BRIEFING

European Parliament

Understanding EU action on pensions

SUMMARY

People in Europe are living and staying healthy for longer, and this is considered to be one of the great developments of the last hundred years. However, in combination with low birth rates and economic uncertainties, this phenomenon puts into question the future financial sustainability of pension systems and several welfare state parameters.

Pension systems are a key element of social protection for older people. They are meant to provide older citizens beyond working age with an income in the future. However, the way pension systems are currently designed leaves growing numbers of people at risk of old-age poverty. This trend runs contrary to EU efforts to reduce poverty.

In the EU, pension systems are a Member State competence. While the EU cannot regulate pension system design, the EU legal framework does covers some aspects relating to pensions, such as protection of rights in cases of cross-border mobility, consumer protection of pension savings, gender equality to secure equal pension benefits and the single market for supplementary pensions.

While EU pension systems differ in many respects, they all have one main challenge in common: finding ways to keep pensions financially sustainable in the long term, against a background of an ageing population with an increasing ratio of pensioners to working age population. In parallel, Member States seek to ensure pension adequacy (a sufficient level of pension benefits and protection of the elderly from poverty), while the future evolution of wages and prices remains unknown. Recent national pension reforms address these issues to varying degrees.

The right to a pension that ensures an income enabling dignity in old age is enshrined in the European Pillar of Social Rights. A number of EU policies seek to achieve progress towards a more social Europe. The EU ensures coordination and monitoring, and provides analyses, guidance and funding to support social area reform and to co-finance projects.

Expert groups and stakeholders have put forward a number of recommendations to strengthen both the sustainability and the adequacy of EU pension systems. It remains to be seen how policy makers will manage to translate these into their national systems.

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Author: Marketa Pape. Graphics: Stephanie Pradier

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Introduction

The European population is ageing rapidly and is expected to start shrinking by 2026, as people live longer and have fewer children, and the age structure of the population changes. In 2022, 21.1 % of the EU population was aged 65 and over. This share is expected to rise to about 30 % by 2070 and with it, age-related public expenditure including pensions, healthcare and long-term care. In contrast, the share of the 20-64 age group (working-age population), would fall from 59 % to 51 % of the total population.

The demographic context, combined with expanding non-standard employment, increasing at-risk-of-poverty rates and uncertain economic developments, makes finding a way to combine long-term pension sustainability and adequacy – as two sides of one coin – the key challenge for all pension systems.[1]

EU ageing demographics

Projections predict an EU population decline of 6 % between 2022 and 2100 (27.3 million fewer people). In 2021, EU life expectancy at birth was 80.1 years and life expectancy at 65 was estimated at 19.2 years (women 20.9, men 17.3). In 2020, people aged 65 could expect an average of 9.8 healthy years ahead (men 9.5, women 10.1). The old-age dependency ratio, which compares the number of those aged 65+ to the number of those aged 15-64, stands at 33.3 % in 2023, so there are about three people aged 15-64 for each person aged 65+. This ratio is projected to reach 38.0 % in 2030 and 50.4 % in 2050.

Source: Eurostat

Pension systems in the EU

EU countries' pension systems differ in the length of their statutory social insurance, level of contributions, sources of funding, scope of recipients, level of payments they receive and the sustainability of the whole system. They include **a public and a private part** and are organised in **three pillars**. The first pillar consists of public statutory pensions (mandatory), the second pillar covers occupational pensions (quasi-mandatory, earnings-related), and the third, supplementary personal pensions (voluntary, earnings-related).

Most systems also provide a minimum guaranteed pension to people not covered by an earnings-related scheme or with limited accrued pension rights. In all EU countries, the state plays a key role in pension provision and can set not only the minimum, but also the maximum level of pensions.

Public pension systems can be classified according to different criteria. In terms of the **funding source**, they can be based either on contributions (contributory, earnings-related), or on taxes, or other sources (non-contributory). In some countries, public pensions are linked to earnings, while others have a flat-rate pension, which can be supplemented by occupational schemes. The **formula** to determine concrete pension benefits is specific to each country. It usually combines the merit (years worked, contributions paid into the system) and the level of revenues, with a basic pension component (same for all). Publicly provided, earnings-related pension schemes are of three broad types. Depending on how the pension benefit is determined, they can be benefit-defined and contribution-defined, either as a notional defined contribution or based on a point systems (see Table 1).

