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**COVER NOTE**

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from: The Social Protection Committee  
to: Permanent Representatives Committee (Part I) / Council EPSCO  
Subject: Pension Adequacy: Report from the Social Protection Committee  
- Endorsement of main messages

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Delegations will find attached the main messages of the report under reference as finalised by the Social Protection Committee on 24 May 2012, with a view to their endorsement by the Council (EPSCO) on 21 June 2012.

The full Report on Pension Adequacy 2010–2050, jointly prepared by the European Commission (DG EMPL) and the Social Protection Committee, can be found in 10488/12 ADD 1.

## **Pension adequacy report 2012:**

### **Main Messages on Pension Adequacy 2010-2050<sup>1</sup>**

1. As people live longer and have fewer children retirement practices and pension systems have to be adapted periodically to continue to be sustainable and adequate. The challenges Member States face depend on the timing and intensity of population ageing and the character of pension provision. As both vary significantly among countries there is no single set of responses that fits all.
2. When trying to reconcile and optimise sustainability and adequacy concerns Member States face trade-offs and difficult choices. Achieving the goal of a cost-effective and safe delivery of adequate benefits that are also sustainable is quite challenging, as the time people spend in retirement and out of the labour market increases. Moreover, challenges have increased significantly as an effect of the economic crisis.
3. Through more than a decade of reforms most Member States have sought to bring about the adaptations that from a long-term perspective can ensure that adequate pensions will continue as an important part of social protection for their citizens. Great advances in the sustainability of public pensions have been achieved as a result (cf. Ageing Report 2012). Adequacy outcomes, however, are less impressive and largely contingent on changes in people's retirement and long-term savings behaviour.

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<sup>1</sup> SPC/2012.5/2a fin, 24 of May 2012

4. Analysis of the change in replacement rates for a given career length demonstrates that the greater sustainability of public pensions in most Member States has, to a significant extent, been achieved through reductions in future adequacy. The challenge is therefore to devise means by which people can recoup the decline in replacement rates.
5. Member States are opening routes for people to improve their pension entitlements by working longer and retiring later. If pension systems sufficiently and sensibly reward working longer and discourage early retirement they can help ensure that longer working careers with fewer career breaks become the key avenue to better adequacy. This is the case in many Member States.
6. The success of pension reforms that raise the pensionable age and possibly link this or the benefit level to longevity gains depends crucially on their underpinning through work place and labour market measures that enable and encourage women and men to work longer. There are clear limits to how much age management practices at work can be influenced by incentive structures in pensions. Tackling the pension adequacy challenge will require determined efforts to promote longer and healthier working lives through employment and industrial relations policies.
7. Adequacy may also be successfully strengthened with additional contributions to pension schemes. In some Member States this may involve higher contributions for public schemes including possible pre-funded elements. In many other Member States, this entails a larger role for supplementary retirement savings via occupational and/or individual, pre-funded private pension schemes. Whatever the option chosen, there are considerable differences across countries in terms of coverage, cost-effectiveness and safety and hence major potentials for improvements.

8. In all Member States public pension schemes are used to help secure social goals such as protection against poverty. In the majority of EU countries public schemes also play a core role in securing pension benefit levels that to a reasonable degree allow people to maintain their living standard from active years into retirement.
9. Analysis of the composition of projected pension income in 2050 demonstrates that Member States will continue to use public pension schemes as the main element in adequate retirement income provision, even though complementary occupational pension schemes and individual retirement plans are set to acquire an increasing share in earnings- and contribution-related provision in a growing number of Member States.
10. About a fifth of people aged 65 or older have pension incomes just below or just above the poverty risk threshold. Relatively small increases or decreases in their pensions can lead to important variations in the poverty rates of the elderly. The ability of the EU to achieve its goal of reducing the number of people at risk of poverty or social exclusion by 20 million by 2020 will therefore also very much depend on the extent to which pension systems will continue to help prevent poverty for older people.
11. An important part of the adequacy challenge is gender specific. As women live longer than men they constitute close to two thirds of pensioners. Yet, pension outcomes for women are currently significantly lower than for men. This may also be a function of pension design, but generally it results from gender differences in employment, pay and the duration of working life, which again is related to gender differences in care and housework.
12. Credits for labour market absence due to maternity and child care, derived pension rights and survivors' pensions mitigate a part of the current lower pension outcomes for women. The present trend in pension reforms towards defined-contribution in both pay-as-you-go and pre-funded schemes and a greater role for occupational and personal pensions tend to be unfavourable for many women unless much greater gender equality is achieved in labour markets and in private pension coverage.

13. Economic well-being is to a large extent determined by the disposable cash income of households, but free or subsidised services and in-kind benefits provided by governments can influence the consumption possibilities of households in major ways. A full assessment of the adequacy of pensions will therefore require taking into account the access to free or subsidized resources of economic value, including subsidized owner-occupier housing.
  
14. Detailed reporting on pension adequacy should be continued through a further deepening of the conceptual and methodological work of the Social Protection Committee including work with a particular emphasis on gender, the household dimension and access to non-pension economic resources. Building better tools such as through greater capacity for micro-simulation could help in the assessment of adequacy challenges. But the adequacy and sustainability dimensions of pensions need to be analysed together. Collaboration between the SPC and the EPC on developing better aligned indicators and methodologies should therefore intensify. In the next EU assessment of pensions this should allow for a better comparative analysis of how Member States manage to tackle both the sustainability and the adequacy challenges.

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