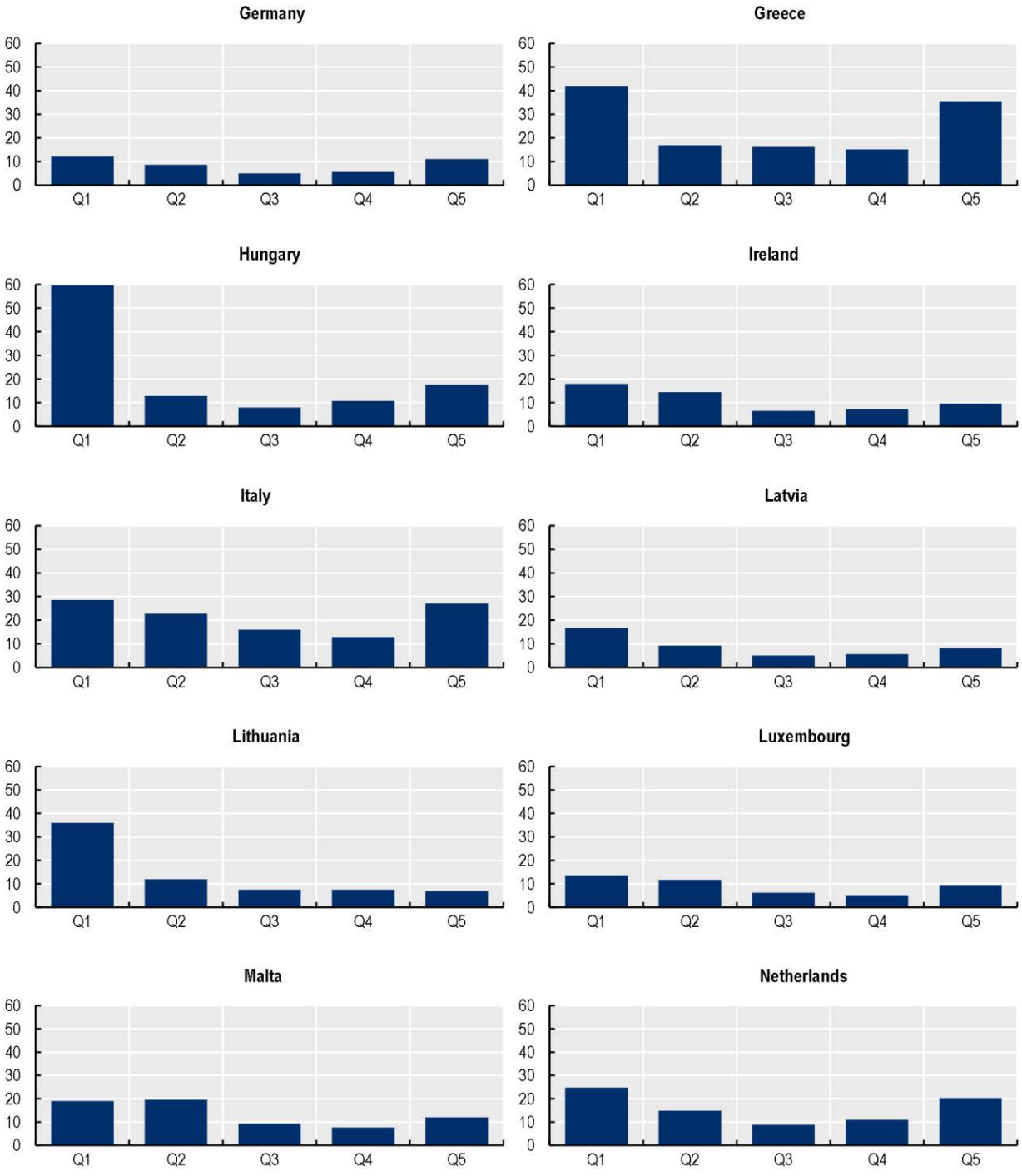
Breakdown of workers by dependent and self-employment and sex, by wage/earnings decile, in per cent, EU-average, 2024

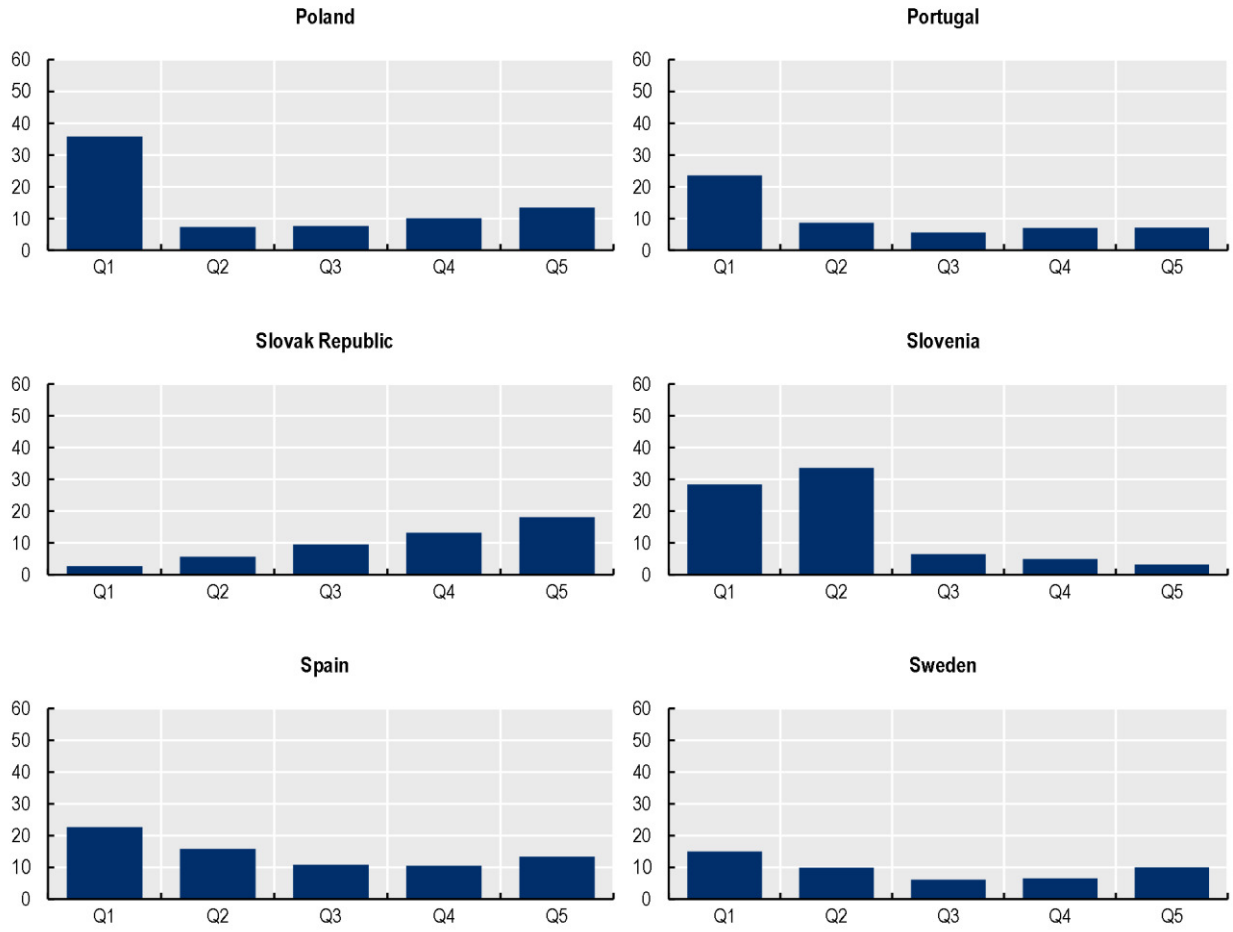


Note: Status as self-employed or employee is self-identified. For workers with missing information, employment type is assigned as the type with the higher income (employee or self-employed earnings). Unweighted EU average.
Source: Secretariat calculation based on the EU-SILC 2024

Annex Figure 2.A.4. The self-employed as a share of all workers, by wage / earnings quintile and country, in per cent, 2024

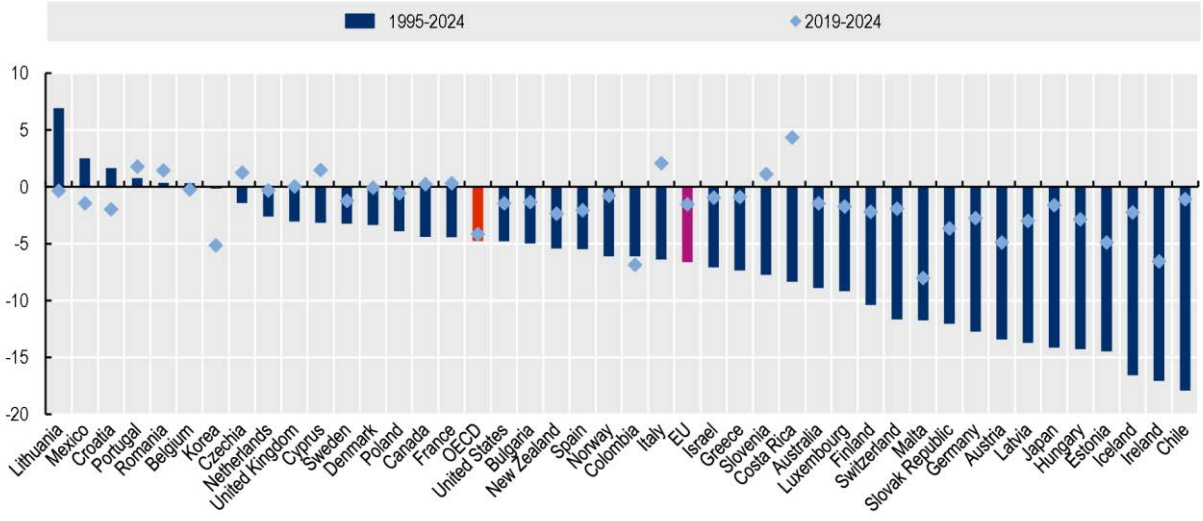



Germany
Greece
Hungary
Ireland
Italy
Latvia
Lithuania
Luxembourg
Malta
Netherlands
60
50
40
30
20
10
0
Q1
Q2
Q3
Q4
Q5



Note: Status as self-employed or employee is self-identified. For workers with missing information, employment type is assigned as the type with the higher income (employee or self-employed earnings). To respect EUROSTAT recommendations on minimum observation count per cell, deciles have been combined to quintiles for the country-specific analysis. Romania has been dropped as there were fewer than 30 observations in the top two quintiles.
Source: Secretariat calculation based on the EU-SILC 2024.

Annex Figure 2.A.5. Average annual hours worked per worker by country compared between change over the last three decades and over the past five years, in per cent, 2024



Note: OECD and EU averages are unweighted. Data for Estonia refers to 2002 instead of 1995. Data for Korea refers to 2008 instead of 1995. No data for Türkiye.
Source: OECD Average annual hours actually worked per worker (OECD, 2026[36]).

Notes

[1] It is difficult to empirically estimate the extent of this phenomenon, since longitudinal data are required to determine employment status (employee / self-employed) prior to a job- or earnings loss. The longitudinal EU-SILC does contain this information, see (Immervoll et al., 2022[37]), but there are too few observations for self-employed workers experiencing an earnings loss to distinguish between the type of benefit (contributory / general-revenue financed) they receive. Future work could look at this issue using administrative, individual-level data, that contains the universe of self-employed in several OECD and EU countries, collected at the OECD, see (Königs and Terrero-Dávila, 2025[38]).

[2] In Germany, some self-employed workers are subject to compulsory pension insurance, including craftsmen and midwives, and others are insured within professional schemes, e.g. free professions and farmers.

[3] Belgium, Denmark, Ireland, Greece, France, Italy, Cyprus, Latvia, Hungary, Malta, the Netherlands, Poland, Portugal, Romania, Slovenia and Finland and Norway (Eurostat, 2023[21]). The survey will be rolled out to all EU Member States in 2026.

[4] Estimates on the incidence of digital platform work from the 2023 Contingent Worker Supplement have not been released yet.

[5] OECD harmonised definition of under 30 hours per week in the main job. Using a definition of 35 hours would increase both the level of part-time employment, as well as the trend towards part-time work, see

Box 3.1 in (OECD, 2024[1]). Only dependent employees are shown as working time for the self-employed is very unreliable.

[6] The low share of severe material and social deprivation is also lower among self-employed workers, which may point to their incomes being less reliable.

[7] Eurostat definition: income below 60% of the median household income. The standard OECD definition is below 50% of median household income.

3 Securing the Revenue Base for Social Protection

Labour income, the main financing source of social protection, is under pressure: population ageing lowers the number of hours worked, while new technologies, in particular AI, may increase capital productivity and lower the labour share of income. This chapter quantifies the effect of population ageing on the workforce potential in the medium term, charts the development of the labour share of since the 1970s and discusses the potential impact AI may have in the future. It goes on to review how social protection funding could be diversified and how countries could strengthen the link between entitlements and contributions. It discusses the potential of closing contribution gaps in undeclared work and reports reform trends in EU and OECD countries.

About half of spending on social protection is financed through social contributions, which are mainly[1] levied on labour incomes (see Chapter 1). Labour income, however, is under pressure from several directions: population ageing decreases the size of the potential labour force and thus the aggregate wage bill, assuming no large increases in migration or employment. And while Artificial Intelligence (AI) deployment does not yet seem to have led to (net) job destruction (OECD, 2026[1]), it may raise the share of capital in total income through higher capital productivity. At the same time, demographic, technological and environmental challenges will add spending pressures on social protection budgets. Given the mismatch between growing demands and a potentially eroding funding base, countries are considering options to use alternative funding sources.

This chapter starts out with quantifying the effect of population ageing on the workforce potential in the medium term and looks at the potential of increasing employment, in particular by extending working lives and hours worked. It also reviews policies countries can use to maximise employment in the context of population ageing (Section 3.1). It then charts the development of the labour share of income across EU and OECD countries since the 1970s and discusses the potential impact AI may have in the future (Section 3.2). It goes on to review how social protection funding could be diversified (Section 3.3) and how countries could strengthen the link between entitlements and contributions (Section 3.4). Section 3.5 adds a more operational perspective by looking at closing contribution gaps in undeclared work. Section 3.6 reports reform trends in EU and OECD countries drawing on a dedicated policy questionnaire.

3.1. Maximising the labour potential

Shifts in the age composition of the population reflect the combined effect of persistently low fertility rates and people living longer. While the rate of decline in fertility has slowed, fertility rates continue to fall across the OECD on average and are below the replacement level in almost all OECD and EU countries. At the same time, remaining life expectancy at age 65 increased at a pace of about 1.5 years per decade from the 1990s to the 2010s. This pace has slowed to around one year by decade across the OECD, and to 0.5 years in the EU between 2015 and 2024, but longevity is expected to continue to increase (OECD, 2024[2]; Eurostat, 2026[3]). This will lead to a decline in the working-age population in most OECD countries, and an even stronger decline of its share in the population, leading to an increase in the old-age dependency ratio across the OECD on average from 31% in 2023 to 50% in 2060, and across the EU on average from 37% to 56% in 2060 (OECD, 2026[4]).

Without significant increases in labour productivity – e.g. through technological progress, including AI (see Section 3.2), and without increases in employment or hours worked – GDP per capita growth is projected to fall significantly (OECD, 2025[5]).

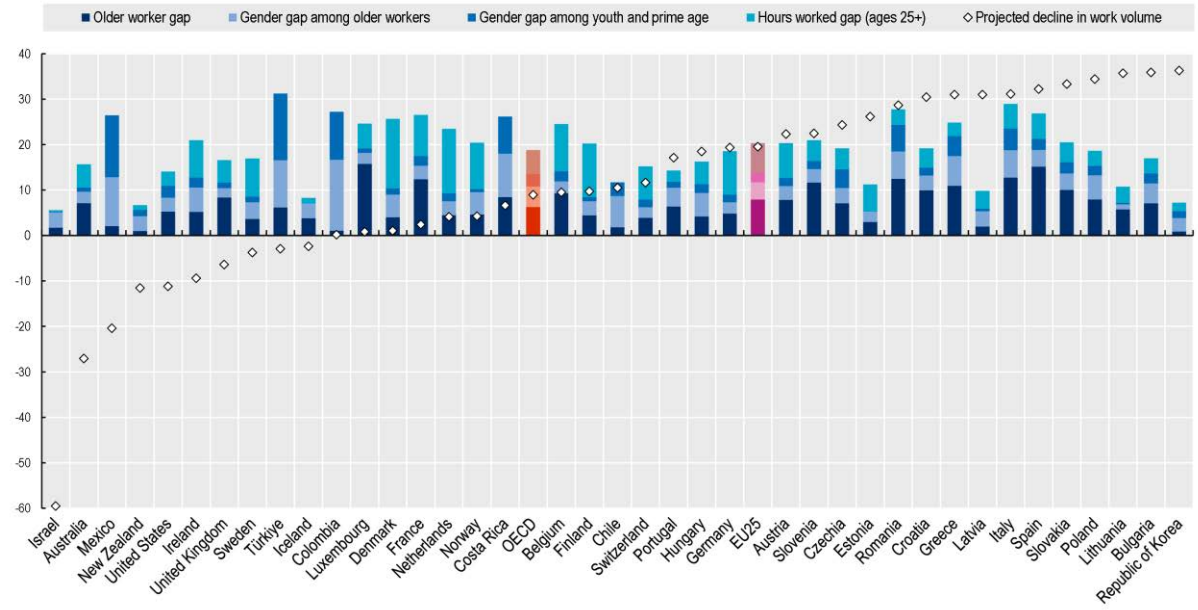
3.1.1. Population ageing will result in fewer hours worked, with a direct effect on total labour income

Figure 3.1 shows a simulation of the total decrease in hours worked in OECD and EU economies until 2060, drawing on the medium scenario of UN population projections, combined with projected employment rates for each gender-age group[2] according to the methodology developed in OECD (2025[5]). It converts these employment numbers into total hours worked by assuming average hours worked by age and gender to remain constant at 2025 values. The hours margin is important in the context of financing of social protection as tax rates and social contributions can influence labour supply decision at the intensive margin (hours worked). Migration is not considered in this simulation exercise because of a lack of country-specific data on hours worked by sex, age and migration status. Migration is also more difficult to forecast as it is less structural than fertility and life expectancy. Assuming the net migration rate of the UN central population scenario (that is below current levels in many countries), the impact of migration on employment is projected to be moderate (OECD, 2025[5]).[3]

According to this exercise, almost all EU and OECD countries will experience a decline in total hours worked if employment rates evolve in line with projected age- and gender-specific trends and hours worked by worker remain at their 2023 age- and gender-specific levels. This is mainly driven by a decrease in the size of the working-age population, but also by a composition effect: older workers, whose employment rate is overall lower than that of prime-age workers, will account for a larger share of the working-age population in 2060. Across the OECD on average, hours worked are projected to decrease by around 9% by 2060; across EU countries, which are ageing faster, on average, the decline is projected to be almost 20%. Declines of 33% and more are projected in the Slovak Republic, Poland, Lithuania, Bulgaria and Korea (Figure 3.1).

Figure 3.1. Without significant increases in employment, total hours worked will fall in most countries

Projected decline in hours worked from population ageing and potential gains in total hours worked from combining various scenarios, 2024-2060, in per cent of total hours worked in 2023



Note: The projected decline in work volume in the baseline scenario uses the projected employment rates by age and gender from (Fluchtmann, Keese and Adema, 2024[6]), who assume constant labour market entry and exit rates by age and gender. It is shown in per cent of the total hours volume in 2023, using the same scale as the labour market potentials of four different levers: higher employment of older workers, gender equality among older workers, gender equality among young and prime age workers, and increasing the weekly hours worked for individuals over the age of 25 (weekly hours worked are not increased for young workers because educational enrolment may remain constant or even increase in the medium term). The higher-employment-of-older-workers scenario is constructed by assuming that, by 2060, each country would reach in each age category above that of the 50-54 years (for the gender with the highest employment rate) – i.e. ages 55-59, 60-64 and aged 65 and older – at least the employment rate which would make the rate of decline in employment rates above 55 years of age as small as the 10th percentile of the distribution among OECD countries, as projected in the baseline scenario. Note that Bulgaria, Croatia and Romania are not included in this distribution. For the other gender in each country and age category, projected employment rates are assumed to be such that they maintain the same gender employment gap as in the baseline scenario. The gender equality scenarios assume that by 2060, for both genders, employment rates in each age category are as high as that of the gender with the highest rate in the baseline scenario. The higher hours worked scenario assumes that, by 2060, each country would reach in each age category above 25 years (for the gender with the highest hours worked) the weekly average usual hours of the 80th percentile of the cross-country distribution, while hours worked for the less active gender are raised proportionately to the current ratio between the genders. For instance, prime-aged men in the Netherlands work more hours than prime-aged women in the Netherlands, but fewer hours than the prime-aged population in other countries. This lever increases their working hours to the 80th percentile of average working hours among the prime-aged population in all countries. The average working hours of prime-aged women in the Netherlands are then raised such that the gender-hours gap in 2025 remains constant. Migration is not included in these simulations because country-, gender- and age- specific data on hours worked for migrant and native-born workers are not available.

No data on hours worked for Canada and Japan, and limited data availability for Malta and Cyprus. Data for employment and hours worked refer to 2025, population projections to 2023. Usual hours worked per employee, actual hours instead of usual hours for Korea and Mexico, hours worked data for Mexico refer to 2024. Hours per worker instead of hours per employee in Korea. OECD: Unweighted average of OECD countries. EU25: unweighted average of all EU countries, excluding Malta and Cyprus.
Source: Adapted from Figure 2.13 in (OECD, 2025[5]) by adding the working hours lever. "Average usual weekly hours worked on the main job", https://data-explorer.oecd.org/s/256.

3.1.2. This decline could in principle be compensated by maximising the labour force potential

By increasing employment among groups with currently low labour force attachment and increasing working hours to countries with higher work intensity for all groups, total hours worked could, in principle, be held constant across the OECD and the EU on average. In some countries, however, the decline in hours worked is too big to be entirely compensated from maximising the employment potential. Figure 3.1 considers four distinct levers:

1. By increasing **employment rates of older workers** to the levels of the best performing countries,[4] OECD countries could, on average, increase hours worked by 6 percentage points (p.p.) and EU countries by 8 p.p. Luxembourg, Spain, Italy, Romania and Slovenia could gain more than 12 p.p. in hours worked by increasing employment rates among older workers.

   The main lever countries have used to increase employment at older ages is to increase statutory retirement ages and limit avenues for early retirement. Current labour market entrants, who will be older workers in the 2060s, will face a statutory retirement age of 66 years across the OECD on average, compared to 64 for those retiring today, assuming current legislation is implemented (OECD, 2025[7]). Similarly, current labour market entrants across the EU will face an average statutory retirement age of 67 years, compared to 64 years for those retiring today.

   Higher statutory retirement ages need to be underpinned by the promotion of occupational health, including adapted working conditions where necessary, life-long learning and other employment and activation measures to enable workers to extend their careers further (OECD, 2024[2]).

2. Closing the **gender gap among older workers** would increase aggregate working hours by 4 p.p. across the EU and OECD average – with highest potential gains (10+ p.p.) for Colombia, Mexico, Türkiye and Costa Rica. Among EU countries, gains would be highest in Greece, Romania, and Italy (6+ p.p.).

   The gap in statutory retirement ages is already expected to narrow from 0.8 years across the OECD and EU on average to 0.5 years across the OECD, and to 0.3 years across the EU on average for those entering the labour market today and retiring in the 2060s. Only few countries still have lower retirement ages for women than for men. Enabling women to work until the statutory retirement age will require significant investments in the care service infrastructure. Demands for elderly care will increase with population ageing.[5] In the absence of an increase in the provision of affordable and high-quality care services, as well as a fairer split of unpaid work between women and men, this care will most likely continue to fall disproportionately on women, especially women over the age of 50, limiting their career prospects and earnings potential (OECD, 2024[2]; OECD, 2025[7]). Stronger female labour force attachment during the prime-age working years will also likely increase employment at older ages and result in higher pension entitlements for women who are on average at higher risk of old-age poverty. For instance, in the EU in 2024, women over the age of 64 were 1.3 times as likely to be at-risk of poverty and social exclusion than men, and poverty risks are especially high for women living alone (European Commission, 2026[8]; European Commission and SPC, 2024[9]).

3. Closing the **gender gap in employment among young and prime-age workers** has the potential to increase hours worked by 3 p.p. across the OECD average, and by 2 p.p. across the EU on

average. Potential gains across the OECD are highest in Türkiye, Mexico and Colombia with over 10 p.p.; highest potential gains among EU countries could be achieved in Romania, Italy, Czechia and Greece with over 4 p.p.

As with older women, raising employment among prime-aged women will require investments in the provision of care services, as a lack of adequate childcare provision is still a major barrier to work for many working-age people, especially women (OECD, 2024[2]).

4. Finally, **raising hours worked among prime-aged and older workers** to the level of high-hours countries[6] has the potential to increase working hours by 5 p.p. across the OECD and 6 p.p. across the EU on average, with the highest gains in Denmark, the Netherlands and Finland, where part-time rates of both men and women are high (see Chapter 2).

   This may be the most ambitious, and least realistic adjustment. While investments in the child- and long-term care infrastructure can enable those with caring responsibilities to increase their working hours, the trend towards part-time work may at least partly be driven by an income effect (workers increasingly prefer leisure at higher incomes). Countries should assess their Tax-Benefit systems with a view to increasing incentives for full-time work (see Chapter 2), but it is unlikely that this will lead to the high effect sizes depicted in Figure 3.1.

3.1.3. But keeping hours worked constant is unrealistic even with decisive government action

Facilitating such an increase in labour supply would require decisive and costly government action, including significant investments in the provision of child- and long-term care, and it is unlikely that the full potential would be reached even if countries implemented the necessary reforms (OECD, 2025[5]). Lowering effective tax rates on labour (especially social contributions that are more important at low incomes) by broadening the funding base for social protection (see Section 3.3) may increase labour supply, but this effect is very likely to fall short of reaching the full employment potential.

Without the hours lever that is least likely to be fully realised, hours worked in 2060 are projected to be significantly lower than in 2023 in most OECD and EU countries. Increasing employment will therefore only be part of the solution to secure social protection financing.

3.1.4. The effect of ageing on labour productivity is ambiguous

It is unclear whether population ageing will drag down labour productivity – while productivity appears to decline at some point as workers age, this point may be quite late in their careers and is likely to depend on individual- and workplace characteristics. Older workers often take on roles, such as management, that require social skills and experience, that do not deteriorate with age, or to a lesser extent (OECD, 2020[10]). Older workers are also less likely to switch jobs and firms than younger workers, which reduces the quality of the average match and lowers productivity growth (OECD, 2025[5]). Ageing may also lead to a less dynamic business environment, as ageing consumers retain familiar consumption patterns, leading to fewer firm entries and less competition. Ageing may also decrease productivity, because older people demand services such as long-term care, that experience lower productivity growth (OECD, 2025[5]). On the other hand, population ageing may increase labour productivity, because ageing-driven labour shortages can incentivise technological innovation (see Section 3.2), and a larger capital stock may also increase productivity (see Section 3.3).

3.2. Trends in the labour income share

Since social contributions are mainly levied on labour income, the share of GDP accruing to labour is the most important structural factor driving the sustainability of social protection financing. This section charts

the development of the labour income share across EU and OECD countries since the 1970s. It discusses reasons for its decline up until the early 2000s and examines the potential impact technological progress, in particular AI, may have in the future. It closes with policy implications.

3.2.1. The labour share has declined from the 1970s to the 1990s, but has been largely stable since then

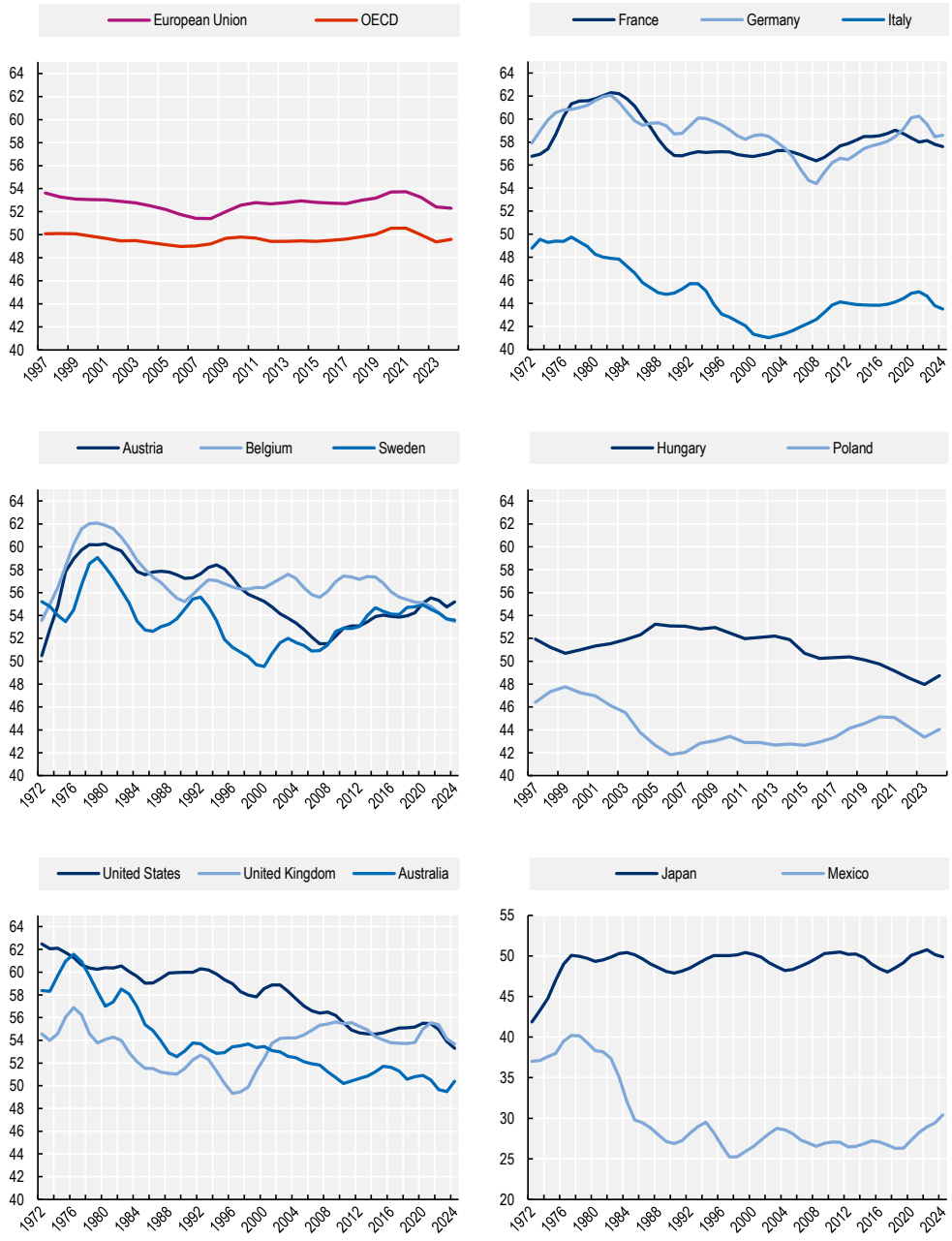
There is a consensus in the literature that the labour share has declined since the 1970s in most developed countries (Karabarbounis, 2024[11]), but the extent of the fall depends on the time period that is observed and varies across countries. Major European economies such as France, Germany and Italy, as well as Austria, Belgium and Sweden, the United States, the United Kingdom, Australia and Mexico, show a clear decline in one measure of the labour share (employee compensation as a share of Gross Value Added, GVA[7]) from the late 1970s to the early 1990s (Figure 3.2).

Since then, the labour share seems stable or even rebounding: at the OECD and EU average (only available since 1995) the labour share seems roughly constant over the past three decades, with a dip during the Global Financial Crisis (GFC) and the COVID-19 crisis caused by a lower wage sum because of higher unemployment, followed by a rebound. See also (European Commission, 2023[12]). Some European countries, such as France, Germany, Austria, Belgium and Sweden, show a strong increase in the late 1970s, then a decline followed by a rebound after the GFC. In the United States and Australia, the decline seems more sustained and continuing, while in the United Kingdom, the labour share seems to have fully recovered from the mid-1990s dip. Hungary and Poland show some movement but no clear trend in the labour share since 1997 (start of available data), while Japan follows a cyclical trend.

Estimates of the labour share are quite sensitive to statistical definitions and tax incentives to shift income between tax bases, which explains some of these cross-country differences, see Box 3.1. For instance, Figure 3.2 attributes all income of self-employed workers to capital because a split in capital and labour income is not available. Countries with a higher share of self-employment therefore have a lower labour share. The incidence of self-employment is much higher in Italy (21%) and Poland (19%) compared to countries such as in France (13%), Hungary (12%) or Germany (9%, see Chapter 2).

Figure 3.2. The labour share of income has been relatively stable in recent years

Employee compensation in per cent of Gross Value Added (GVA) in selected OECD economies, three-year moving average, earliest available to 2024



Note: Employee compensation includes employer and employee social security contributions as well as personal income taxes. GVA is GDP net of taxes on production, including excise taxes, property taxes, motor vehicle licensing fees and import duties (net of production subsidies). Taxes on production are not attributable to producers and are therefore subtracted from GDP. GVA still contains corporate income taxes. Three year moving average (so 1972 is an unweighted average of 1970-1972). Income of unincorporated enterprises is not reported separately in the NAAG data and can therefore not be removed – income of self-employed workers is therefore fully attributed to capital, biasing the estimate of the labour share downwards. The OECD average excludes Estonia, Hungary, Israel, Latvia, Lithuania, Slovenia and Türkiye until 1994 and the Slovak Republic until 1992. The EU average is not available until 1995. The graph therefore shows the EU and OECD averages, as well as Poland and Hungary, from 1995. Note that the y-axis scale is different for the last panel showing Japan and Mexico.
Source: Secretariat calculations based on National Accounts at a Glance, Chapter 4: Production.

Box 3.1. Accounting changes can influence the labour share

The income of sole proprietors / unincorporated businesses is a mix between returns to capital and own labour input (e.g. self-employed taxi- or uber drivers operate their own car). Income of unincorporated enterprises cannot be isolated from GVA in Figure 3.2 due to data constraints. Figure 3.2 therefore assumes that all income of unincorporated businesses accrues to capital, which is clearly not the case and biases the estimate of the labour share downward. Estimates of the labour share therefore often look at the corporate sector only (Karabarbounis, 2024[11]).

Accounting changes – e.g. business owners shifting income from labour to profit for tax reasons – can also impact the labour share. Smith et al. (2022[13]) show that in the United States, accounting shifts from labour income to profits by owner-managers accounted for about one-third of the decline in the labour share between 1978 and 2017.[1]

Another question is whether the real estate sector should be excluded from GVA when calculating the labour share. GVA includes rents and imputed rents of owner-occupiers which are subject to significant measurement errors. As the only labour cost in the real estate sector is that of real-estate workers, actual and imputed rents for homes dominate the real estate sector and can lead to fluctuations in the labour share driven by housing market developments, especially if the real estate sector is large. These fluctuations are decoupled from the labour market and labour productivity, which is why they are sometimes excluded. For instance, the decline in the labour share across the OECD on average between 1995 and 2022 declines from 2.3 to 1 p.p. when excluding primary and real estate activities (OECD, 2024[14]).

However, when using the labour share as an indicator of the overall distribution of economic output into returns to capital and labour, and for assessing how each contribute to public financing, it is important to include rents accruing to owner occupiers.

1. Two factors contributed to this change: owner-managers shifted their income from labour to profits following a 1986 tax reform. Additionally, some labour-intensive activities – mainly financial, legal or consulting services, as well as doctors' or dentists' practices – were increasingly organised in tax-preferred partnerships, and not in the corporate sector where income is divided in capital and labour. These capital-poor activities outstripped the growth of the corporate sector, especially since around the year 2000.

3.2.2. There is no consensus in the literature on the causes of the labour share decline

Several explanations have been suggested for the fall of the labour share, including de-unionisation and an associated decline in the bargaining power of workers. Declining worker bargaining power is consistent with wage growth falling behind productivity growth. But the evidence of it being a major driver in the decline of the labour share in the 1990s is inconclusive.

First, labour share declines also happened in countries where union density remained high such as Austria, Belgium and Sweden (Figure 3.2). The labour share also recovered in recent years in several countries without an increase in unionisation. Second, across countries, the labour share declined more in the higher union-density manufacturing sector while it increased in the lower union-density services sector (Cho, Manaresi and Reinhard, 2025[15]; Autor et al., 2020[16]). Nevertheless, effective collective bargaining and social dialogue remain an important mechanism to enable effective profit sharing between workers and firms (OECD, 2026[1]). Similarly, international trade may drive down the labour share through labour market competition and the shift of production of higher labour-share products and services to countries with a lower labour cost. But if this were the case, the labour share would be expected to rise in the countries the production has moved to, which is not the case (Karabarbounis, 2024[11]).

Another explanation is that value added has shifted towards high-productivity, low labour-intensity firms (so-called "superstar firms") causing the labour share to decline mechanically (Autor et al., 2020[16]). This "winner takes most" dynamic may be caused by increased product market competition driven by globalisation and technological change: the internet enables customers to compare prices more effectively and to obtain goods at a distance, leading them to choose higher quality options. Another potential factor in the rise of superstar firms may be that scale favours the acquisition and effective deployment of new technologies, making larger firms more productive. Cho et al. (2025[15]) show that, over the period of 1995 – 2017, reallocation of value added towards high-productivity, low-labour-share firms can explain just over half of the average reduction in the labour share of the manufacturing sector across 26 OECD countries.

3.2.3. Technological progress could drive down the labour share even if it does not lead to aggregate job losses

In general, technological progress improves labour efficiency by (partially) taking over/speeding up tasks performed by workers. This leads to an increase in output per effective labour input and a reduction in production costs. The employment effects of this process are ex-ante ambiguous: employment may fall as tasks are automated (substitution effect). On the other hand, lower production costs may increase output if there is sufficient demand for the good/service, leading to constant or even increasing employment, as has been the case for previous waves of technological progress (productivity effect, (Georgieff and Hyee, 2022[17])).

Higher labour productivity through technological progress tends to lower prices and can lead to higher wages, but this is not necessarily the case and depends on the effect on aggregate output and labour demand. But even if wages increase, automation will still depress the aggregate labour share as capital accounts for a higher share of aggregate production (Acemoglu, 2024[18]; Acemoglu and Restrepo, 2018[19]; Acemoglu, Autor and Johnson, 2026[20]). This is effect is similar to a decrease in the price of capital in that it increases capital's relative productivity compared to labour (Karabarbounis, 2024[11]).

However, technological progress can also generate new tasks that require labour input (e.g. the occupation of software technicians emerged following the emergence of information technology), and productivity gains may create space for new goods and services, as has been the case in the personal service sector (e.g. nail technicians (Autor et al., 2024[21])). This effect can be large: (Acemoglu and Restrepo, 2018[19]) estimate that "new jobs" accounted for about 60% of the employment growth in the United States between 1980 and 2015. The introduction of new tasks and new jobs could therefore counterbalance decreases in the labour share following the introduction of new technologies.

It is too early to assess to what extent AI will generate new tasks, or which education or skill groups will benefit from it. Without the emergence of new tasks, the labour share of income may fall as AI is deployed throughout the economy. It is also important to note that even if new jobs are created through AI, this job creation may not fully compensate for jobs lost due to automation, and may take time, leading to a temporary fall in the labour share. It may also not benefit the same groups of workers who see their tasks automate, and adjustments may require social spending for income support and reskilling as the labour market adjusts (OECD, 2024[2]).

Empirical evidence suggests that technological progress has driven down the labour share in the past: using data on the adoption of robots and software across sectors, (Acemoglu and Restrepo, 2022[22]) estimate that about 45% of the observed changes in sector-level labour shares in the United States between 1987 and 2016 can be attributed to automation. (Minniti, Prettner and Venturini, 2025[23]) provide direct evidence of the effect of AI on the labour share: exploiting differences in the incidence of AI patents in European Regions, they estimate that AI may have reduced the labour share by up to one-third of a p.p. between 2000 and 2017. While this effect is small, their period of observation is significantly before advanced Large Language Models (LLMs) were released.

3.2.4. Policy insights

The intuition that new technologies can reduce the labour share even with constant or rising employment is important for financing of social protection: relying disproportionately on labour earnings to finance social protection may mean forgoing potentially sizeable productivity gains from AI deployment. Countries may want to consider shifting their financing mix in response to a fall in the labour share (see Section 3.3).

Lower relative taxation of capital compared to labour can also directly incentivise the deployment of labour-saving technologies over and above what they would be in the absence of this imbalance (OECD, 2024[2]; OECD, 2023[24]). Capital is generally taxed at lower rates than labour in many OECD countries (Hourani et al., 2023[25]). Reducing this gap – by some combination of lowering non-wage labour costs and raising effective tax rates on capital – could weaken the incentives of firms to invest in automating technologies.

Public policies can also help workers to capture a larger share of productivity gains by setting the framework for sustainable wage increases and thereby stabilising the labour share and helping safeguard the funding source of social protection. Policy options include supporting skills development for all age groups including and especially mid-career and older workers, both within firms and through formal education and training institutions for workers and jobseekers. Depending on the national policy context, increasing the scope as well as the frequency of collective bargaining agreements can also help boost wages (OECD, 2026[1]).

3.3. Diversifying funding sources

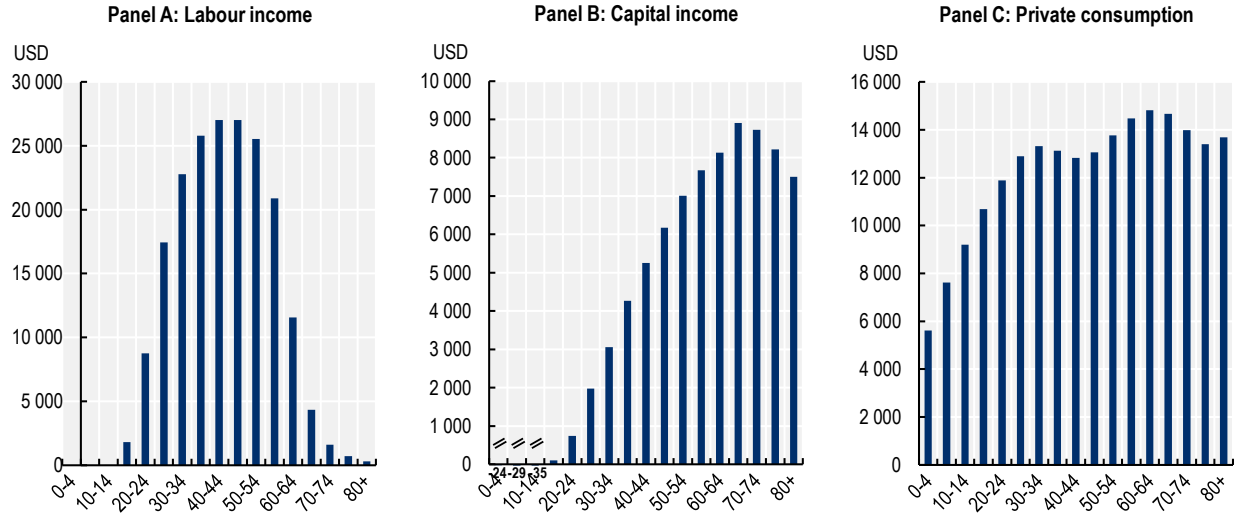
3.3.1. Ageing will put downward pressure on labour income

Tax bases are age dependent. Employee earnings peak between ages 40 and 50 in most countries and then drop off as individuals retire (see Figure 3.3, Panel A). In a static environment, population ageing will mechanically reduce labour income as a tax base, as the working-age population shrinks, particularly in the high-earning middle-age group.

This effect can be partly counterbalanced by higher labour force attachment in response to policy action (especially among older workers and women, see Section 3.1). A shrinking labour force may also tighten labour market, which could put upward pressure on wages, partly offsetting the decline in the aggregate wage bill resulting from a smaller workforce (Koutsogeorgopoulou and Morgavi, 2025[26]). Higher wages could also further increase labour supply, again offsetting mechanic decreases in hours worked from population ageing. The extent of these effects is difficult to predict.

Figure 3.3. Tax bases are age dependent

Distribution of tax bases per capita in USD by age across OECD countries, most recent available year



Note: The y-axis measures the tax bases per capita by age group in US dollars. The x-axis refers to the age group. Values show average tax bases in 30 OECD countries in each age bracket. Labour income consists of earnings of employees (including employer's social contributions) and labour income of self-employed people. Capital income corresponds to "Asset income" in the National Transfer Account definition, which includes dividend, interest, other property income, imputed rent, and retained earnings of corporations owned by individuals. See Annex A in (Sicsic and Hourani, 2026[27]) for more information on the data.
Source: (Sicsic and Hourani, 2026[27]), The impact of population ageing on tax revenues in OECD countries.

3.3.2. While capital income may be more stable

Capital income[8] grows throughout adulthood and peaks at retirement age (65-69), when retirees start dissaving, leading to a slight drop. However, on average, capital income at age 80+ is still higher than under 55 (Figure 3.3, Panel B). Wealth-to-income ratios have increased across OECD countries, driven by gains in equity and housing markets, with strong gains among older cohorts who purchased homes before strong price increases started and benefited from appreciation (OECD, 2025[5]). The aggregate wealth stock is expected to further increase mechanically because of population ageing since older people hold more wealth, and for longer (see below).

While the stock of wealth is set to increase, returns to capital could fall due to ageing, because of diminishing returns to capital as the capital stock grows. This is particularly the case as people do not tend to dissave strongly in retirement, keeping the capital stock high as baby-boomers age (see below). Ageing has been identified as one of the reasons for the decline in real interest rates in past decades, and interest rates are expected to further decline because of population ageing (Auclert et al., 2026[28]). However, technology-driven boosts to capital productivity could counteract this effect (see Section 3.2). Furthermore, the effect of ageing on the stock of capital is unambiguously positive (Auclert et al., 2026[28]), which could result in rising aggregate capital income, even with falling returns.

3.3.3. Tax revenue is set to decline because of population ageing

OECD simulations estimate that, under a "no-policy-change scenario", tax revenues as a share of GDP would be 1 p.p. lower on average across the OECD under the projected age structure in 2060. Larger declines would be expected in countries with faster population ageing and / or a stronger reliance on tax revenues from younger age groups (Sicsic and Hourani, 2026[27]).