- In a **defined-benefit scheme (DB),** a constant accrual rate is paid for each year of service. Benefits are based on lifetime average revalued earnings.
- **Notional defined contribution (NDC)**: the inflow to notional accounts each year is wages multiplied by the contribution rate. The notional capital is increased each year by the notional interest rate. At retirement, the accumulated notional capital is divided by a notional annuity factor.
- In a **points system (PS)**, contributions paid throughout a person's career are converted into points and accumulated in an account. The pension benefit then depends on the value of a point at the time of retirement.

Table 1 – Main types of publicly provided pension schemes in the EU

	Defined Benefit (DB)	Notional defined contribution (NDC)	Point systems (PS)	Flat rate + DB	Other combination
Country	Austria, Belgium, Bulgaria, Czechia, Finland, Hungary, Luxembourg, Portugal, Slovenia, Spain	Italy, Latvia, Poland, Sweden	Croatia, Cyprus, Estonia, Germany, Lithuania, Romania, Slovakia	Denmark, Ireland, Malta, The Netherlands	Greece: Flat rate + DB + NDC (auxiliary mandatory pension scheme) France: DB + PS (complementary schemes AGIRC and ARRCO)

Source: The 2021 Ageing Report, European Commission, 2021.

There are also different **ways to finance** state pension systems. Most public pensions systems are financed on a **pay-as-you-go** basis (PAYG), where the revenue from current contributions is used to pay the current pension benefits. Alternatively, contributions are kept in a dedicated fund, invested, and then used to pay pension benefits in the future. All EU Member States have a system based on a PAYG system, supplemented by mandatory or optional PAYG or funded schemes.

In terms of the **risk covered**, these include old-age and early pensions, disability (some countries do not consider disability benefits as pensions, but as health-related payments), survivor and minimum schemes, and some special pensions.[2] The three sources of **financing of old-age benefits** are social protection contributions, general government revenue (mainly from taxation) and 'other receipts' such as transfers from other schemes or return on investments. Minimum pensions are covered mainly from general taxes. Systems linked to employment are usually based on compulsory contributions from workers and employers, determined as a percentage of earnings. Governments routinely contribute to earnings-related schemes (through tax incentives or part-funding) and social security programmes.

In the EU, old-age benefit schemes are mainly financed by social contributions coming mainly from employers' contributions. Over the last 20 years, as the share paid by employers diminished, there has been a marked shift towards financing from general government revenue.[3]

Depending on their design, all pension schemes face a number of **risks**, with the third-pillar schemes being particularly exposed.[4]

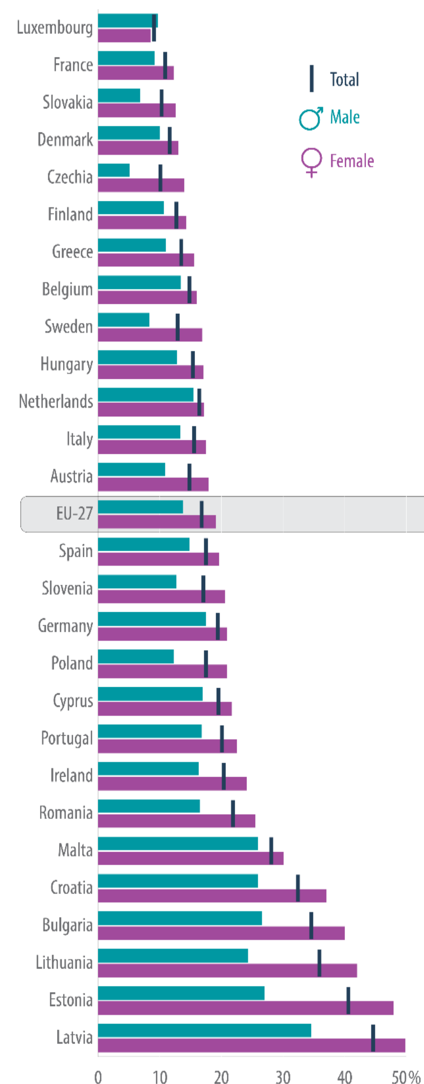
The size and development of **public pension spending** depends on demographics, eligibility requirements and the system's generosity. The EU-27 expenditure on pensions stood at 13.6 % of GDP in 2020.[5] It was highest in Greece, Italy, and France, and lowest in Ireland, Malta and Lithuania.[6] Pensioners often do not pay social security contributions, but in most countries pensions are taxed. The average **tax rate** on pension income is usually lower than the tax rate on labour income. Taxes are progressive and some countries give pensioners additional tax concessions.[7]

In most countries, people leave the labour market (and thus stop paying pension contributions) before reaching the **statutory retirement age** when they start drawing pension benefits.[8] This gap is expected to widen further due to the use of disability or early retirement pathways, depending on early retirement possibilities and the implications of bonuses and penalties. With the current legislation, in most Member States, the statutory retirement ages will rise from 64/65 years today to around 67 years by 2070. At the EU level, the **duration of retirement** (just above 20 years on

average) has fallen slightly, as the age of labour market exit rose faster than life expectancy at retirement and the impact of reforms is not fully felt as yet.[9]

There has been little progress since 2016 to reduce the **risk of poverty or social exclusion** for older people in the EU, after almost a decade of improvement following the 2008 crisis. In 2021, 16.8 % (15.2 million) of people aged 65 and above were at risk of poverty or social exclusion (AROPE index).[10] With increasing age, the difference in risk of poverty between men and women also increases (in particular for women over 75). Figure 1 shows significant AROPE differences among EU countries, ranging from Luxembourg (9.1 %) to Latvia (44.6 %), and between women and men.

Figure 1 – People aged 65+ at risk of poverty or social exclusion, by sex, %.



Data source: Eurostat, ILC LI02, 2021 data.

Income inequality in old age persists, but due to the redistribution through pension and tax systems, is lower than income inequality in working age in most Member States. Those who are poor are falling further behind the rest of the population. Maintaining decent living standards throughout retirement remains a challenge. **Minimum old-age benefits** are seen as an important adequacy buffer for people with low incomes or short careers.[11] **Pension credits** for caring for a dependent family members, regarded as an efficient means to protect pension rights, are becoming more common.

Pension incomes represent between one-third and over two-thirds of work incomes at the late-career stage. This **replacement ratio** has remained stable at the EU level. As working age incomes grow, older people's income falls, relative to that of younger generations. With rising education levels among young people, this trend is expected to continue.

Due to the ageing population, PAYG public pensions are expected to become less generous in future. This has raised calls for more opportunities for citizens to save in safe and good-value funded pensions, such as occupational schemes, to supplement their public pensions. Other tools to support living standards throughout retirement include adequate pension indexation and availability of services to the older population, in particular healthcare and long-term care.

Recent developments

The intention behind the **pension reforms** recently introduced across the EU was to improve the fiscal sustainability of pension systems and to avoid placing an excessive burden on future generations in financing PAYG schemes. EU countries sought to increase statutory pension ages,

restrict access to early retirement, revise contributory requirements and discourage early retirement.

> Trends in recent pension reforms
>
> 1. Promoting longer working lives and later retirement, by increasing the pensionable age and providing possibilities to combine pensions and employment.
>
> 2. Improving the income-maintenance capacity and inclusiveness of pension systems, by revising the accrual rates, adapting calculation and indexation mechanisms, raising tax exemptions, promoting saving in occupational schemes and improving access to pension saving for specific categories of workers.
>
> 3. Introducing measures to reduce poverty, such as setting up or increasing basic or minimum pensions and survivor pensions.
>
> 4. Reforming the way in which pension systems are financed.
>
> Source: The 2021 pension adequacy report, European Commission.

Many reforms included **automatic adjustment mechanisms** that adapt pension system parameters such as pension ages, benefits or contribution rates, when demographic, economic or financial indicators change. For instance, several Member States link statutory retirement age or benefits to life expectancy.[12] Such mechanisms reduce the need for ad hoc government interventions that may otherwise require lengthy negotiations, but governments retain control over the pension systems. Some governments introduced flexible retirement pathways to facilitate longer working lives, restricted special pensions granting preferential treatment to some groups, and improved access to pensions for people working on non-standard contracts. In addition, the role of supplementary or private pensions in old-age income was promoted, with mixed results.[13] Some reform packages contain political trade-offs, for example higher pension ages were accompanied by more relaxed rules on early retirement. Several reforms met with political and social resistance, were watered down, challenged or even reversed.[14]

The increased numbers of older persons have not fully translated into an equivalent increase in pension recipients, partly due to later pension take-up. Employment rates of **older workers** have grown strongly.[15] In 2021, 9.45 % of the EU's working population was over 60 (up from 4.53 % in 2002). Although many people continued working over 65, they did not work under the same conditions: 40 % were self-employed and 59 % worked part-time.

