Council of the
European Union

Brussels, 4 June 2021
(OR. en)

9145/21

SOC 356
EMPL 266
ECOFIN 509

NOTE

From:	The Social Protection Committee
To:	Permanent Representatives Committee/Council
Subject:	Key conclusions on 2021 Pension Adequacy Report of the Social Protection Committee and the European Commission - Endorsement

Delegations will find attached the key conclusions of the report under reference as adopted by the Social Protection Committee on 18 May 2021, with a view to their endorsement by the Council (EPSCO) on 14 June 2021.

The full Report, jointly prepared by the European Commission (DG EMPL) and the Social Protection Committee, can be found in doc. 9145/21 ADD 1 and ADD 2.

The 2021 Pension Adequacy Report

KEY CONCLUSIONS

Principle 15 of the European Pillar of Social Rights promotes the right to old age income and pensions. As outlined in the European Pillar of Social Rights Action Plan[1], the 2021 Pension Adequacy Report prepared jointly by the Social Protection Committee and the European Commission supports national efforts to ensure adequate pensions and minimum income by analysing the adequacy of current and future pensions, that is: how they help **maintain the income of men and women** for the **duration of their retirement** and **prevent old-age poverty**. The increasing longevity and shrinking working-age population will put pressure on European pension systems in the decades to come. While it can be expected that the Covid-19 crisis will have an impact on old-age incomes, it is premature to draw any conclusion at this stage and this would be covered in the next edition of this report. The report highlights that:

- after a decade of improvement, no further progress has been made to reduce the risk of poverty or social exclusion for older people in the EU -

1. **Old-age poverty or social exclusion slightly increased since 2016, even though it remains markedly lower than in 2008**. Almost 18.5 % (16.1 million) of people aged 65 and above in the EU in 2019 were at risk of poverty or social exclusion, while in some countries the share can reach 50 %. The income poverty risks among older people have slightly risen over the past three years, while deprivation has continued decreasing. At the same time, in the light of the projected increase in older population, the absolute number of older people at risk of poverty is likely to increase.

[1] Commission Staff Working Document accompanying the European Pillar of Social Rights Action Plan, SWD(2021) 46 final

2. **The income of older people has decreased slightly relative to the income of younger generations since 2016, reflecting the continued growth of working age incomes.** The median income of older people in the EU was 89 percent of the income of the working age population (18-64) in 2019 with large differences between countries. In the longer term, rising education levels of the younger generations are a key factor for income differences between generations. Across Member States, pension incomes amount to between one-third and over two-thirds of late-career work incomes.

3. **At EU level, the duration of retirement has slightly decreased over the past decade, as labour market exit ages have been rising faster than life expectancy in a number of Member States.** Retired life, measured from the time of leaving the last employment, lasts just above 20 years on average, slightly less than half of working life. Although many countries have been tightening conditions for labour market exit and early retirement, these measures are still relatively recent, and their full potential impact on retirement duration may not be clearly visible yet.

- maintaining adequate living standards throughout retirement remains a challenge, in particular for women -

4. **Gender inequalities become more pronounced in old age.** In the EU-27, the gender gap in old-age poverty is larger than in working age, while the gender pension gap caused by the aggregated impact of labour market inequalities remains important (29.5 % in 2019) despite a slight decrease (from 32.3 % in 2016); there has been little convergence between countries.

5. **Old-age poverty risk for women becomes higher after the age of 75, as women** have a longer life expectancy and are often single. Survivor pensions help redistribute income to older women but are not sufficient to offset career inequalities.

6. **Pension credits for career breaks linked to family reasons or unemployment are an effective policy lever to protect pension rights**. Projections show that credits for child-care and unemployment significantly limit the impact of career breaks on pension benefits in most Member States, and credits for caring for a dependent adult are becoming more widespread, though gaps remain.

7. **Affordable and quality health care and long-term care services are important to maintain adequate living standards throughout retirement**. Even though over the last three years, the share of older people who cannot afford health care services has decreased**,** still too many older Europeans, most of them women, cannot afford the necessary long-term care; for instance, one in three cannot afford home care.

- income inequalities among older people persist, though pension and tax policies can help mitigate them -

8. **Income inequality in old age persists, but thanks to the redistributive impact of pension and tax systems, it is lower than in working age in most Member States.** The income inequality among those aged 65 and above slightly increased in the EU-27 in 2007-2019. The income replacement rate is mostly higher for low earners, thus supporting the sharing of resources and redistribution across socioeconomic groups. The tax treatment of pension contributions and benefits affects the distribution and adequacy of retirement incomes.