Further increasing labour taxation would i) put an additional tax burden on younger cohorts, ii) increase the tax wedge on labour and therefore disincentivise employment at a time when mobilising groups with low labour force attachment is crucial (see Section 3.1) and iii) potentially be regressive given that labour income is less concentrated than capital income.

About half of all tax revenue is already levied on labour income. While it is not straightforward to disentangle taxes on incomes, profits and capital gains from individuals (second row of Table 3.1), a recent OECD personal income tax split exercise found that, on average across 29 countries with available data, taxes on capital gains amounted to only about 7% of taxes on income, profits and capital gains of individuals (OECD, 2025[29]). Together with social security contributions, this implies that around half of total tax revenue is levied on labour income.

The base of consumption taxes is expected to be resilient during the demographic transition: consumption grows with age, but increases are modest as individuals move towards late middle age. There is a slight dip after retirement (as retirement income is lower than labour earnings), but consumption at age 75-79 is still higher than consumption for people under the age of 30 (Figure 3.3, Panel C).

However, the space to increase Value Added Tax (VAT) rates is limited in many countries. Value added Taxes (VAT) already account for over one-fifth of government revenue across OECD and EU countries (Table 3.1) and were increased in the years following the GFC (European Commission, 2021[30]). In some countries, in particular in Europe, VAT rates may be close to the revenue-maximising level, such that a further increase could lower revenue (Crowe et al., 2022[31]). However, scaling back reduced VAT rates and exemptions that benefit higher income households could raise revenues and improve the neutrality of consumption taxes in some countries. For instance, exemptions for health expenditure will increase in volume with an ageing population, but they are not the most effective way to support older low-income households – targeted transfers can typically achieve this goal at lower cost (Sicsic and Hourani, 2026[27]). Environmental taxes, in particular taxes on energy consumption and fuel, have declined in importance over the last decade across the EU, following special measures during the 2022 energy crisis, and more recently the war in Iran. As environmental taxes aim to disincentivise the consumption of the goods and services they are levied on, their revenues are expected to decline over time by design (European Commission, 2026[32]).

3.3.4. Broadening the taxation of capital income

Given that capital income is expected to be more stable than labour income in ageing societies, countries may consider increasing the share of capital income taxation in their tax mix (European Commission, 2021[30]; Sicsic and Hourani, 2026[27]; Arnemann et al., 2025[33]; Koutsogeorgopoulou and Morgavi, 2025[26]). Income from capital – including income from dividends, capital gains and interest – tends to be more favourably taxed than labour income in most OECD countries:

- Dividend income is often taxed at a flat rate that tends to be lower than the average rate on labour income, or subject to a more favourable progressive tax schedule. It also often benefits from exemptions or special deductions. In most OECD countries, dividends are taxed more favourably than labour income for most income levels, even when accounting for corporate income taxes (CIT) paid by firms prior to distributing dividends. Some countries, including Denmark, Korea and Switzerland, however, have higher effective tax rates on dividends than labour income at all income levels when accounting for firm-level taxes (including CIT, (Hourani et al., 2023[25])).
- Most OECD countries offer favourable tax treatment for capital gains: they are typically only taxed upon realisation, and many countries offer lower rates compared to other types of income, in particular labour income, or provide full or partial exemptions. Some countries also fully reset the capital gains cost base upon the death of the owner.[9] Most countries exempt main residences from capital gains, and other housing assets are treated preferentially subject to minimum holding

periods. Closely held businesses also benefit from preferential taxation in many countries (Hourani and Perret, 2025[34]).

The main reason for a preferential treatment of capital income vis-à-vis labour income is to encourage saving, investment and economic growth. The empirical evidence on the effect of capital gains taxes on savings and investment is mixed, however, and the empirical literature does not support a strong relationship between capital gains taxation and economic growth (Hourani and Perret, 2025[34]). Encouraging savings may also be less urgent since population ageing tends to increase the aggregate capital stock (see above).

Another reason for offering preferential rates on capital gains is preventing the "lock-in effect": the fact that capital gains taxes are only paid when assets are sold can lead to owners holding the assets too long to avoid paying the taxes, which can lead to misallocation of capital. For instance, business owners may delay selling their business to a more effective successor. Empirical evidence does suggest that capital gains relief can reduce this effect, although effect sizes vary. Proposals exist to minimise this effect (Hourani and Perret, 2025[34]).

Higher taxes on capital would be progressive, as capital income is highly concentrated. Narrowing the gap between tax rates on labour and capital income may also reduce the incentive for shifting income from labour to capital (e.g. among self-employed workers) and therefore lower regulatory arbitrage (Crowe et al., 2022[31]), see also Chapter 2.

Table 3.1. Government revenue in the EU and the OECD as percentage of total government revenue, 2024

Revenue category	EU	OECD
Taxes on income, profits and capital gains of individuals and corporations	**31.6**	**36.4**
Taxes on income, profits and capital gains of individuals	22.0	23.7
Taxes on income, profits and capital gains of corporations	9.6	11.9
Unallocable between taxes on income, profits and capital gains of individuals and corporations	0.3	0.8
Social security contributions (SSC)	**30.7**	**25.5**
Taxes on payroll and workforce	**1.1**	**1.3**
Taxes on property	**3.3**	**5.1**
Recurrent taxes on immovable property*	1.5	2.9
Recurrent taxes on net wealth	0.4	0.4
Estate, inheritance and gift taxes	0.4	0.4
Taxes on financial and capital transactions	0.8	1.2
Other non-recurrent taxes on property	0.0	0.1
Taxes on goods and services	**32.8**	**31.2**
Taxes on production, sale, transfer, leasing and delivery of goods and rendering of service	29.4	29.1
General taxes	22.1	21.1
Value added taxes (VAT)	21.8	20.5
Sales taxes	0.0	0.4
Turnover and other general taxes on goods and services	0.3	0.2
Taxes on specific goods and services	8.2	8.1
Taxes on use of goods, or on permission to use goods or perform activities	1.9	2.0

Revenue category	EU	OECD
Unallocable between taxes on production, sale, transfer, leasing and delivery of goods and rendering of services and taxes on use of goods, or on permission to use goods, or perform activities	0.1	0.1
Other taxes	**0.5**	**0.5**

Note: * Includes both taxes on the net wealth of individuals and corporations. Since a breakdown is not available for all countries who levy such taxes, it is not shown here. Data refer to 2023 for Romania. The EU average excludes Cyprus due to data unavailability. Information on some revenue sub-categories is missing for Estonia, Greece and Poland. Therefore, the EU average at the subcategory level sometimes does not contain all countries, which can lead to small deviations of the category and sub-category sums. The EU and OECD averages are unweighted.
Source: OECD Revenue Statistics.

3.3.5. Inheritances are set to increase

There is an increasing trend among retirees to hold on to their wealth until later in life and to die with higher levels of wealth than predicted by standard lifecycle models (the "retirement savings puzzle"). Reasons for slower-than-expected dissaving include precautionary savings due to longevity risks, the high share of housing in total wealth combined with housing market frictions that make it difficult to dissave housing wealth, and the desire to leave inheritances (OECD, 2025[5]). The inheritance motive seems to dominate for households at the upper end of the wealth distribution (De Nardi et al., 2025[35]).

In recent decades, asset appreciation has furthermore increased the stock of wealth, that is set to be transferred when the baby boomer generation dies. Additionally, the average value of individual bequests is further expected to increase as lower fertility rates imply fewer successors per bequest. Using data from the European Central Bank's Household Finance and Consumption Survey, (Krenek et al., 2022[36]) estimate significant increases in revenue from inheritance taxes in five European countries under a no-policy-change scenario, driven by the increased value of bequests, and the smaller number of heirs, which makes inheritance tax exemption thresholds less relevant.

3.3.6. Inheritance taxes are unpopular

These trends point to the potential of inheritance taxes to play a bigger role in countries' tax mix (OECD, 2021[37]). In 2024, inheritance and gift taxes only accounted for 0.4% of total government revenues across the EU and OECD on average (Table 3.1). 18 out of 41 countries with available data did not levy any gift or inheritance taxes, and even in the countries where inheritance taxes were most important (Korea, France and Belgium), they still accounted for under 2.5% of total government revenue (see Annex Figure 3.A.1). One reason for this is that inheritance taxes are unpopular: across 27 countries that participated in the OECD Risks that Matter Survey (RTM), fewer than one-third of respondents considered inheritance taxes "fair or very fair" (Figure 3.4, Panel A).

Surprisingly, respondents at the bottom of the income distribution did not find them fairer than respondents at the top, even though they are less likely to pay inheritance taxes. This may be connected to misperceptions about inheritance taxes: studies consistently show that the majority of respondents think that more households are liable for inheritance taxes, and that tax rates are higher and less progressive, than they really are (OECD, 2021[37]). Differences in the perceived unfairness between income groups were statistically insignificant, except in the United States and Canada, where higher income respondents were significantly *more* likely to find inheritance taxes fair, and in Finland, where higher income groups were less likely to agree with them (Figure 3.4, Panel A).

Agreement with inheritance taxes was lowest in Belgium, France and Korea, which are among the countries where inheritance taxes account for the highest share of government revenue (over 1.5% of total tax revenue). Agreement in Latvia was also very low, even though inheritance taxes were below the OECD average and accounted for only 0.1% of total tax revenue (see Annex Figure 3.A.1). Inheritance taxes had

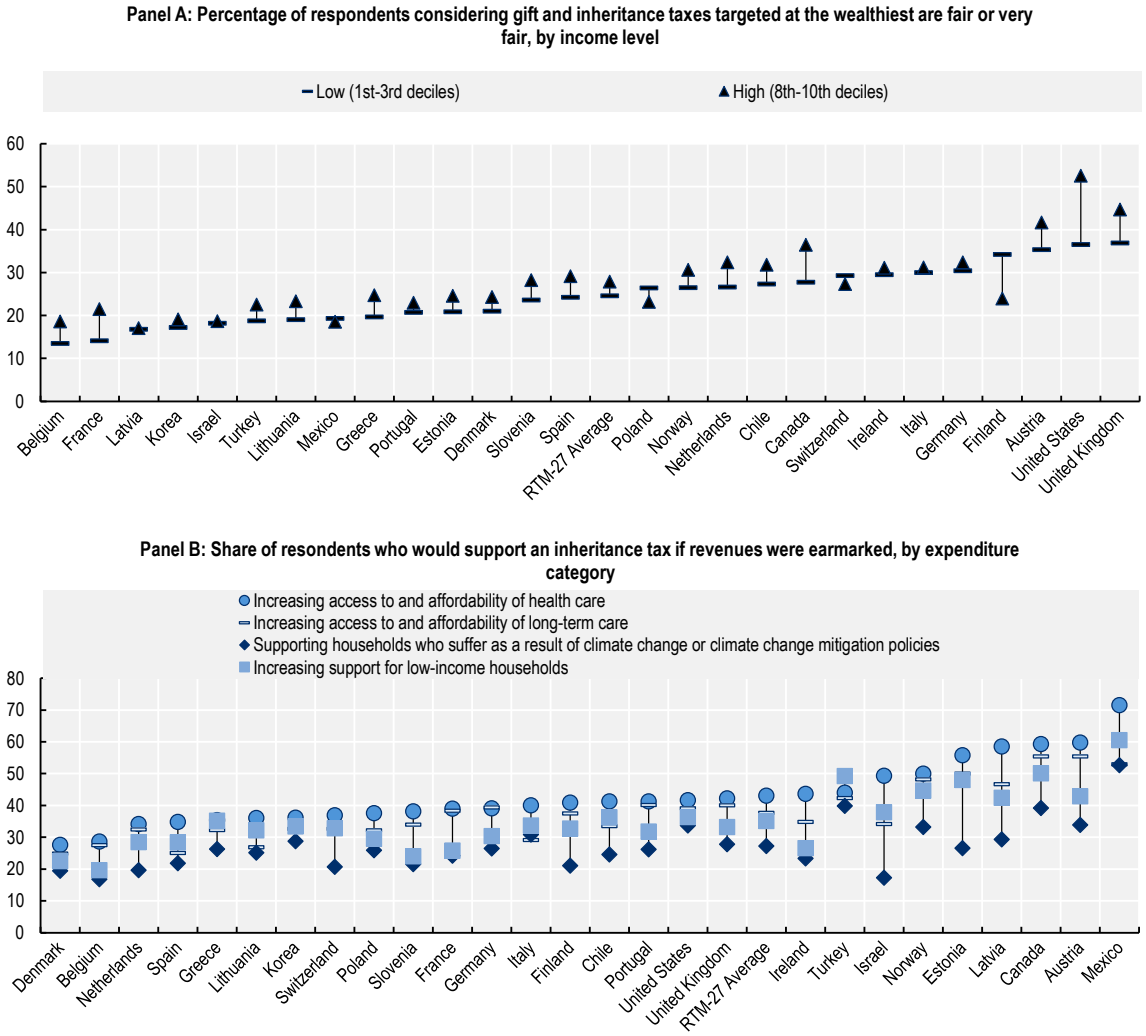
the biggest support in Austria, the United States and the United Kingdom. The relationship to the tax incidence is less clear for these countries, as the United Kingdom and the United States have an above-average incidence of inheritance taxes, while Austria does not have inheritance taxes.

This survey evidence suggests that earmarking may increase the public support for inheritance taxes. If they were earmarked for health expenditure, over 40% of respondents would support the introduction or increase of inheritance taxes, over 10 p.p. more than the share who find the tax fair (Figure 3.4, Panel B). Support is lower if inheritance taxes were earmarked for long-term care, support to low-income households and especially climate change mitigation policies.

While revenue earmarking can resonate with the public, it can also crowd out resources from other spending areas and reduce budgetary flexibility, as well as limit the role of the legislature in the budgetary process (Immervoll, 2024[38]). In addition to revenue earmarking, improving information on inheritance tax schedules may further improve support as individuals often underestimate minimum thresholds and overestimate rates (OECD, 2021[37]).

Figure 3.4. Inheritance taxes are unpopular, but earmarking may help

Attitudes towards inheritance taxes in percentage of all respondents, 2024



Note: Panel A: Countries are ordered by increasing percentage of respondents considering gift and inheritance taxes targeted at the wealthiest as fair or very fair among low-income respondents. The scale of options is 1. Very unfair, 2. Unfair, 3. Neither, 4. Fair, 5. Very fair, 6. Can't choose. Panel B: Countries are ordered by increasing support for an inheritance tax (or a higher inheritance tax where already exists) if the revenues were earmarked to increase access to and affordability of healthcare. Scale: 1. Definitely no, 2. No, 3. Neutral, 4. Yes, 5. Definitely yes, 6. Can't choose.
Source: 2024 OECD Risks that Matter Survey (https://www.oecd.org/en/about/programmes/oecd-risks-that-matter-rtm-survey.html).

Well-designed inheritance taxes can raise revenue while enhancing equity, at lower efficiency and administrative cost than other alternatives (Koutsogeorgopoulou and Morgavi, 2025[26]). Empirical evidence suggests that inheritance taxes distort savings decisions less than wealth taxes and are easier to administer than other taxes that need to be levied annually. Tax design matters: recipient-based inheritance taxes tend to be more equitable than taxes applied on total bequeathed wealth, and inheritance taxes should include exemption thresholds to protect small inheritances. Progressive tax rates are more equitable than flat taxes. Inheritance taxes should be designed to avoid opportunities for evasion by only applying reliefs where there is a strong rationale (e.g. main residences up to a threshold) and closely aligning inheritance and gift taxes (OECD, 2021[37]).