While **COVID-19** has taken a heavy toll on the older population, old-age income and pension entitlements were relatively protected, as retired persons do not depend on the labour market.[16]

EU legislative framework

In the Charter of Fundamental Rights of the European Union (Article 34), the EU recognises and respects the entitlement to social security benefits and social services providing protection, including in cases of dependency and old age, based on EU rules and national laws and practices.

Pensions are a Member State **national competence**. Nevertheless, the EU supports them and seeks to achieve an upward social convergence. However, EU competence on pensions is **limited**.[17] While the EU has no powers to legislate on the design of pension systems as such, it can legislate on matters that affect the functioning of the internal market (free movement of persons, freedom to provide services, protection of consumers), to tackle discrimination (on the grounds of gender and age), and to protect workers' rights. The Treaty on the Functioning of the European Union (Article 153 TFEU) stipulates that EU legislative action may not affect the fundamental principles or financial equilibrium of national social protection systems. Currently, the EU legal framework covers several aspects related to pensions, namely the protection of rights in case of cross-border mobility, consumer protection, gender equality and the single market for supplementary pensions.

As regards public pensions (pillar I), EU **social security coordination** rules ensure that people moving between EU countries do not lose out and are not discriminated against, as established by

Regulation 883/2004/EC on social security coordination and the related implementing Regulation 987/2009/EC. These regulations ensure that each individual is covered by the legislation of one country at a time, therefore pays social contributions towards their future pension in only one country, and has the same rights and obligations as the nationals of that country (the principle of equal treatment or non-discrimination). In addition, when claiming a benefit, the individual's previous periods of insurance, work or residence in other countries are taken into account as necessary. If a person is entitled to a cash benefit from one country, he or she may generally receive it even when living in another country (exportability of rights). In 2016, the European Commission put forward a proposal for a regulation to further improve coordination of national social security systems. While Council and Parliament reached a provisional agreement, this has not been confirmed and the file is currently on hold.

As the EU social security rules do not apply to most **supplementary pensions**, the EU has adopted special rules to protect the supplementary pension rights of mobile workers (pillar II), linked to employment ('occupational pensions').

- Council Directive 98/49/EC ensures that the pension rights of a person who leaves a pension scheme due to moving to another EU country must be preserved and that the beneficiaries of a supplementary pension scheme can receive their benefits in any Member State.
- Directive 2014/50/EU sets the minimum standards for the protection of mobile workers' pension rights in terms of acquisition and preservation of these rights, as well as information about how potential mobility might affect them. The directive does not cover the transferability of supplementary pensions, i.e. the possibility to transfer one's pension rights to a new scheme in the event of professional mobility. In 2020, the Commission reported on the application of the directive and assessed its implementation as generally satisfactory, noting that Member States had not used it to reduce the standards on acquisition and preservation of supplementary pension rights.

Further EU rules target both pillar II (occupational) and pillar III (personal) pensions, based on their pre-funded nature and interactions with the single market, setting **minimum prudential standards** and ensuring **worker and consumer protection**.

- Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision ('**the IORP directive**')[18] covers certain occupational pension schemes. To encourage long-term investment through occupational pension funds, the EU reviewed the legislation and adopted Directive 2016/2341/EU, which aims at improving the governance, risk management, transparency and information provision of IORPs and helping to increase cross-border IORP activity.

In 2019, the EU adopted a framework for a pan-European personal pension product (**PEPP**), a voluntary personal pension scheme that offers EU citizens a new option to save for retirement. Complementary to existing national pension regimes, it allows citizens to continue saving in the same product even when they change residence in the EU. The PEPP regulation has applied since March 2022. While its take-up may appear slow, an evaluation is planned for 2027.

EU legislation also impacts pensions **indirectly**, by improving gender balance and thereby reducing the future pension gap between women and men.

- The **Work-life Balance** Directive (Directive 2019/1158/EU) supports equal sharing of caring responsibilities and, thereby, female labour market participation, key to securing pension rights and reducing old-age poverty risk for women.
- While the earlier **equal pay** legislation (Directive 2006/54/EC) had a limited impact on narrowing the gender pay gap due to its ineffective enforcement, the EU has adopted

Directive 2023/970/EU, which seeks to strengthen the principle of equal pay through **pay transparency and enforcement mechanisms** (it will apply from 7 June 2026).

- Directive 2022/2041/EU on **adequate minimum wages** seeks to fight in-work poverty and reduce the gender pay gap (it will apply from 15 November 2024).
- Next to general rules on health and safety at work (Council Directive 89/391/EEC), EU rules seek to improve working conditions by promoting more transparent and predictable employment while ensuring labour market adaptability (Directive 2019/1152/EU), which is important to keeping older workers in employment for longer.