9. **The depth of poverty in old age has continued gradually increasing over the last three years**, meaning those older people who are poor are falling further behind the rest of the population and a larger effort would be necessary to raise their incomes above the poverty threshold.

10. **Minimum old-age benefits can be an important adequacy safeguard for those with short careers or low incomes**. Member States have put in place diverse minimum income schemes, which are often non-contributory and needs-based. The share of older people who rely on minimum benefits, more often women, has remained generally stable over the past three years, while at the same time new measures were adopted in a number of countries to expand the minimum income protection in old age.

- future careers will need to be longer to maintain adequate pensions -

11. **Adequate pensions will increasingly depend on longer careers.** Theoretical-case projections show that in most Member States, people retiring in 2059 will have lower pensions relative to their work income than retirees with a similar career in 2019. Both pensionable ages and effective retirement ages are set to continue rising in the coming decades, with early retirement opportunities shrinking, though with significant differences between countries. The projected increases in career length mostly lag behind pensionable age increases and would not suffice to prevent the relative decline of benefit levels.

12. **In most countries, the age of entering the labour market has less bearing on pension benefit levels than the age of retirement.** While projections show that working two years beyond the pensionable age would bring substantial gains, a long career that starts early but finishes at the standard pensionable age, which may be the case for many low-skilled workers, would not lead to very high replacement rates in most Member States, raising questions about how pension systems reward long working careers.

- pension systems evolve amid changing economy and labour market, and maintaining their adequacy may require reconsidering financing sources –

13. **While many reforms have continued to promote longer working lives, a number of Member States have also taken action to boost pension adequacy.** The main reform trends of the past three years were promoting later retirement through incentives, improving the income maintenance capacity and inclusiveness of pension systems, including the coverage of non-standard and self-employment, continuing efforts to expand poverty safeguards such as minimum benefits, and reforming pension financing.

14. **Spending on old-age benefits represents an important share of the GDP and of total social protection spending and remained broadly unchanged at the EU level between 2005 and 2018.** The impact of the demographic evolution was largely offset by fiscal policies. While the average stands at 10.8 % of GDP, the expenditure varies significantly between countries (between 4.6 % and 13.7 % of GDP in 2018), reflecting the different designs of pension and broader social protection systems. At the same time, increasing pension expenditure over this period was associated with slightly lower income inequality among older people in most Member States.

15. **The design of tax systems and social contributions, including their eligibility criteria and progressivity, affects the financing basis of pension systems and their resilience in a changing economy and labour market**. While old-age benefits in the EU are mainly financed from social contributions, a widespread shift to financing from general government revenue could be observed between 2005 and 2018, largely reflecting a decline in the share paid by employers. Population ageing and changes in the labour market put pressure on systems based on contributions, making it necessary to explore different sources of financing, including by expanding the type of income used as basis for taxation or shifting taxation from labour income to other forms of income. Attaining the social objectives of pension systems while maintaining sustainability may require different financing approaches in Member States. In general, revenues from general taxation have been more stable than labour income, and earmarking them to finance social protection could contribute to the financing basis. Other sources of financing, such as the value-added tax, already used in some Member States, or environmental taxes, are increasingly explored.

In the light of these observations, the Social Protection Committee (SPC) considers that further efforts are needed to implement the relevant principles of the European Pillar of Social Rights, as also called for in the Action Plan[2]**.** The EU should continue to support national efforts to ensure adequate pensions, including by promoting gender equality in pensions and pension credits for care-related career breaks. Initiatives aimed to improve equality and income protection during working life, such as the Work-life balance directive[3], as well as promoting youth employment and longer working lives can help today's workers accumulate adequate pensions. Sustained efforts are needed to ensure adequate coverage and opportunities to accrue pension rights for non-standard workers and the self-employed, following up on the Council Recommendation on access to social protection[4], and to adapt pension systems to the needs of a flexible and mobile labour force.

The SPC calls for a broad and open debate on how pension systems together with broader social, employment and tax policies can support adequate old-age incomes against the background of ageing population and changing labour market. The SPC invites the Economic Policy Committee to follow up on the 2019 joint paper on pensions by jointly reflecting on the findings of the 2021 Pension Adequacy Report, the Report on Long-term Care and the Ageing Report.

Pension adequacy and inequalities require continuous monitoring and analysis, not least in the context of the Covid-19 crisis and its anticipated impact on labour markets, social protection and social cohesion. **The SPC and the Commission, therefore, intend to prepare the fifth Pension Adequacy Report for adoption in 2024**.

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2 The European Pillar of Social Rights Action Plan, COM(2021) 102 final

3 Directive (EU) 2019/1158 of the European Parliament and of the Council of 20 June 2019 on work-life balance for parents and carers

4 Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed