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From:	The Social Protection Committee
To:	Permanent Representatives Committee (Part I) / Council (EPSCO)
Subject:	The 2015 Pension Adequacy Report: current and future income adequacy in old age in the EU: Joint SPC and Commission report - Endorsement of key messages

Delegations will find attached the key messages of the report under reference as finalised by the Social Protection Committee on 17 September 2015, with a view to their endorsement by the Council (EPSCO) on 5 October 2015.

The full Report can be found in doc. 12085/15 ADD 1.

The 2015 Pension Adequacy Report: current and future income adequacy in old age in the EU

Joint Report prepared by the Social Protection Committee (SPC) and the European Commission (DG EMPL)

KEY MESSAGES

Adequate incomes in old age

1. Since 2009, Member States have adopted a multitude of reforms aimed at managing public spending on pensions to safeguard their future sustainability. As a result, the 2015 Ageing Report of the Economic Policy Committee puts forward as its baseline scenario that despite the dramatic rise in the proportion of people aged 65 and over, average public pension expenditure for EU-28 could be no higher in 2060 than in 2013. Expenditure projections based on the legislation adopted by end of 2014 assume higher effective retirement ages and employment rates for older workers and show that while many countries will have lower costs by 2060 than today, several Member States could still experience a significant increase in their spending.

2. The Social Protection Committee's 2015 Pension Adequacy Report complements the 2015 Ageing Report by analysing the future risks to adequate old-age incomes. The risk profiles are highly country-specific and stem from labour market conditions and pension system designs. The Report suggests how adequacy risks may be addressed by Member States. Policies enabling women and men to postpone their retirement by working to higher ages and to save more for their retirement will be important for most Member States. Appropriate protection mechanisms will also be needed for those who are unable to have sufficiently long careers and to save adequately for their retirement, including those at the margin of the labour market.

Current pensioners' living standards have largely been maintained over the crisis, yet poverty problems persist in some countries and pension outcomes are generally marked by big gender differences

3. Pension systems, and in particular public pension schemes, have continued to ensure that most older people in the majority of EU countries are protected against the risk of poverty and deprivation and can enjoy living standards in line with the rest of the population. While pensions are the main income source of older Europeans, living standards in old age also depend on other factors, such as private assets, notably home ownership, access to other benefits and services, and employment opportunities. The SPC's Pension Adequacy Report therefore aims at giving a comprehensive overview of the resources at the disposal of older men and women.

4. In general, older people (aged 65+) are not more at risk of poverty than other age groups. Indeed, in most countries older people seem so far to have been better protected against the social impact of the recession and public finance crisis than other age groups. The share of older people with incomes below the at-risk-of-poverty threshold has actually declined from 2009 to 2012. However, in some Member States, this is primarily caused by a decline in the median income and the resulting lowering of the poverty threshold. Indeed, the risk of severe material deprivation for older people has increased slightly over this period.

5. Yet, whereas for the EU as a whole, pensions provide sufficient protection against poverty risks, several Member States still need to put more efforts into tackling poverty risks in old age, and in some countries problems of severe material deprivation are particularly pressing. Older women and men living alone, notably, remain exposed to high poverty risks.

6. In most EU countries, average pension income for women is much lower than for men. Currently the gender pension gap amounts to around 40 percent for the EU as a whole. This gap reflects gender differences in employment, notably in pay, working hours and career duration, and the extent to which pension design features mitigate these differences. The gap ranges between 4 percent and 46 percent across Member States. But only three countries have gaps below 10 percent, whereas 15 have gaps of more than 30 percent. Reducing the gender pension gap will require a combination of determined equal opportunity policies across several fields before people reach pensionable age, but this will only have positive effects over the long term; adjustments to pension systems in some Member States may be necessary to reduce the pension gap resulting from past employment differences between women and men. Women aged 65 and over also have considerably less housing and financial wealth and a higher risk of poverty than men.

Pension reforms with a strong focus on sustainability have been stepped up over recent years

7. In the context of large budget deficits and a reinforced economic governance framework at the EU level, Member States have adopted many pension reforms to control the increase in spending on public pensions. This continues pre-crisis reform efforts, but with a stronger emphasis on postponing retirement from the labour market, by restricting access to early retirement and by starting or continuing a process of raising the pensionable age, in some countries linked to increases in life expectancy. Other Member States create incentives to work longer by aligning pension levels to life expectancy. Bringing women's pensionable ages up to those of men's is also part of the reform measures aimed at raising the age at which people leave the labour market.

8. Contrary to earlier reform waves, the reforms since 2008 have generally not pursued a shift from public pay-as-you-go to privately managed funded pension schemes. In fact, several countries have partially or fully reversed earlier reforms that consisted in channelling part of the statutory pension contributions from the pay-as-you-go scheme into a funded tier. Other Member States with well-established occupational and personal pension schemes have sought to consolidate these, including by improving their ability to handle volatilities in financial markets and the lower interest rate levels, thus seeking to preserve their ability to contribute to adequate incomes in old age.

9. Most savings on public pensions spending will only occur over the long run, but some countries that were hit particularly hard by the crisis felt compelled to cut pensions in payment or reduce available incomes for older people through tax increases or temporary or permanent changes to the indexation of benefits. In countries with high unemployment, many pensioner households may also suffer a deterioration of their financial situation as a result of sharing their resources with the younger generations in the family.

Overall, spending on public pensions is no longer expected to be higher in 2060 than presently...