3.3.7. Taxes on immovable property are underutilised in many countries

House prices have increased strongly in recent decades in most OECD countries (OECD, 2025[5]), and are expected to increase further even if at a lower rate in countries that will experience a population decline due to ageing. Given the large potential base, taxes on immovable property seem underutilised at 2.9% of total tax revenue across OECD countries, and even more in the EU, where they only account for 1.5% of total tax revenue (Table 3.1). Because the tax base is immobile, property taxes are among the least distortionary taxes (Crowe et al., 2022[31]). As housing wealth is concentrated among older households, taxes on immovable property can contribute to intergenerational fairness in the context of population ageing. While it is less concentrated than other assets, it is still concentrated among high-income, high-wealth households, making property taxes progressive in principle (OECD, 2022[39]).

Property taxes can generate liquidity problems where household incomes are out-of-step with value of the house – this can happen when house prices are rising rapidly, for households who have owned a house for a long time, as well as upon retirement when income declines. This effect can be cushioned by deferring payments to the point of sale.

The main problem with property taxes is that they require frequent updating of house valuations, which is administratively costly. Indeed, outdated valuations of property are among the main drivers of the decrease in property tax revenue in the European Union over the past decade (European Commission, 2026[32]). Infrequent revaluations can lead to unequal treatment between recently revalued and other properties, as well as between properties that have not been updated in some time and experienced unequal changes in value. Sporadic updates cause revenue losses, as house price increases go untaxed. In practice, very few countries update property values regularly, resulting in very outdated values in some countries (OECD, 2022[39]). Even the use of digital tools does not seem to have made property valuations much cheaper for tax administrations. Property taxes are also unpopular because they are very visible: they have to be paid directly as they cannot be withheld at source and are not always matched by a revenue stream (Crowe et al., 2022[31]).

Since property taxes are typically levied at the regional and local level, higher property tax revenues could help local governments address spending pressures, including expenditure on long-term care, an expenditure item that is set to increase strongly due to population ageing, and that is often provided at the local level. This could also increase the incentive of local authorities to regularly update property values and improve the public acceptability of the tax.

3.3.8. Taxes on wealth can play a role in countries where the taxation of capital income and inheritances is low

Recurrent net wealth taxes are recurrent taxes on individual wealth stocks, including a wide range of movable and immovable assets net of debt. Recurrent taxes on net wealth only accounted for 0.4% of total tax revenue in OECD and EU countries in 2024 (Table 3.1).[10] They used to be more widespread: in 1990, 12 OECD countries levied recurrent taxes on wealth, this number went down to four in 2020 (OECD, 2024[40]). Narrow bases, extensive exemptions and issues with the valuation of assets contributed to declining revenues and diminished political support (European Commission, 2026[41]). Recurrent taxes on net wealth still account for 6.8% of total government revenue in Luxembourg, and 5% in Switzerland.

Compared to capital income taxes, net wealth taxes tend to be more distortive: taxes are levied on a presumptive, instead of the actual return to investment, which can distort savings decisions. As the value of the asset is taxed and not its return, wealth taxes also favour holders of high-return assets.

Compared to inheritance taxes, wealth taxes may lead to double taxation if taxes on capital income exist, while inherited wealth is only taxed once upon receipt. Empirically, inheritance taxes have also been shown to have smaller effects on savings and investment. Inheritance taxes also only require wealth to be valued once, instead of on an ongoing basis, which is administratively easier. Overall, while taxes on capital income and inheritances may be a more efficient and less administratively costly way to tax wealth, wealth taxes may have a role to play where capital income is taxed lightly or where inheritance taxes do not exist or raise limited revenue (OECD, 2018[42]).

3.4. Strengthening the entitlement – contribution link

The financing mix of social protection spending reflects policy institutions (e.g. the role of occupational pension schemes in a number of countries, see Chapter 1), but also the relative importance countries place on different objectives of social protection, including insurance against income shocks and income smoothing, which are logically tied to contributions, versus redistribution and poverty prevention.

As such, benefits designed to replace lost earnings are often financed by contributions. This can be seen in Figure 3.5: in most EU countries with available data, the majority of old-age cash benefits was dependent on previous contributions in 2024 (Panel A). For unemployment benefits, the share was lower and varied by country: in some countries, unemployment benefits were almost exclusively insurance-based, such as Italy, Belgium, Latvia, Bulgaria and Hungary. Other countries mainly relied on non-contributory benefits, such as Ireland. Others provided a mix, such as Germany and Austria (Figure 3.5, Panel C).

3.4.1. The link between benefits and contributions can be incomplete even for insurance benefits

However, also for insurance benefits that condition entitlements on prior contributions, the degree to which contributions determine entitlement levels varies across countries and programmes. In earnings replacement programmes, benefits are often closely tied to contributions, even if they contain an element of redistribution, for instance by providing higher replacement rates for those on low incomes. Examples include old-age and disability pensions, sickness cash benefits, and unemployment benefits. For other schemes, there may be no link at all, e.g. in the case of compulsory health insurance schemes where all insured have the same entitlement regardless of contributions paid (Immervoll, 2024[38]).

Even benefits that are designed to provide insurance against earnings loss may provide some benefits that are not directly tied to contributions:

- Insured persons accumulate rights while they are not paying contributions. Examples include the crediting of pension contributions during times of unemployment or parental leave.
- Insurance may extend to family members of insured persons, e.g. spouses or children in contribution-based health- and old-age pension schemes.
- Claims may exceed contributions because of structural factors such as population ageing, or during extraordinary times (e.g. unemployment benefits during deep recessions).

Indeed, over 90% of old-age cash benefits (including survivor benefits) that households received across the European Union on average in 2024 were contribution based (see Panel A in Figure 3.5), a much higher proportion than the share of social contributions in the funding base of (cash and in-kind) old age benefits (63%, see Figure 1.8 in Chapter 1).[11] This is because contributory pension systems receive general-revenue transfers, mainly due to population ageing (see Chapter 1).

3.4.2. For some benefits, the rationale for contribution-financing is weaker

Some benefits are not designed to insure against income loss, but to prevent poverty and redistribute income (e.g. social assistance and family benefits). Other schemes provide health and other services, e.g. long-term care, that are not economically tied to employment. For these benefits, the rationale for social-contribution financing is less evident, especially when labour income is under pressure.

For instance, while general revenue accounted for the majority of financing of (cash and in-kind) family benefits (see Chapter 1), in some countries, contributions accounted for a significant share of expenditure: in Estonia and Bulgaria, over 60% of family benefits were financed by social contributions, while under 50% of family benefits received by households were contributory. Similarly, in Austria, over 40% of family benefits were financed by employer social contributions (see Chapter 1), although all family benefits that households received were non-contributory (mainly universal child benefits, but also parental leave, see Figure 3.5, Panel C). The reason is that family benefits in Austria are mainly financed through the "fund for the equivalisation of family burdens" (*Familienlastenausgleichsfonds*), which mainly draws its revenues from employer contributions (Schratzenstaller, 2022[43]), even though benefits are not tied to work.[12]

When reviewing their financing mixes, countries could consider shifting financing from social contributions to general revenue for programmes where the mapping from contributions to entitlements is weak. This would decrease the burden on labour incomes, and may incentivise labour supply, crucial when working-age populations are shrinking (Arnemann et al., 2025[33]; Sachverständigenrat, 2026[44]). It could also decrease the incentive for employers and workers to misclassify work as independent contracting or self-employed work where social contribution obligations differ across employment forms (see Chapter 2), as well as for undeclared work (see Section 3.5).

Broadening the funding base away from labour income is also important to ensure intergenerational fairness, especially for long-term care, a risk that is not tied to work, and that will see significant spending increases due to population ageing (OECD, 2024[45]).

3.4.3. But financing is often tied to governance

In practice, it can be difficult to change the financing structure of a benefit, as governance and administration of social benefits often derive from financing sources. In many countries, contribution-financed social insurance historically developed alongside self-governing institutions, autonomous insurance funds and social-partner participation. These institutional arrangements can make shifts from contribution financing to general taxation administratively and politically difficult (Pierson, 1993[46]; Pierson, 2000[47]; Weaver, 2010[48])., In insurance-based health systems, for instance, health-insurance funds as well as social partner representatives often have significant influence on the administration of health

insurance schemes (OECD, 2024[49]). When the source of financing changes, administration and oversight may have to change as well.

For instance, in the early 1990s, French healthcare financing moved progressively from social security contributions towards an earmarked tax, the *contribution sociale généralisée (CSG),* levied on personal income including income from capital; it funds healthcare and means-tested benefits and is not levied on French residents who are not affiliated with the French social security system (Immervoll, 2024[38]; Bozio and Wasmer, 2024[50]). Parliament gained authority over health-spending targets in 1996, and a 2004 statute unified compulsory and complementary insurance funds under a government-appointed director. Formally, this preserved the historic co-administration of health insurance by employer and worker representatives; in practice, it shifted the balance of power towards the government (Nay et al., 2016[51]).

Similarly, Spain's health financing moved from social insurance contributions to general revenues in the late 1980s – a shift *"from Bismarck to Beveridge"* (Rodríguez, Scheffler and Agnew, 2000[52]; Bernal-Delgado E, 2024[53]). Until 1989, social contributions financed around 75% of public health financing, with general revenues covering the remainder. The 1986 Healthcare General Act and the 1989 General Budget Law reversed this balance: general revenues became the main source of financing (Bernal-Delgado E, 2024[53]; Rodríguez, Scheffler and Agnew, 2000[52]). General revenue financing accounted for 72% of total health expenditure in 2021, with only a residual contributory scheme for civil servants. Simultaneously, starting from the late 1980s, fiscal authority over public health expenditure was gradually transferred to the autonomous regions; this process was completed in 2002 (Bernal-Delgado E, 2024[53]).

An alternative to major reform could be increasing general revenue subsidies to insurance-based programmes. It is important to note that using general-revenue funds to finance programmes that only benefit insured persons would raise equity concerns (Sachverständigenrat, 2026[44]). This is especially true where coverage gaps persist for some types of workers e.g. the self-employed. Subsidies that cover benefits that are not balanced by contributions – e.g. rights acquired during periods of non-contribution (such as parental leave or unemployment), are more defensible from an equity standpoint. The disadvantage of increasing general revenue subsidies to insurance-based schemes is that it makes the financing structure of social protection less transparent (OECD, 2024[49]). It can also undermine the insurance logic.

3.4.4. Policy insights

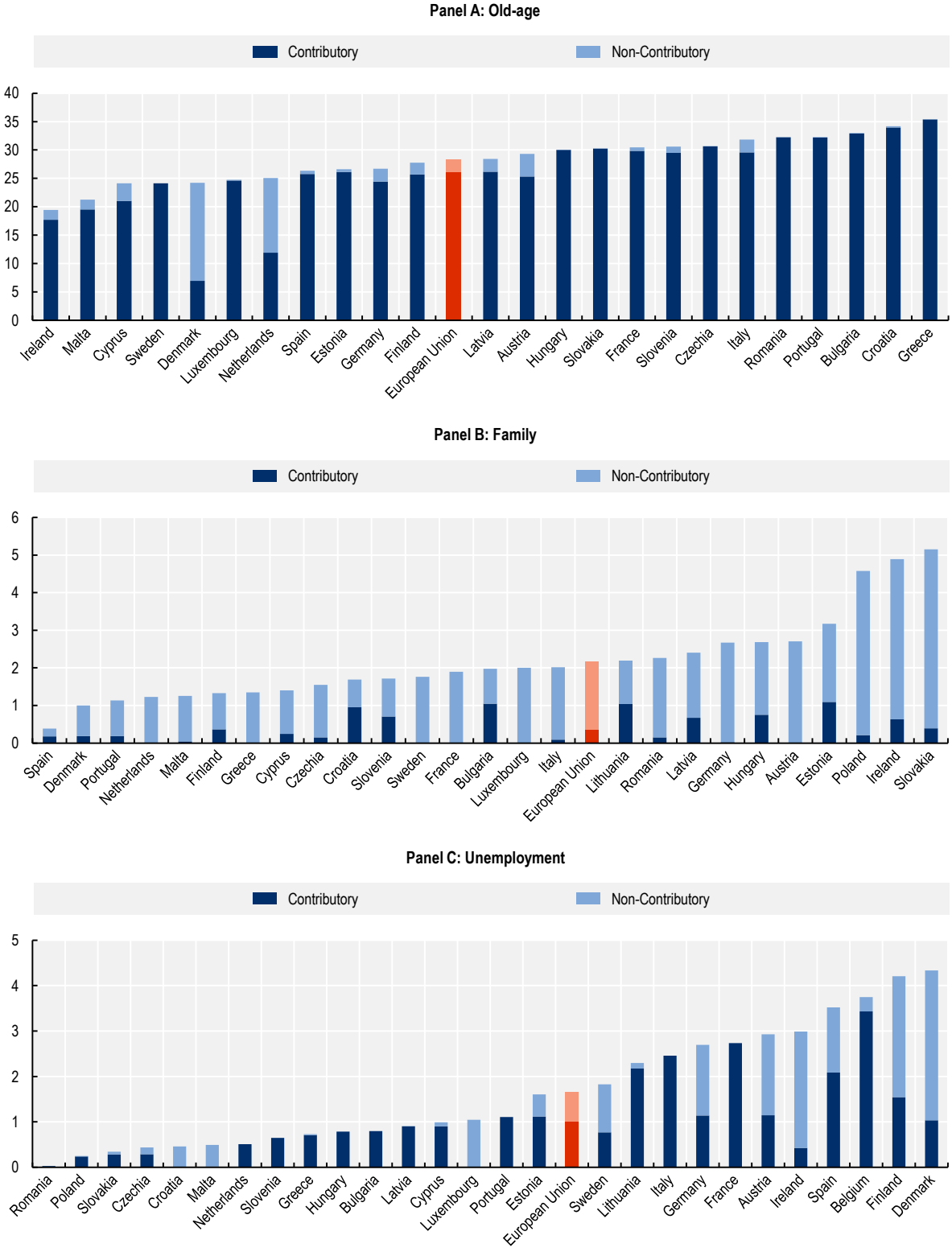
Countries could consider financing benefits that do not insure against work-related risks from general revenue where they do not already do so. In practice these are means-tested and universal cash benefits, as well as services not tied to employment, most importantly health and long-term care. This would take pressure off labour incomes and take advantage of funding bases that may be less affected by population ageing and automation. This may be politically challenging as the governance of these benefits is often linked to social contributions, with roles for the social partners (e.g. autonomous social insurance funds).

Increasing subsidies from general government revenue to insurance-based schemes can be an alternative. Countries already subsidise contributory pension systems in many countries. For instance, the pension system balance (contributions minus expenditures) was negative in 16 out of 25 EU countries with available data in 2022, with an average deficit amounting to 1.6% of GDP, see Chapter 1 and (European Commission, 2024[54]).

However, countries should be cautious not to use general revenues to provide benefits only to insured persons as groups such as the self-employed or those with unstable careers benefit less from insurance-based schemes in some countries. General-revenue subsidies should be limited to benefits that are not directly tied to contributions, e.g. crediting of pension contributions for times of parental leave (which is part of family policy) or for periods of unemployment (which belongs into general social policy for workers without entitlement to unemployment benefits).

Figure 3.5. A large share of cash unemployment- and family benefit receipt is non-contributory

Average share of old-age, family and unemployment cash transfers in total gross household incomes in the EU, in per cent, by entitlement criterion, 2024



Note: Countries are ranked by the share of each benefit type in total gross household incomes. Old-age benefits include survivor benefits. Households with negative or zero household incomes are excluded from the calculations. Information on old-age cash benefit receipt is unreliable for Belgium, Lithuania and Poland, and the information on family benefit entitlement criteria is unreliable for Belgium. These countries are therefore not shown. The EU average is the unweighted average of countries with available data.
Source: Secretariat calculations based on the EU-SILC 2024 wave.

3.5. Closing contribution gaps in undeclared work

Undeclared work – defined as any paid activity that is lawful but not declared to public authorities (ELA, 2021[55])[13] – and the under-declaration of income diminish the financing base of social protection systems. The EU definition of undeclared work excludes criminal activity and only refers to the non-payment of taxes and social security contributions, as well the disregard of labour law obligations. It is closely aligned with the International Labour Organization's statistical concept of informal employment, more often used in the context of developing and emerging economies: work that is "not covered by formal arrangements such as … income taxation, labour legislation and social security" (ILO, 2023[56]).

Undeclared work takes three forms with distinct implications for financing and policy: i) fully undeclared work, ii) under-declared work, or "envelope wages", where part of the pay of a registered worker is not declared and iii) misclassified self-employment, where a dependent employee is declared as self-employed to reduce labour costs mainly in the form of social contributions, see Chapter 2. Underreporting of income by self-employed workers is also common in many countries, see Chapter 2 and (Schoukens and Bruynseraede, 2026[57]).

Undeclared work is concentrated in labour-intensive, hard-to-monitor activities such as construction, hospitality, agriculture, and domestic, care and personal services. In the EU, the posting of workers and the cross-border provision of services can also obscure where work should be declared (ELA, 2021[55]).

3.5.1. Undeclared work remains widespread

By definition, undeclared work is difficult to measure. Macroeconomic models estimate the shadow economy at around 17% to 23% of GDP across the EU on average, depending on the model, with national values ranging from below 10% in Austria and Luxembourg to about 37% in Bulgaria. Other countries with high shares include Greece, with a share of almost 30%, and Croatia, Italy, Poland and Romania with shares around 23% (Kelmanson et al., 2019[58]; Schneider and Asllani, 2022[59]).[14] However, the concept of the shadow economy is broader than undeclared work and these estimates may capture some illegal activity.

Franić et al. (2023[60]) compare labour-force-survey estimates of hours worked with business statistics on declared work (the labour input method).[15] They estimate that undeclared work amounted to around 15% of private-sector gross value added in 2019 on average across the EU, down from 16% in 2013, with declines in 19 of 26 Member States. They find that there are large differences across countries: undeclared work is highest in Romania, Lithuania and Bulgaria, above 20% of private-sector GVA, and lowest in Austria, Luxembourg, Sweden and Germany below 9% of GVA.

Direct survey evidence points in the same direction: in the most recent Special Eurobarometer survey on undeclared work from 2019, about one in ten Europeans reported buying goods or services that may have involved undeclared work, one in three knew someone working undeclared, and roughly half believed the risk of detection was low (European Commission, 2020[61]). Participation in undeclared work fell from 5% of survey respondents in 2007 to 4% in 2013 and has remained stable until 2019. Envelope wages similarly fell from 5% in 2007 to 3% in 2013 and 2019 (Williams and Horodnic, 2020[62]). The share of respondents buying goods or services that may involve undeclared work declined slightly from 11% in 2013 to 10% in 2019 (European Commission, 2020[61]).16 Note that these estimates are based on self-declarations and may therefore underestimate the real incidence.

Of workers performing undeclared work, 10% work for an employer, 42% are self-employed, and 48% perform "paid favours": paid work for relatives, friends, neighbours or acquaintances that is undeclared (Williams and Oz-Yalaman, 2021[63]). These shares refer to the number of workers performing paid work. When measured by *hours worked*, undeclared dependent work accounts for the largest share of undeclared work in the EU (63%), followed by self-employment (36%) (Franić, Horodnic and Williams, 2023[60]).

3.5.2. Undeclared work narrows the financing base of social protection, weakens risk pooling and leaves workers without social protection coverage

Undeclared and under-declared work reduce contributory revenue directly. They also weaken risk pooling, particularly if workers facing lower risks (e.g. of unemployment or disability) evade participation in compulsory schemes. And they interact with the redistributive design of social insurance: because many social protection schemes provide higher replacement rates to lower earners, under declaring earnings (envelope wages) allow workers to benefit from this progressive design while withholding part of their contributions. Williams et al. (2015[64]) estimate that envelope wages amount, on average, to about a quarter of gross annual pay.

For workers, undeclared and under-declared work means that they do not have any, or only partial, entitlement to contribution-based social protection. They may therefore fall back on tax-financed, means-tested support in the event of job loss, injury or old age. In addition, undeclared work also lowers production costs for the firms that use it, giving them an unfair advantage over compliant competitors.

3.5.3. Overall, the incidence of undeclared work is higher among men, younger workers, the financially constrained and manual workers

Undeclared work is more common among men (5%) than women (3% (Williams and Horodnic, 2020[62]))[17] It largely reflects gender segregation across sectors: men are more likely to work in construction, women in personal and household services. Undeclared work is difficult to address in personal and household services, as private households are very motivated to avoid non-wage labour costs and labour protections, and they are difficult to reach for labour inspectorates (OECD, 2021[65]). Undeclared work accounts for the majority of the non-care segment of household services, with up to around 90% of such work not being declared in some countries, while in the care segment its share is lower, at around a third. Migrants are over-represented in the household services sector: an estimated 17% of personal and household services workers are third-country nationals (ELA, 2021[55]; OECD, 2021[65]).

Incidence declines steadily with age: from 9% among those aged 15-24, to 5% among 25-39 year-olds, 3% among 40-54 year-olds, and 2% among those 55 and over. Workers struggling with the cost of living are also far more likely to work undeclared: 9% of those struggling most of the time, against 3% of those who rarely struggle financially. Manual workers have the highest incidence by occupation (5-6% of skilled and unskilled manual workers), consistent with the high incidence of undeclared work in construction, among the self-employed (6%), students and the unemployed. Envelope wages follow the same pattern (European Commission, 2020[61]; Williams and Horodnic, 2016[66]).

3.5.4. Undeclared work is more prevalent in small firms

In the EU, under-declaration is concentrated in small and micro firms: 6% of employees in firms with fewer than ten employees receive envelope wages, compared to under 1% in firms with 500 or more employees. Firms with fewer than 50 employees account for around 70% of all envelope-wage recipients. This is consistent with weaker formal HR management practices in smaller firms making informal side-arrangements easier to sustain (Williams and Horodnic, 2020[62]).

In some countries, including the Netherlands, Cyprus, Ireland and Finland, undeclared work is concentrated in even smaller units: 68-90% of undeclared work takes the form of one-person enterprises rather than a registered firms with off-book workers. In contrast, in Poland, Belgium, Bulgaria and Italy, over 90% of undeclared work is waged employment (Franić, Horodnic and Williams, 2023[60]):

3.5.5. Undeclared work may lead to lower wage growth over the life cycle

Direct evidence on the effect of undeclared work on earnings from EU countries is limited. Evidence from low and middle-income countries suggests that informal workers tend to earn about 40% less than formal workers with similar characteristics (Ulyssea, 2020[67]; Ohnsorge and Yu, 2022[68]). Informality also influences wage growth over the life cycle. Estimates using household survey data from Mexico show that formal workers' earnings rise to about 45% above their entry level after 25-30 years of experience, whereas informal profiles plateau early, at around 13% (Siachoque, forthcoming[69]). Because contributory entitlements accrue over the entire career, a flatter profile reduces the value of lifetime contributions and depresses replacement rates at retirement. Lower wage growth is mainly caused by two factors. First, human capital: undeclared work offers limited access to on-the-job training and involves short tenures that reduce the accumulation of firm-specific human capital (Ulyssea, 2020[67]). Second, it can be difficult to transition from informal to formal jobs, and informal jobs offer limited upward mobility (Bosch and Esteban-Pretel, 2012[70]; Donovan, Lu and Schoellman, 2020[71]).

3.5.6. High non-wage labour cost can incentivise undeclared work, but is not the main driver

A high tax wedge can push labour costs above the productivity of lower-skilled workers and create an incentive for workers and employers to leave earnings partially or entirely undeclared. Withdrawal of social benefits combined with social contributions for low-wage workers can generate an especially strong incentive to work undeclared. Using survey-experimental data from a sample of German benefit recipients, (Burgstaller and Feld, 2026[72]) find that one in five works undeclared, more than three times the incidence in the general population (6%). The interaction between means-tested transfer withdrawal and the tax and social-contribution system produces effective marginal tax rates of around 80% for many recipients of social benefits in the sample (Burgstaller and Feld, 2026[72]).[18] Therefore, targeted reductions in contributions for low-income workers are a common instrument (Kolev, La and Manfredi, 2023[73]).

However, empirically, the relationship between non-wage labour cost and the incidence of undeclared work is weak. Franić et al. (2023[60]) find that among state intervention factors, social contributions and taxation have the lowest correlation with the incidence of undeclared work. Government effectiveness, corruption perceptions and indicators of development (e.g. human development index, social progression index) are most strongly associated with the incidence of undeclared work. Countries that score highest on government effectiveness such as the Netherlands, Denmark and Finland have the lowest levels of undeclared work. They also find that measures of trust in institutions, such as parliament and government, as well as labour inspectorates and tax and social security institutions, were moderately or weakly negatively associated with the incidence of undeclared work. This is consistent with the wider literature on informality in low- and middle-income countries, which identifies institutional quality (including the effectiveness of labour inspections) and the level of development rather than tax rates as the principal drivers (La Porta and Shleifer, 2014[74]; Ulyssea, 2020[67]).

An influential literature also relates undeclared work to a gap between formal rules and social norms. This low "tax morale" is shaped by the trust of individuals in the government and the perceived value for money of social contributions, as well as a belief in the compliance of others (Williams and Horodnic, 2020[62]; Williams and Horodnic, 2016[66]). Over time the weight of deterrence in explaining behaviour has fallen while that of trust has risen. This is consistent with a broader body of evidence showing that voluntary compliance depends not only on enforcement but also on trust in public institutions and perceptions of the

fairness of the tax and social protection system (OECD, 2019[75]; OECD, 2024[76]; European Commission, 2026[32]).

3.5.7. Policy insights

Effective responses combine enforcement with measures that make formal work more attractive. For workers and firms who are productive enough to operate in the formal economy, the priority is to ensure adequate legal, social-security and tax coverage and to enforce compliance. Digital technologies can help improve the effectiveness of enforcement. For instance, labour inspectorates increasingly use new digital technologies, including advanced data analytics and AI, to identify firms who are more likely non-compliant. This helps focus resources more effectively on non-compliant firms, while lowering burdens on complying businesses, thus encouraging overall compliance (OECD, 2026[77]).

For lower-paid, vulnerable workers, policy interventions often subsidise participation in contributory schemes and combine this with non-contributory social protection coverage, with the aim of poverty reduction. In general, additional financing should be mobilised through strengthened tax compliance and enforcement, while avoiding excessively high formalisation costs (in the form of taxes and social security contributions for low-paid workers, (OECD, 2024[78])).

The evidence indicates that enforcement alone is not sufficient. Deterrence raises the expected cost of non-compliance through risk-based inspections, data-matching across tax, social-security and labour records, and proportionate sanctions. A randomised field experiment on more than 15 000 Norwegian taxpayers found that both a letter raising the perceived probability of detection and one appealing to a sense of fairness and recalling wider societal benefits of tax revenue increased self-reported income, but only the detection signal had a lasting effect (Bott et al., 2020[79]). At the same time, OECD analysis of tax morale finds that voluntary compliance depends less on rates and penalties than on trust in government, the perceived fairness of the system and how easy it is to comply, pointing to strategies that combine enforcement with simplification of administrative procedures and a stronger link between contributions and entitlements (OECD, 2019[75]; Kolev, La and Manfredi, 2023[73]).

Policies may lower the cost, and raise the benefits, of declaring work. Demand-side instruments are often used in personal and household services: service-voucher schemes are the most common measure. Belgium and France reduce the price of household services through social vouchers, which households buy at subsidised prices. France, Sweden and Germany also grant tax credits, with France and Sweden refunding around 50% of household-service costs (wages and social security contributions) and Germany 20% (OECD, 2021[65]). Belgium's scheme operates through a three-way relationship between accredited providers, workers and households, while France's CESU (*Chèque Emploi Service Universel*) system simplifies the hiring of domestic workers and makes its tax credit refundable for households with insufficient tax liability. Both instruments have been linked to a reduced incidence of informal work, with the French and Swedish systems being most effective at moving activity into the formal sector, though effectiveness depends on how far they lower the service price (OECD, 2021[65]). The design is decisive: using Italian administrative records and randomly timed inspections, Di Porto et al. (2026[80]) show that flexible-work instruments intended to formalise casual work (labour vouchers) can instead be used to conceal it. Some firms activate a voucher for an undeclared worker only when an inspector arrives, raising voucher use by about 0.88 p.p. (from 18%) on the day of an inspection. The practice disappears once firms are required to notify voucher use in advance. Instruments must therefore be designed around enforcement, for example through advance notification and eligibility limits.

The appropriate policy also depends on whether undeclared work is dependent or self-employment (Williams and Oz-Yalaman, 2021[63]). Undeclared dependent employment is more often driven by exclusion from formal work, so active labour-market policies, and sanctions of non-compliant employers can be effective. In contrast, undeclared self-employment can be addressed by simplifying administrative procedures and making it easier to register a business (Williams and Oz-Yalaman, 2021[63]).

3.6. Looking ahead: what are countries doing to rebalance the mix of social protection financing?

A short policy questionnaire "Financing of national social protection systems", circulated to EU and OECD countries in September 2025 asked countries about current and future reform plans to change the funding mix of the social protection system, or to access new funding bases. This section lists some of the answers countries have provided, to highlight current policy trends.

Three broad themes emerge from the responses:

3.6.1. Several countries are adjusting the financing of their pension systems

- Germany extended the existing guaranteed pre-tax pension level (48% of average wages; *Haltelinie*) until 2031 in December 2025, and extended pension credits for child-rearing periods for children born before 1992 (so-called "mothers" pension'). These measures will be mainly general revenue funded (Deutscher Bundestag, 2025[81]). In June 2026, the German pension commission published its recommendations which the German coalition committee has committed to bring into legislation (Alterssicherungskommission, 2026[82]). These include introducing a statutory capital-funded pension (*gesetzliche Kapitalrente)* with a transitional supplement for near-retirement cohorts, as well as extending the mandatory contributory coverage to previously exempt groups, notably the self-employed. On financing, the commission recommends introducing a link between the pension age and life expectancy and maintaining a uniform pension contribution rate on wages without considering any other factors nor levying contributions on other forms of income. The tax-funded federal payment to the pension insurance should be clearly delineated to cover expenses that are not related to contributions and made transparent.
- Latvia increased the ceiling for both mandatory and voluntary contributions to the pension system. Social security contributions will also be levied on income from intellectual property.
- Romania increased the contribution rate to the second pillar pension system in 2024. It also reformed the indexation mechanism in the pension system.
- Malta is increasing the minimum contribution period for the old-age pension from 41 to 42 years. Malta will also link increases of the contribution ceiling to the maximum pension and increases in the minimum social security contribution to the statutory minimum wage. This means that minimum contributions will increase automatically with the minimum wage.
- Some countries are increasing contribution rates to their pension systems. Cyprus is planning to increase social security contributions stepwise from 24.1% in 2029 to 26.7% in 2039. Similarly, Bulgaria is increasing pension contribution rates by 3 p.p. between 2025 and 2028. Luxembourg increased the pension insurance rate in January 2026 by 1.5 p.p. (0.5 p.p. for each contributor: employees, employers and government). Spain is also gradually increasing its additional contribution to the public pension system.
- Spain is also raising contribution rates to improve the sustainability of the pension system while the "baby boom" generation is retired. Contribution rates increased by 0.8% in 2025 and will be progressively raised to 1.2% in 2029. This raise is expected to remain in force until 2050.