The 2019 Council Recommendation on access to social protection for workers and the self-employed recommended that all workers, regardless of the type of employment relationship, as well as the self-employed, should be effectively covered by social protection schemes. It also stressed that to assess adequacy, Member States' social protection system needs to be taken into account as a whole.

EU policies, coordination and monitoring

In its 2010 Green Paper on pensions, the European Commission pointed out the importance of pension systems being both adequate and sustainable. The 2012 White Paper outlined, as the two main directions towards ensuring pension adequacy and sustainability, the need to better balance the time spent in work and in retirement and, in parallel, to develop complementary private retirement savings. Given the importance of pensions for fiscal stability and social adequacy, the EU sought to influence national policy decisions through initiatives such as the open method of coordination and the Stability and Growth Pact, with a limited impact.

The 2017 European Pillar of Social Rights set out **20 principles** as guidance towards a more social Europe. While legally non-binding, principle 15 affirms the **right to pensions** that ensure an adequate income to live in dignity in old age, both for workers and the self-employed, stressing the need for equal opportunities for women and men to acquire pension rights. The ensuing 2021 action plan set three headline targets to be achieved by 2030, one of them being the reduction in the number of people at risk of poverty or social exclusion by at least 15 million. A revised social scoreboard accompanied the plan, and includes several indicators linked to pensions.

The European Commission works with EU countries through the Economic Policy Committee (EPC) and the Social Protection Committee (SPC) and provides country **analysis and guidance**.

In their 2019 Joint Paper on Pensions, the EPC and the SPC recommended that governments preparing pension reforms need to consider the redistribution and fairness logic of pension systems, increase coverage (by revising access criteria and incentivising take-up), complement public PAYG pensions with supplementary schemes, provide accessible and affordable quality services, and consider new sources of financing for their social protection systems (including through taxes).

The European Commission set up the **High-level Group of Experts on Pensions** in 2017 to analyse the potential contribution of supplementary (occupational and personal) pensions to adequate old-age incomes. In their December 2019 final report, experts noted that the increasing number of jobs that do not provide access to any pension lowers the overall capacity to save for old age. They recommended that the EU and Member States identify existing gaps in old-age protection systems along gender lines, professional groups or age cohorts, to improve overall pension system coverage. Member States should encourage social partners to set up collective pension plans with risk-sharing between members, ensure that occupational pensions provide pension credits for career breaks due to care responsibilities and provide tax and/or financial incentives in both the saving and the pay-out phase for supplementary pensions meeting minimum quality requirements.

Retirement policy is embedded in the European Semester **economic coordination** cycle. Set up in 2011, the Semester established a fixed **annual cycle**, putting pressure on Member State budgetary

and policy-making. It linked the guidance on economic policy with recommendations on structural reforms, expressed in annual country-specific recommendations (**CSRs**). A general 'progressive socialisation' of the Semester has been observed, as the CSRs have increasingly included – beyond fiscal sustainability – social aspects relating to pension reforms, wages, integration into the labour market of women and the elderly.[19] In parallel, the Commission, in cooperation with the EPC and the SPC, runs a **three-year monitoring cycle**, the most recent outcomes of which were published in 2021 in three major reports linked to ageing:

- The Ageing Report shows population projections and projections for age-related public expenditure, set to increase by 1.9-4.4 percentage points of GDP until 2070. The increase is mostly driven by long-term care and healthcare spending (+1.1 and +0.9 percentage points respectively). Public pension expenditure is set to increase by 1.1 percentage points up to 2045, only to return to close to its 2019 levels later.
- The Pension Adequacy Report confirms a rise in poverty and social exclusion in older age and a shift from material deprivation to a relative risk of poverty. In combination with demographic change and increased numbers of older persons at risk of poverty, this makes the EU target of reducing poverty harder to achieve. The report notes the persisting gender pension gap, mainly for women over 75, and increasing inequalities between pensioners due to longer careers.
- The Report on Long-Term Care looks at the challenges of long-term care systems in the EU. While under-investment and structural weaknesses are their common denominator, long-term care is among the fastest-rising social expenditures, projected to increase from 1.7 % of GDP in 2019 to 2.5 % of GDP in 2050.