10. For the first time since the Economic Policy Committee has carried out long-term projections of age-related public spending, it now expects average public spending on pensions at the end of the projection period (2060) to be no larger than at the beginning (2013), notwithstanding the sharp increase in the number of people over 65. However, there are significant differences across Member States: the change in public pension expenditures as a share of GDP would range from an increase by 4.1 percentage points to a decline by -3.9 compared to 2013. The demographic factor considered in isolation would increase public expenditure for EU-28 over the period 2013-2060 by 7.6 percentage points of GDP. The reduction in the number of people receiving a pension, notably due to reforms restricting access to early retirement and raising the pensionable age, would reduce the increase of pension expenditure by 2.6 percentage points. Lower average pension benefits compared to wages in the future will further reduce the increase by another 3.0 percentage points while increased employment accounts for a further reduction by 1.4 percentage points.

11. The Pension Adequacy Report highlights that the lowering of benefit levels could imply significant risks for the future adequacy of incomes in old age. Theoretical replacement rates from public pension schemes are projected to decrease in the majority of Member States over the next 40 years, with a decline by more than five percentage points in 16 countries and by fifteen or more percentage points in six Member States.

12. Postponing retirement in line with the increases in pensionable ages could, amongst other measures, mitigate the reduction in replacement rates in most Member States, as longer careers result in better individual pension entitlements. Yet, this will depend on the extent to which future cohorts, of women in particular, will be able to achieve fuller careers and on whether older workers will have sufficiently good health, skills and labour market opportunities to work to higher ages and earn more pension rights. In some Member States, the impact of lower pensions from public schemes could also be offset or mitigated by increased entitlements from supplementary retirement savings. In eight countries, the contribution of supplementary pension schemes to total replacement rates is expected to increase by ten or more percentage points.

...strong policies for addressing future adequacy risks are therefore essential

13. Pension systems across the EU do offer opportunities for earning a sufficient and secure income for a long retirement period. However, these opportunities are linked to one’s employability and chances of finding and holding a job of good quality and, in a number of countries, they also presuppose access to supplementary retirement schemes. Such opportunities are often unevenly distributed across the population. It is therefore important to ensure that public pension schemes contain appropriate mechanisms to address the needs of women and men who are less able to use these opportunities. These mechanisms include minimum pensions, minimum income provisions for older people or other means such as credits for periods during which people are unable to build full entitlements.

14. Priority must be given to enabling as many workers as possible to work up to the statutory pension age and thus to raise the effective retirement age faster than would result from pension reforms alone. This requires that the health and skills of workers are maintained as they age, as well as a higher degree of flexibility in work places and labour markets allowing older workers to move into jobs that are better suited to their abilities and strengths. It also entails ensuring access to affordable care for children and older dependents, making it possible to reconcile family obligations with longer working lives.

15. Late-career labour markets and employment regulations should develop in such a way that older workers, women as well as men are not restricted to the option of staying longer in the same job, but can also more easily find a new job with another employer and with working conditions and working times that match their abilities, needs and preferences. More older workers may wish to work beyond the statutory retirement age, including as self-employed. Employment policies should facilitate this, and pension systems should allow it without penalties or even promote it, thereby also creating additional opportunities for improving incomes in old age.

16. Special attention needs to be paid to older women and men, who for personal or work related reasons are unable to remain in the labour market up to the steadily rising statutory pension age or up to an age where they can enjoy an adequate retirement income. When early labour market exit cannot be prevented, it should be covered by social protection mechanisms which are well targeted to those who face serious labour market obstacles, thus avoiding that such social protection mechanisms undermine the objective of increasing the effective retirement age.

17. In many EU countries, the reformed public pension schemes focus more strongly on ensuring the adequacy of retirement incomes for people at the lower end of the income distribution, including through strong redistributive elements. As a result, their income replacement function may not remain fully sufficient for women and men with higher than average incomes. There may therefore be scope for enhancing opportunities for supplementary retirement savings, notably in the form of wider access to complementary retirement savings vehicles such as occupational or personal pensions. This may be achieved through collective agreements and auto-enrolment rules, as well as through tax and other financial incentives, while bearing in mind the need to ensure their cost-effectiveness, safety and transparency. In some countries, statutory pension schemes do provide adequate earnings-related pensions, so the need for supplementary pension is not same in every Member State. Finally, it could be considered how older people can be given a wider range of options for using their assets, including residential property if they so wish, as a source of additional retirement incomes.

EU cooperation to ensure adequate incomes in old age remains important

18. In view of the findings of the 2015 Pension Adequacy Report and preparations for the 2018 report, the SPC intends to investigate in more depth those population groups identified as at risk of suffering from insufficient incomes in old age (e.g. women, younger workers, migrants, the low-skilled or low-waged) and how these adequacy risks can be addressed through appropriate prevention measures and through mitigating provisions in pension and social assistance systems. A special focus will be on older women.

19. Regarding prevention measures, the main focus has to be on policies that enhance the employment opportunities of older workers, thus allowing most of them to work up to the statutory pension age – and beyond, if they so wish. It will be important to get a better grip on how economic, work, health and social variables interact and affect late careers and the transition from work to retirement. The SPC intends to cooperate closely with EMCO on this issue.

20. In addition, the SPC intends to look at how those Member States in which pension adequacy will depend strongly on supplementary retirement savings can promote such savings in the most cost-effective ways.

21. The SPC will review in more depth the redistributive elements of public pension schemes, taking into account inequalities notably in health and labour market opportunities affecting different groups of women and men. These redistributive elements include the links between contributions and benefits, pension credits, minimum income provisions, provisions for people forced to leave the labour market early (notably invalidity and unemployment benefits) and derived rights (survivors' pensions). A special focus should be on pensioners living alone.

22. As countries outside the EU face similar problems with regard to ensuring the future adequacy of pensions in ageing societies, the SPC intends to cooperate with international organisations such as the OECD, the World Bank and ILO in exploring the most appropriate policy responses to these challenges.