3.6.2. Several countries are boosting occupational and private pension schemes

- Ireland started to auto-enrol workers in the retirement savings scheme in January 2026. Employer and employee contributions will be collected by the government directly from payroll. There will also be a public subsidy.
- Spain is also considering auto-enrolment in its occupational pension scheme. This is following iterative reform steps over 2022 – 2024 that simplified occupational pension plans for dependent

employees, the self-employed as well as public sector workers. While enrolment did increase, especially in the construction sector, overall enrolment remained low.

- Germany increased the subsidy for low earners in occupational pension schemes.
- Luxembourg increased the tax deductibility for contributions to (private) third pillar pension from January 2026.
- Romania increased the contribution rate to the second pillar (privately managed pension funds) of the pension system by one p.p. Within a wider reform effort, Romania is also working to strengthen the third pension pillar (voluntary pensions).
- Malta is planning to expand the role of private old-age pensions by auto-enrolling workers in the occupational pension scheme.

3.6.3. Another focus area is the financing of in-kind benefits and services

- The Slovak Republic is considering reforming the financing of social services. In particular, a new bill aims to introduce a new system of state participation in the co-financing of personal assistance in the context of population ageing.
- Luxembourg allocated additional EUR 59 million per year in general-revenue funds to the health system between 2026 and 2030 to close a funding gap in the national health fund.
- Romania broadened the base of contributors to health insurance: since August 2025, pensioners earning above about EUR 600, persons on parental leave, unemployment benefit recipients as well as social assistance recipients as well as people protected by special laws (such as veterans) will be subject to a 10% compulsory health insurance contribution. Romania also abolished free health insurance for spouses and parents without their own income.
- Romania plans to reform the public health law by creating a regulatory framework to expand the use of voluntary private health insurance in public hospitals. This should increase the available funds for public health insurance, both because it attracts private funds but also because healthcare costs for some patients are being paid by the private, instead of the public, health insurance.

References

Acemoglu, D. (2024), “The simple macroeconomics of AI”, *Economic Policy*, Vol. 40/121, pp. 13-58, https://doi.org/10.1093/epolic/eiae042. [18]

Acemoglu, D., D. Autor and S. Johnson (2026), “Building pro-worker artificial intelligence”, *NBER Working Paper*, Vol. 34854, https://www.nber.org/papers/w34854. [20]

Acemoglu, D. and P. Restrepo (2022), “Tasks, Automation, and the Rise in U.S. Wage Inequality”, *Econometrica*, Vol. 90/5, pp. 1973-2016, https://doi.org/10.3982/ecta19815. [22]

Acemoglu, D. and P. Restrepo (2018), “The Race between Man and Machine: Implications of Technology for Growth, Factor Shares, and Employment”, *American Economic Review*, Vol. 108/6, pp. 1488-1542, https://doi.org/10.1257/aer.20160696. [19]

Alterssicherungskommission (2026), “Empfehlungen der Alterssicherungskommission”, *BMAS*, https://www.bundesregierung.de/resource/blob/975228/2444780/0fcbf810775351c64007ee6cb2c7cad9/2026-06-24-bericht-alterssicherungskommission-data.pdf?download=1. [82]

Arnemann, L. et al. (2025), "Taxes, social security, contributions and redistribution, welfare state and public finances", *WeLaR Policy Brief 2025*, https://projectwelar.eu/wp-content/uploads/2025/03/WeLaR_Policy_brief_6.5_Taxes-social-policy.pdf. [33]

Auclert, A. et al. (2026), "Demographics, Wealth and Global IMbalances in the Twenty-First Century", *Review of Economic Studies*, p. Forthcoming, https://web.stanford.edu/~aauclert/demowealth21.pdf. [28]

Autor, D. et al. (2024), "New Frontiers: The Origins and Content of New Work, 1940–2018", *The Quarterly Journal of Economics*, Vol. 139/3, pp. 1399-1465, https://doi.org/10.1093/qje/qjae008. [21]

Autor, D. et al. (2020), "The Fall of the Labor Share and the Rise of Superstar Firms*", *The Quarterly Journal of Economics*, Vol. 135/2, pp. 645-709, https://doi.org/10.1093/qje/qjaa004. [16]

Bergolo, M. and G. Cruces (2021), "The anatomy of behavioral responses to social assistance when informal employment is high", *Journal of Public Economics*, Vol. 193, p. 104313, https://doi.org/10.1016/j.jpubeco.2020.104313. [85]

Bernal-Delgado E, A. (ed.) (2024), *Spain: Health system review.*, Copenhagen: WHO Regional office for Europe, https://www.consaludmental.org/publicaciones/Health-System-Review-2024.pdf. [53]

Bosch, M. and J. Esteban-Pretel (2012), "Job creation and job destruction in the presence of informal markets", *Journal of Development Economics*, Vol. 98/2, pp. 270-286, https://doi.org/10.1016/j.jdeveco.2011.08.004. [70]

Bott, K. et al. (2020), "You've Got Mail: A Randomized Field Experiment on Tax Evasion", *Management Science*, Vol. 66/7, pp. 2801-2819, https://doi.org/10.1287/mnsc.2019.3390. [79]

Bozio, A. and E. Wasmer (2024), *Les politiques d'exonérations de cotisations sociales : une inflexion nécessaire*, https://www.strategie-plan.gouv.fr/publications/mission-bozio-wasmer-politiques-dexonerations-de-cotisations-sociales-une-inflexion. [50]

Burgstaller, L. and L. Feld (2026), "How (Not) to Ask About Undeclared Work: Estimating Prevalence and Patterns Using a Survey Experimental Approach", *CESifo Working Papers* 12728. [72]

Cho, W., F. Manaresi and M. Reinhard (2025), "Superstars, shooting stars, and the labour share: Cross-country evidence", *OECD Science, Technology and Industry Working Papers*, No. 2025/01, OECD Publishing, Paris, https://doi.org/10.1787/ecb32e77-en. [15]

Crowe, D. et al. (2022), "Population ageing and government revenue: Expected trends and policy considerations to boost revenue", *OECD Economics Department Working Papers*, No. 1737, OECD Publishing, Paris, https://doi.org/10.1787/9ce9e8e3-en. [31]

De Nardi, M. et al. (2025), "Why Do Couples and Singles Save during Retirement? Household Heterogeneity and Its Aggregate Implications", *Journal of Political Economy*, Vol. 133/3, pp. 750-792, https://doi.org/10.1086/733421. [35]

Deutscher Bundestag (2025), "Entwurf eines Gesetzes zur Stabilisierung des Rentenniveaus und zur vollständigen Gleichstellung der Kindererziehungszeiten", *Drucksache 21/1929* Gesetzentwurf der Bundesregierung, https://dserver.bundestag.de/btd/21/019/2101929.pdf. [81]

Di Porto, E. et al. (2026), "The Perverse Effect of Flexible Work Arrangements on Informality", *Working Papers* 786. [80]

Donovan, K., W. Lu and T. Schoellman (2020), *Labor Market Dynamics and Development*, Federal Reserve Bank of Minneapolis, https://doi.org/10.21034/sr.596. [71]

ELA (2021), *Tackling undeclared work in the personal and household services sector*. [55]

European Commission (2026), *Annual report on taxation 2026 – Review of taxation policies in the EU Member States*, Publications Office of the European Union, https://data.europa.eu/doi/10.2778/9336135. [32]

European Commission (2026), *Commission staff working document: Poverty in the EU - key trends and policies. European Union Anti-Poverty Strategy.*, European Commission, https://employment-social-affairs.ec.europa.eu/policies-and-activities/social-protection-social-inclusion/addressing-poverty-and-supporting-social-inclusion/eu-anti-poverty-strategy_en. [8]

European Commission (2026), *Wealth taxation, including net wealth, capital and exit taxes – Executive summary*, Publications Office of the European Union, https://data.europa.eu/doi/10.2778/0913466. [41]

European Commission (2024), *2024 Ageing Report*, https://doi.org/10.2765/022983. [54]

European Commission (2021), "Business Taxation for the 21st Century", *Communication from the Commission to the European Parliament and the Council, COM (2021) 251 final*, https://taxation-customs.ec.europa.eu/system/files/2021-05/communication_on_business_taxation_for_the_21st_century.pdf. [30]

European Commission (2020), "Undeclared Work in the European Union", *Special Eurobarometer 498*, https://doi.org/10.2767/018492. [61]

European Commission and SPC (2024), *The 2024 pension adequacy report. Current and future income adequacy in old age in the EU. Volume I*, Publications Office of the European Union, https://doi.org/10.2767/909323. [9]

European Commission Joint Research Centre (2026), *Demographic transformation in the EU: understanding change and adapting to its consequences*, Publications Office of the European Union, https://doi.org/10.2760/9943353. [88]

European Commission, D. (ed.) (2023), *The future of social protection and of the welfare state in the EU*, Publications Office of the European Union, https://doi.org/10.2767/35425. [12]

Eurostat (2026), *Life expectancy by age and sex [demo_mlexpec__custom_22329321]*, https://ec.europa.eu/eurostat/databrowser/view/tps00205/default/table?lang=en (accessed on 6 August 2026). [3]

Felderer, B., M. Gstrein and L. Mateeva (2011), *Familienlastenauslgeich in Österreich 2011. Rückblick, Status-quo und Zukunftsperspektiven*, Institut für Höhere Studien, https://irihs.ihs.ac.at/id/eprint/2089/1/flaf_2011_071111.pdf. [89]

Fluchtmann, J., M. Keese and W. Adema (2024), "Gender equality and economic growth: Past progress and future potential", *OECD Social, Employment and Migration Working Papers*, No. 304, OECD Publishing, Paris, https://doi.org/10.1787/fb0a0a93-en. [6]

Franić, J., I. Horodnic and C. Williams (2023), *Extent of undeclared work in the European Union.*. [60]

Garganta, S. and L. Gasparini (2015), "The impact of a social program on labor informality: The case of AUH in Argentina", *Journal of Development Economics*, Vol. 115, pp. 99-110, https://doi.org/10.1016/j.jdeveco.2015.02.004. [86]

Georgieff, A. and R. Hyee (2022), "Artificial Intelligence and Employment: New Cross-Country Evidence", *Frontiers in Artificial Intelligence*, Vol. 5, https://doi.org/10.3389/frai.2022.832736. [17]

Hourani, D. et al. (2023), "The taxation of labour vs. capital income: A focus on high earners", *OECD Taxation Working Papers*, No. 65, OECD Publishing, Paris, https://doi.org/10.1787/04f8d936-en. [25]

Hourani, D. and S. Perret (2025), "Taxing capital gains: Country experiences and challenges", *OECD Taxation Working Papers*, No. 72, OECD Publishing, Paris, https://doi.org/10.1787/9e33bd2b-en. [34]

ILO (2023), "Defining informality for contributing family workers", *International Conference of Labour Statisticians* 21st session/No. 4. [56]

Immervoll, H. (2024), "Financing social protection in OECD countries: Role and uses of revenue earmarking", *OECD Social, Employment and Migration Working Papers*, No. 312, OECD Publishing, Paris, https://doi.org/10.1787/0d53155c-en. [38]

Joubert, C. (2015), "Pension design with a large informal labor market: Evidence from Chile", *International Economic Review*, Vol. 56/2, pp. 673-694, https://doi.org/10.1111/iere.12118. [90]

JRC (2024), *Choosing Europe's future. Global trends to 2040*, Publications Office of the European Union, https://doi.org/10.2760/180422. [87]

Karabarbounis, L. (2024), "Perspectives on the Labor Share", *Journal of Economic Perspectives*, Vol. 38/2, pp. 107-136, https://doi.org/10.1257/jep.38.2.107. [11]

Kelmanson, B. et al. (2019), "Explaining the Shadow Economy in Europe", *IMF Working Papers*, Vol. 2019/2019, https://doi.org/10.5089/9781513520698.001. [58]

Kolev, A., J. La and T. Manfredi (2023), "Extending social protection to informal economy workers: Lessons from the Key Indicators of Informality based on Individuals and their Household (KIIbIH)", *OECD Development Centre Working Papers*, No. 350, OECD Publishing, Paris, https://doi.org/10.1787/ca19539d-en. [73]

Koutsogeorgopoulou, V. and H. Morgavi (2025), "Ageing populations, their fiscal implications and policy responses", *OECD Economics Department Working Papers*, No. 1844, OECD Publishing, Paris, https://doi.org/10.1787/6aec03b3-en. [26]

Krenek, A. et al. (2022), "INTAXMOD - Inheritance and Gift Taxation in the Context of Ageing", *JRC Working Papers on Taxation and Structural Reforms No 4/2022*, https://publications.jrc.ec.europa.eu/repository/handle/JRC128480. [36]

La Porta, R. and A. Shleifer (2014), "Informality and Development", *Journal of Economic Perspectives*, Vol. 28/3, pp. 109-126, https://doi.org/10.1257/jep.28.3.109. [74]

Minniti, A., K. Prettner and F. Venturini (2025), "AI innovation and the labor share in European regions", *European Economic Review*, Vol. 177, p. 105043, https://doi.org/10.1016/j.euroecorev.2025.105043. [23]

Nay, O. et al. (2016), "Achieving universal health coverage in France: policy reforms and the challenge of inequalities", *The Lancet*, Vol. 387/10034, pp. 2236-2249, https://doi.org/10.1016/s0140-6736(16)00580-8. [51]

OECD (2026), *OECD Employment Outlook 2026: Geographic Disparities in Jobs and Incomes*, OECD Publishing, Paris, https://doi.org/10.1787/7e710f54-en. [1]

OECD (2026), "Piloting digital solutions for risk-based inspections in Italy: Regional case studies", *OECD Regulatory Policy Working Papers*, No. 25, OECD Publishing, Paris, https://doi.org/10.1787/6c37962f-en. [77]

OECD (2026), *Population projections (dataset)*, https://data-explorer.oecd.org/s/56q. [4]

OECD (2025), *OECD Employment Outlook 2025: Can We Get Through the Demographic Crunch?*, OECD Publishing, Paris, https://doi.org/10.1787/194a947b-en. [5]

OECD (2025), *Pensions at a Glance 2025: OECD and G20 Indicators*, OECD Publishing, Paris, https://doi.org/10.1787/e40274c1-en. [7]

OECD (2025), *Revenue Statistics 2025: Disentangling Personal Income Tax Revenue in OECD Countries*, OECD Publishing, Paris, https://doi.org/10.1787/3a264267-en. [29]

OECD (2024), *Breaking the Vicious Circles of Informal Employment and Low-Paying Work*, OECD Publishing, Paris, https://doi.org/10.1787/f95c5a74-en. [78]

OECD (2024), *Fiscal Sustainability of Health Systems: How to Finance More Resilient Health Systems When Money Is Tight?*, OECD Publishing, Paris, https://doi.org/10.1787/880f3195-en. [49]

OECD (2024), *Is Care Affordable for Older People?*, OECD Health Policy Studies, OECD Publishing, Paris, https://doi.org/10.1787/450ea778-en. [45]

OECD (2024), *Megatrends and the Future of Social Protection*, OECD Publishing, Paris, https://doi.org/10.1787/6c9202e8-en. [2]

OECD (2024), *OECD Compendium of Productivity Indicators 2024*, OECD Publishing, Paris, https://doi.org/10.1787/b96cd88a-en. [14]

OECD (2024), *OECD Survey on Drivers of Trust in Public Institutions – 2024 Results: Building Trust in a Complex Policy Environment*, OECD Publishing, Paris, https://doi.org/10.1787/9a20554b-en. [76]