The Council reacted in June 2021 by adopting three sets of conclusions that reflect on the reports' main outcomes.[20] It has been argued that the combination of annual Semester coordination with the three-year monitoring cycles have resulted in a streamlined, knowledge-based approach to retirement policy at the supranational level, increasing the potential to influence national policy making. This potential has its limits, as Council can water down the CSRs put forward by the Commission, such as the recommendation to automatically link retirement age to life expectancy.[21]

In 2021, the Commission initiated the **High-level Group on the Future of Social Protection and of the Welfare State** to analyse the expected impacts of megatrends (such as demographic changes, transformations of the labour market and the digital and green transitions) and the related new risks. Their final report identifies the main social risks as: the risk of unemployment or incapacity before people reach the statutory retirement age; the risk of income insecurity in old page; and the increasing risk of needing healthcare and long-term care due to frailness and illness such as dementia. Taking the life-course perspective, the report recommends Member States support longer working lives by promoting flexible working-time arrangements and facilitate a gradual transition to retirement at a later age. Governments should maintain adequate income in old age and pro-actively tackle poverty, while ensuring that all people of working age are included in contributory pension systems. Periods of care giving should be credited, including through subsidies in case of non-public schemes.

In 2022, the Social Protection Committee approved a benchmarking framework on pension adequacy. Within the European Semester, the 2023 Annual Sustainable Growth Survey reiterates the need for further policy action, including through reforms, to ensure the adequacy and financial sustainability of pension systems in the context of an adverse demographic trend and changing labour markets.

The EU also addresses the challenges of population ageing, facilitates mutual learning and exchange of best practices, and informs citizens. More broadly, EU policies promote reducing income and pension gap through equal opportunities, non-discrimination, gender equality, rights of persons with disabilities and their inclusion in labour market, and quality education. The

European Insurance and Occupational Pensions Authority (EIOPA) ensures EU-wide supervision to protect the rights of policyholders, pension scheme members and beneficiaries.

EU funding

The European Social Fund+ co-finances projects relating to EU social policy. It targets the modernisation of structures and systems, social integration and access to services addressing material deprivation. The Technical Support Instrument provides technical expertise in designing and implementing reforms. The Recovery and Resilience Facility (RRF) supports reforms and projects outlined in national recovery and resilience plans, aligned with the challenges identified in European Semester CSRs. Two of the six pillars of the RRF target tackling poverty and social exclusion. The European Tracking Service for pensions helps citizens access information on their pension rights.

European Parliament's views

The Parliament monitors the European Semester cycle and has repeatedly adopted resolutions seeking to strengthen EU action on reducing poverty and promoting robust welfare social systems.

In its 2017 resolution on the need for an EU strategy to prevent the gender pension gap, Parliament warned of the risks to gender equality linked to the shift from social security pensions to personally funded pensions, which do not compensate for periods devoted to care. It called on the Commission and the Member States to introduce unisex life tariffs in pension schemes and care credits, so that women can receive equal pension annuities for their equal contributions.

A 2021 resolution entitled 'An old continent growing older – possibilities and challenges related to ageing policy post-2020' called on the Commission to assess the adequacy of minimum pensions, and on Member States to guarantee a decent standard of living for older people and share their best practices as regards the setting of minimum pensions.

Another 2021 resolution, on employment and social aspects in the European Semester, called on Member States to develop incentives to increase employment opportunities for older workers, while ensuring the adequacy and sustainability of pension systems.

In its 2022 resolution on women's poverty in Europe, Parliament called on Member States to take the gender dimension into account in their pension system reforms and to include compensation for unpaid care work in their pension systems, through care credits for example.

The 2023 resolution on a roadmap towards a social Europe called on the Commission to turn the 2021 European Pillar of Social Rights commitments into legislative instruments. Member States should ensure that minimum pensions are high enough, uphold long-term income security and reinforce their social protection systems to ensure a decent life for all while preserving pension systems' sustainability.

Expert insights

Every two years, the **Organisation for Economic Co-operation and Development (OECD) Pensions Outlook** report provides an analysis of the latest developments in pension policies in OECD countries. In 2020, OECD experts recommended that policy makers enact legislation to ensure that people continue saving for retirement and avoid selling assets when markets fluctuate, and that pension providers act in accordance with their investment objectives. The report also insisted that – given the heterogeneity of workers in non-standard forms of work – differentiated approaches were needed to help them save for retirement.

In 2022, OECD experts focused on improving pension arrangements in which retirement savings are invested to accumulate assets that will finance pensions (asset-backed pension arrangements). They suggested ways to plan, implement and monitor such arrangements as part of a multi-pillar pension

system that complements, rather than substitutes, PAYG public pensions. Admitting that putting pension systems on a solid footing will require painful policy decisions, they encouraged policy makers to go ahead with the reforms needed, despite the current financial and economic uncertainty and the rising cost of living, as delaying them would put the wellbeing of current and future pensioners at risk.

The **Centre for Economic Policy Research** (CEPR) published a future-oriented analysis of pension systems in 2021,[22] in which the authors used the 'proportionality measure' to assess pension fairness, by comparing contributions made during working life and payments received at retirement. Considering that the average pension system deficit in Europe was to increase from 2.5 % GDP in 2021 to 4 % of GDP in 30 years, they confirmed that pension systems in Europe, as designed, are neither sustainable nor equitable and that many require substantial state transfers. In their view, pension reforms should aim for greater sustainability and do so not only at the expense of younger generations. They also caution against long phase-in periods (for reforms) which, while giving individuals and households time to adapt, deepen intergenerational divides and pose risks to the reforms' future implementation.

In a 2023 CEPR discussion paper,[23] other experts analysed public pension system sustainability using two new indicators (the 'pension space', which measures the capacity to pay for pension expenditures from labour taxation, and the 'pension space exhaustion' probability reflecting demographic uncertainties). They found that most countries have little scope to further finance pensions from labour income taxation over the next 30 years. According to their calculations, France and Italy would exhaust their pension space by 2030, Austria and Finland by 2040, followed sooner or later by most EU countries, with the exception of Ireland. As preferred preventive policies, the authors suggest increasing consumption taxation or reducing pension payments, because these entail lower levels of distortionary labour income taxation than raising the retirement age.

Stakeholders' views

In a 2021 joint position, European **employers** called on the Commission and Member States to prepare an annual report on the cost dynamics of national social security systems, to enable a reflection on financing active ageing policies and financial consequences of different policy options, in light of the need to reduce the taxation of labour. Employers also called for measures to improve general financial literacy and provide clear information on pension entitlement, to convince individuals about the need to work longer and complement their public pensions through private savings, and insisted on better involvement of social partners.

Insurance companies rang the alarm concerning a global pension gap, estimated by the Global Federation of Insurance Association (GFIA) at about US$1 trillion a year, and growing. They also observed, however, that even drastic and unpopular legislative measures, such as significantly raising the retirement age, would merely reduce, but not fully close, the gap.

Insurance Europe, a European insurance and reinsurance federation, based their 2021 pan-European study on a survey of 16 000 people in 16 countries, and also confirmed the existence of an EU pension savings gap. More than a third of their respondents were not saving for retirement and almost a fifth said that COVID-19 had a negative impact on their pension savings. As for respondents' priorities, by far the highest was the security of the money invested (49 %), followed by the robustness of the provider (32 %), the ability to increase/decrease or stop/resume contributions (24 %) and the tax treatment of pension savings (23 %).

As a way forward, the European insurers recommend further raising awareness of the need to save for retirement and improving levels of financial literacy, so that people can make decisions best fit for their own circumstances. In their view, pension policies should be consumer-centric, based on evidence of users' demands and needs, meaning all initiatives should undergo consumer testing. They cautioned against one-size-fits-all solutions for retirement savings and supported a wide use of a digital approach to pension information.

AGE platform Europe, an open **network of non-profit organisations** of and for people aged 50+, noted in 2021 that much of the EU's action in the field of gender equality focuses on younger and working-age women. Older women are left out, while many work in the informal economy and are unable to pay pension contributions, or in professions less covered by collective agreements and lacking access to occupational pensions. The platform called on the Commission to adopt an initiative introducing pension credits for caring responsibilities in all EU Member States and another initiative for the social protection of informal carers.

As regards supplementary pensions, the platform asked the Commission to reflect on how occupational pension coverage could be expanded to cover groups who have no access to them, as well as on the impact of these pensions on the gender pension gap. They called for legislative measures to ensure safe and understandable investment products with caps and transparency in their costs of administration and distribution, such as the PEPP, as well as allowing for effective competition and consumer choice among investment products.

MAIN REFERENCES

European Commission, The 2021 Ageing Report, 2021.

European Commission, The 2021 pension adequacy report, 2021.

OECD, Pensions at a Glance 2021, OECD and G20 Indicators, 2021.