OECD (2024), *Taxation and Inequality: OECD Report to G20 Finance Ministers and Central Bank Governors*, OECD Publishing, Paris, https://doi.org/10.1787/8dbf9a62-en. [40]

OECD (2023), *OECD Employment Outlook 2023: Artificial Intelligence and the Labour Market*, OECD Publishing, Paris, https://doi.org/10.1787/08785bba-en. [24]

OECD (2022), *Housing Taxation in OECD Countries*, OECD Tax Policy Studies, No. 29, OECD Publishing, Paris, https://doi.org/10.1787/03dfe007-en. [39]

OECD (2021), *Bringing Household Services Out of the Shadows: Formalising Non-Care Work in and Around the House*, Gender Equality at Work, OECD Publishing, Paris, https://doi.org/10.1787/fbea8f6e-en. [65]

OECD (2021), *Inheritance Taxation in OECD Countries*, OECD Tax Policy Studies, No. 28, OECD Publishing, Paris, https://doi.org/10.1787/e2879a7d-en. [37]

OECD (2020), *Promoting an Age-Inclusive Workforce: Living, Learning and Earning Longer*, OECD Publishing, Paris, https://doi.org/10.1787/59752153-en. [10]

OECD (2019), *Tax Morale: What Drives People and Businesses to Pay Tax?*, OECD Publishing, Paris, https://doi.org/10.1787/f3d8ea10-en. [75]

OECD (2018), *The Role and Design of Net Wealth Taxes in the OECD*, OECD Tax Policy Studies, No. 26, OECD Publishing, Paris, https://doi.org/10.1787/9789264290303-en. [42]

Ohnsorge, F. and S. Yu (2022), *The Long Shadow of Informality: Challenges and Policies*, The World Bank, https://doi.org/10.1596/978-1-4648-1753-3. [68]

Pierson, P. (2000), "Increasing Returns, Path Dependence, and the Study of Politics", *American Political Science Review*, Vol. 94/2, pp. 251-267, https://doi.org/10.2307/2586011. [47]

Pierson, P. (1993), "When Effect Becomes Cause: Policy Feedback and Political Change", *World Politics*, Vol. 45/4, pp. 595-628, https://doi.org/10.2307/2950710. [46]

Rodríguez, M., R. Scheffler and J. Agnew (2000), "An update on Spain's health care system: is it time for managed competition?", *Health Policy*, Vol. 51/2, pp. 109-131, https://doi.org/10.1016/s0168-8510(99)00080-9. [52]

Sachverständigenrat (2026), *Frühjahrsgutachten 2026 [Spring report 2026 of the German Expert Council Social Insurance]*, Sachverständigenrat Wirtschaft, https://www.sachverstaendigenrat-wirtschaft.de/fruehjahrsgutachten-2026.html. [44]

Schneider, F. and A. Asllani (2022), *Taxation of the Informal Economy in the EU*. [59]

Schneider, F., A. Buehn and C. Montenegro (2011), "Shadow Economies All Over the World: New Estimates for 162 Countries from 1999 to 2007", in *Handbook on the Shadow Economy*, Edward Elgar Publishing, https://doi.org/10.4337/9780857930880.00007. [83]

Schneider, F. and D. Enste (2013), "Methods to estimate the size of the shadow economy", in Schneider, F. and D. Enste (eds.), *The Shadow Economy*, Cambridge University Press, https://doi.org/10.1017/cbo9781139542289.003. [84]

Schoukens, P. and C. Bruynseraede (2026), *Social security coverage and its financing for the self-employed in EU Member States*, https://employment-social-affairs.ec.europa.eu/social-protection-social-inclusion/mutual-learning-workshop-access-social-protection-coverage-and-contributions-self-employed-2026-04-28_en. [57]

Schratzenstaller, M. (2022), "2022", *Wifo-Monatsberichte*, Vol. 95/2, https://www.wifo.ac.at/publication/pid/17807005. [43]

Siachoque, J. (forthcoming), "The wage growth penalty of informal employment.", *University of Nottingham*. [69]

Sicsic, M. and D. Hourani (2026), "The impact of population ageing on tax revenues in OECD countries", *OECD Taxation Working Papers*, No. 75, OECD Publishing, Paris, https://doi.org/10.1787/94cbc7e5-en. [27]

Smith, M. et al. (2022), "The Rise of Pass-Throughs and the Decline of the Labor Share", *American Economic Review: Insights*, Vol. 4/3, pp. 323-340, https://doi.org/10.1257/aeri.20210268. [13]

Ulyssea, G. (2020), "Informality: Causes and Consequences for Development", *Annual Review of Economics*, Vol. 12/1, pp. 525-546, https://doi.org/10.1146/annurev-economics-082119-121914. [67]

Weaver, K. (2010), "Paths and Forks or Chutes and Ladders?: Negative Feedbacks and Policy Regime Change", *Journal of Public Policy*, Vol. 30/2, pp. 137-162, https://doi.org/10.1017/s0143814x10000061. [48]

Williams, C. and I. Horodnic (2020), *Trends in the undeclared economy and policy approaches. Evidence from the 2007, 2013 and 2019 Eurobarometer surveys*, https://doi.org/10.2767/69833. [62]

Williams, C. and I. Horodnic (2016), "Tackling the undeclared economy in the European Union: an evaluation of the tax morale approach", *Industrial Relations Journal*, Vol. 47/4, pp. 322-340, https://doi.org/10.1111/irj.12142. [66]

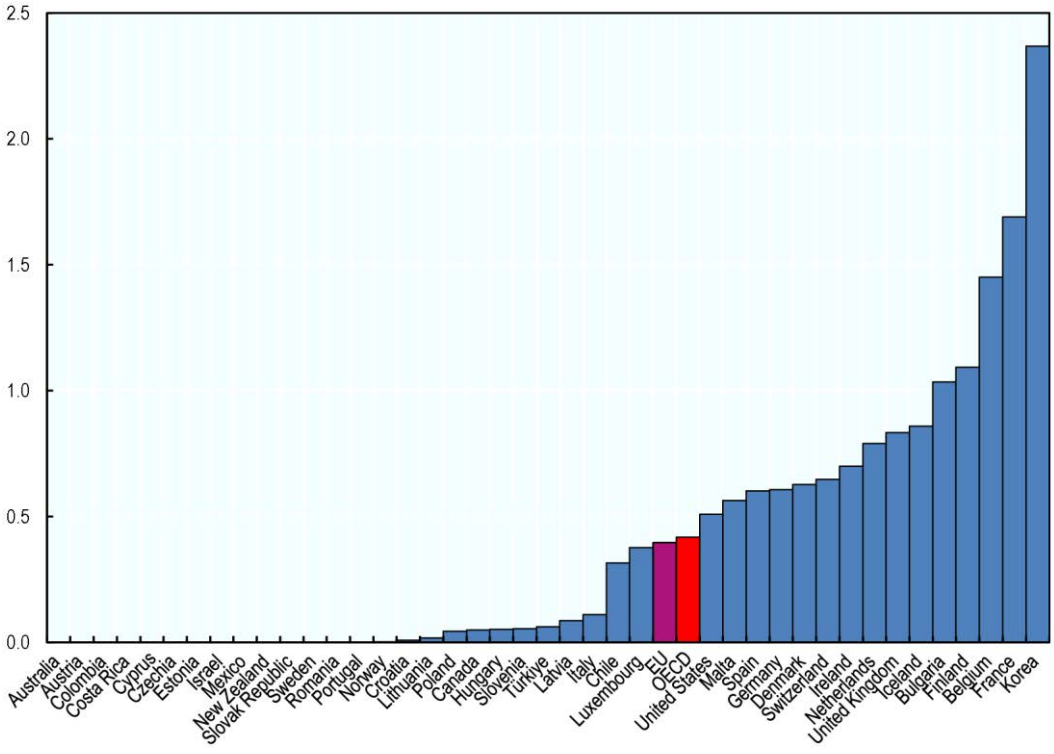
Williams, C., I. Horodnic and J. Windebank (2015), "Evaluating the Prevalence and Distribution of Envelope Wages in the European Union: Lessons from a 2013 Eurobarometer Survey", *Journal of Contemporary European Research*, Vol. 11/2, https://doi.org/10.30950/jcer.v11i2.664. [64]

Williams, C. and G. Oz-Yalaman (2021), "Explaining different types of undeclared work: lessons from a 2019 Eurobarometer survey", *Employee Relations: The International Journal*, Vol. 43/6, pp. 1382-1396, https://doi.org/10.1108/er-12-2020-0544. [63]

Zhang, Y. and T. Van Overbeke (2026), "Measuring Fiscal Asymmetry: Effective Tax Rates on Capital and Labour in 29 European Countries 1998 - 2021", *EIQ Paper No 196 / 2026*, https://www.lse.ac.uk/european-institute. [91]

Annex 3.A. Additional Statistics

Annex Figure 3.A.1. Inheritance, estate, and gift tax revenues as percentage of total tax government revenues in per cent 2024



Note: Data refer to 2023 for Australia and Romania. No data on Greece and Japan.
Source: OECD Revenue Statistics, except Cyprus : Eurostat (tax_ec_func).

Notes

[1] Some replacement incomes are also subject to social contributions, but the majority is levied on labour income, see Chapter 1.

[2] Fluchtmann, Keese and Adema (2024[6]) take cohort-specific observed labour force participation and unemployment rates as starting points and derive future rates by assuming constant future unemployment rates and that, for each age and gender category, future labour market entry and exit rates are equal to the most recent rates of the same age category (averaged over a 5-year period and excluding the years of the COVID-19 crisis). The labour market entry rate is defined as the percentage change in nonemployment rates from age t to age t+1 for the same cohort, when negative and zero otherwise (that is the percentage decrease when it is effectively a decrease). The labour market exit rate is defined as the percentage change in employment rates from age t to age t+1 for the same cohort, when this is negative and zero otherwise (that is, again, the percentage decrease when it is effectively a decrease).

[3] The extent of migration will be influenced by demographic developments (e.g. the speed of the decrease of fertility in Sub-Saharan Africa), external factors such as the effects of climate change, as well as policy choices, but demographic imbalances make it likely that immigration will remain relevant in particular for Europe (JRC, 2024[87]).

[4] Raising the employment rate of workers aged 55 and older by 2060, so that the rate of decline in employment rates in the 50-54 age group will be as small as the 10th percentile of the distribution among OECD countries, see notes to Figure 3.1.

[5] For instance, the number of people over the age of 50 potentially requiring long-term care in the EU is projected to rise from 36 million in 2025 to 48 million by 2070 – 11% of the EU population (European Commission Joint Research Centre, 2026[88]).

[6] This scenario raises the working hours of the gender with the higher working hours in each age group (in most cases men) to the age 80th percentile across countries for the same age group. Working hours for the other gender are then raised to maintain the gender gap in hours worked. See also notes to Figure 3.1 for an example. Working hours of young workers are not raised as education participation may remain the same, or increase, until 2060.

[7] GVA is GDP minus taxes on production, which cannot be attributed to capital or labour in the production process. See notes to Figure 3.2 for details.

[8] Including dividend, interest, other property income, imputed rents and retained earnings of corporations.

[9] This “step-up in basis” approach is very common: 13 of 27 OECD countries with available information apply it to inherited assets, at least for some asset classes (OECD, 2021[37]), as do 16 of 27 EU countries (Zhang and Van Overbeke, 2026[91]). The second most common approach is passing capital gains to heirs (“carry-over basis”), and only three countries – Denmark, Hungary and Canada – tax unrealised capital gains at death. This can create avoidance opportunities, especially if there are no inheritance taxes, or inheritance tax exemptions are very high (OECD, 2021[37]).

[10] The item “recurrent taxes on net wealth” in Table 3.1 includes both taxes levied on the wealth of individuals and corporations. Since not all countries report the breakdown, it is not shown. Including recurrent taxes on net wealth of corporations, nine OECD and EU countries levy such taxes.

[11] The two figures are not fully comparable, since Figure 3.5 only includes cash benefits received by households, whereas Figure 1.8 in Chapter 1 includes cash and in-kind benefits. The value of in-kind benefits is not included in the EU-SILC.

[12] The reason for this financing structure is historic: when the family benefit (and the fund for its financing) were established in 1949, it was part of a collective bargaining agreement, that provided family benefits only for children of dependent employees. The family benefit was extended to all children in 1955 (Felderer, Gstrein and Mateeva, 2011[89]).

[13] ELA: the European Labour Authority, an EU agency established by Regulation (EU) 2019/1149 and operational since 2019. Since 26 May 2021 it has also hosted the European Platform tackling undeclared work, originally established by Decision (EU) 2016/344 in 2016, as one of its permanent working groups.

[14] The calculation of the size and development of the shadow economy is done with the MIMIC (Multiple Indicators and Multiple Causes) estimation procedure. The model estimates the unobserved shadow economy as a latent variable in a structural model, inferred jointly from its economic causes, the tax and social-contribution burden, regulatory intensity, the quality of institutions and tax morale and its observable indicators, such as cash demand, official GDP and labour-force participation. The resulting relative index is then scaled to a share of GDP using an external benchmark for a base year (Schneider and Enste, 2013[84]; Schneider, Buehn and Montenegro, 2011[83]).

[15] The labour input method compares hours worked reported in the Labour Force Survey – which captures undeclared as well as declared work – and hours worked recorded in Structural Business Statistics, which captures only declared work. This labour gap is valued at factor cost and expressed as a share of GVA rather than GDP and is therefore not directly comparable with the macro estimates of the shadow-economy above.

[16] Eurobarometer (2019) question: “Have you yourself carried out any undeclared paid activities in the last twelve months, either on your own account or for an employer?”. Envelope wages are measured by a separate question: “Has your employer paid you any of your income in the last twelve months in cash and without declaring it to tax or social security authorities?”. Across waves, the questions have been reworded slightly (Williams and Horodnic, 2020[62]).

[17] This refers to the same question as in footnote 16 above, tabulated by gender.

[18] This result is closely related to the broader literature on informality and means-tested transfer programmes in low- and middle-income countries. Because eligibility for such programmes is typically withdrawn as declared income rises, they act as an implicit tax on formalisation and can lead workers to prefer informal or undeclared work to retain benefits. Evidence from Latin America finds that means-tested cash transfers reduce formal employment (Bergolo and Cruces, 2021[85]; Garganta and Gasparini, 2015[86]), and that if social contributions are perceived as a pure tax rather than as a link to future benefits informality rises. For instance, a 5 p.p. increase in Chile’s mandatory pension contribution rate was estimated to have raised the size of the informal sector by around 14% among men and 9% among women (Joubert, 2015[90]).

Financing of Social Protection

OECD and EU countries face growing spending pressures. Population ageing raises expenditure on pensions, health and long-term care, the green transition requires investments, and AI's effects on employment and wages remain uncertain. Labour income, the main financing base for social protection in most countries, is under pressure from shrinking working-age populations and potentially labour-replacing technologies. Many countries also face fiscal constraints amid an uncertain macroeconomic and geopolitical outlook.

The report "Financing of Social Protection" charts financing mixes across OECD and EU countries. It examines the role of social contributions and general revenues, including earmarked sources, over time and looks at the contributions of employers, employees as well as public and private financing. It considers challenges arising from the social protection coverage and contributions of self-employed and part-time workers. Finally, it looks at the development of the labour share, and how it may be impacted by population ageing and technological progress, current policy trends and debates across OECD and EU countries and attitudes towards broadening social protection financing.

Co-funded by
the European Union

PRINT ISBN 978-92-64-96667-3
PDF ISBN 978-92-64-45986-1

9 789264 966673