ENDNOTES

1. Pensions adequacy is measured by: (i) their ability to prevent poverty, (ii) the degree to which they replace previous income from work, and (iii) their capacity to fulfil both elements during the entire retirement duration. For ways to assess adequacy, see OECD Pensions Outlook 2020. Sustainability relates to the fiscal and financial balance between revenues and liabilities (and the ratio of workers-contributors to pensioners-beneficiaries).
2. These can be granted on the basis of a strenuous occupational activity (security forces, difficult working conditions) or a special status (civil servants, persons in a situation of deprivation of victimhood). For details on special pensions, see 2021 Ageing Report, p.64.
3. Reductions in employer-paid contributions were justified with the objective of improving a country's competitiveness and increasing the employment rate by reducing wage costs. The share of government revenue in total financing increased most in central and eastern Europe. See 2021 pension adequacy report, pp. 130-134.
4. Risks include financial (underlying financial assets are uncertain and variable), longevity (one may outlive pension means), behavioural (for individually managed pension savings, linked to financial literacy) and regulatory (governance of pension funds, management fees).
5. The aggregate sum includes: disability pension, early-retirement due to reduced capacity to work, old-age pension, anticipated old-age pension, partial pension, survivors' pension, early-retirement benefit for labour market reasons.
6. Comparison is tricky. The public part of pension systems covers many components and some resources may be paid out as a social contribution, rather than as pension spending (and thus included in a different section of the national budget).
7. For details on tax treatment in EU Member States, see 2021 pension adequacy report, pp. 107-140.
8. For further detail: Ageing and Employment Policies – Statistics on average effective age of labour market exit , OECD, (undated). A 2022 Finnish Centre for Pensions study confirms that the age at which people exit from the labour market is linked to their gender and educational level.
9. See 2021 pension adequacy report, p. 43. For further detail, see 2021 Ageing Report, pp. 56-59.
10. The index counts older persons who are income-poor, plus those who are materially deprived but not income-poor.
11. For an overview, see 2021 pension adequacy report, SPC and European Commission, annex 6, p. 145.
12. For details, see Pensions at a Glance 2021, OECD, pp. 83-119.
13. See: D. Eatock, Prospects for occupational pensions in the European Union, EPRS, European Parliament, September 2015.
14. For details on recent pension reforms, see Pensions at a Glance 2021, OECD, p. 11 and 37.
15. Between 2008 and 2018, the EU-27 population of people aged 65+ increased by 17.6 % and the number of pensioners by 4.0 % (and decreased in 6 EU countries). See 2021 pension adequacy report, SPC/Commission, p. 47.
16. Due to excess mortality, the number of people over 65 declined by about 0.8 % across OECD countries, slightly lowering pension spending. However, the related loss of wage contributions have deteriorated pension finances and

had to be covered by state budgets. The OECD expects the impact of pandemic-related labour market turbulence to be small yet visible when the current younger generation retires in four decades. See Pensions at a Glance 2021, pp. 17-27.

[17] EU legal basis: Article 3 of the Treaty on European Union (TEU), and Articles 9, 10, 19, 45-48 and 145-161 of the Treaty on the Functioning of the European Union (TFEU), in particular Article 153 TFEU.

[18] IORPs are financial institutions that manage collective retirement schemes for employers to provide retirement benefits to their employees (i.e. pension scheme members and beneficiaries). They are long-term investors that aim to deliver the best returns to their members and beneficiaries at the same time as keeping their investments safe. IORPs were often set up in the United Kingdom and the Netherlands.

[19] See I. Guardiancich, M. Guidi and A. Terlizzi, 'Beyond the European Semester: The supranational evaluation cycle for pensions', *Journal of European Social Policy*, Vol. 32(5), 2022 and the European Trade Union Institute (ETUI 2021). In the 2023 Semester Spring Package, 5 CSRs address pension systems and active ageing; 9 CSRs address poverty, social inclusion and social protection.

[20] June 2021 Council conclusions on the on the fiscal sustainability challenges arising from ageing, on the 2021 pension adequacy report and on the Long Term Care Report.

[21] I. Guardiancich, M. Guidi and A. Terlizzi, 'Beyond the European Semester: The supranational evaluation cycle for pensions', *Journal of European Social Policy*, Vol. 32(5), 2022.

[22] M. Soto, A. Kangur, S. Romero Martinez and A. Fouejieu, Rethinking pension systems in Europe for a post-Covid-19 world, October 2021.

[23] B. Heer, V. Polito and M.R. Wickens, Pension Systems (Un)sustainability and Fiscal Constraints: A Comparative Analysis, press discussion paper, CEPR, May 2023.

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