

Pension Adequacy Report 2012, A summary...and a critical reading

David Natali
European Social Observatory
(OSE)

The Pension Adequacy Report, a Summary

- Definition of adequacy and its challenges
- Current adequacy
- Future adequacy
- Knowledge gaps

1. The context, the state of pensions in Europe

- Public pension expenditures make up a big part of public expenditure (EU-27: 11.3% of GDP in 2010 , variance 6% - 15%)
- Over 120 million or around 24% of Europeans are pensioners. Almost 2/3 of these are women.
- The EU-27 at-risk of-poverty-rate for people 65+ is 15.9% (below the 16.5% for people below 65)
- In economic crisis the incomes of older people have been relatively better protected than those of the working age population

1. The context, demographic trends

- old-age dependency ratio (persons aged 65+ as % of the number of persons aged between 20 and 64);
- economic dependency ratio (inactive population 65+ as % of employed 20-64),
- Doadr, from 28.4% in 2010 to 57.7% in 2060
- Eoadr, from 39.8% in 2010 to 73% in 2060
- key issue: to address ageing it is crucial to increase employment at all ages

2. Pensions Adequacy and its challenges

- Adequacy

- poverty protection
- income replacement
- pensions also need to be sustainable, safe and adapted to changing circumstances (adequacy, sustainability and modernisation)

- Main challenges

- Demographic trends
- Recent economic trends
- Recent reforms and the trade-off between sustainability and adequacy

3. Current adequacy

- **Pensions and income replacement**

- TRR, 53% in 2010 in EU-27 (decline between 2005 and 2007; increase between 2007 and 2010)
- female pensioners suffer lower protection compared to men
- earnings-profile (for workers with low earnings, statutory public schemes tend to have a more significant role)
- affects of work longer and career breaks
- role of supplementary schemes

3. Current adequacy

- **Pensions and poverty prevention**

- The EU-27 at-risk of-poverty-rate for people 65+ (15.9%) is below the rate for those below age 65 (16.5%) and are less affected by material deprivation than the rest of the population (8.5%). Inequality among people 65+ is also lower

- At-risk-of poverty-rates and severe material deprivation of people aged 65+ on a downward trend in many Member States

- In the economic crisis older people have been relatively better protected

3. Current adequacy

- **Pensions and poverty prevention**
 - single women more at risk
 - older pensioners more at risk
 - positive trends (but problems related to economic crisis)
 - income distribution is more equal

4. Future adequacy

- **Pensions and income replacement**

- lower future replacement rates for a given retirement age
- net replacement rates can decrease by at least 5 percentage points (p.p.) in 17 Member States between 2010 and 2050
- Reinforcement of the link between contributions and benefits may translate into relatively larger declines of replacement rates for low income earners and increased inequality in old age

4. Future adequacy

- **Pensions and income replacement**

- decreasing replacement rates have to be seen in the context of the transition to multi-tier pension arrangements.
- While in some countries replacement rates will be dropping, care-crediting will improve and crediting for up till three years of unemployment will be similar to what it is today.

4. Future adequacy

- **Pensions and income replacement**

- people will have to work longer and/or take advantage of improved opportunities to build supplementary entitlements
- delaying retirement by two years (retirement in 2052 at 67 after a 42-year career) will result in higher future net replacement rates
- Longer working (and reducing early retirement) is thus one option, but the challenge is to a large extent with the labour market to provide enough job opportunities for the older workers

4. Future adequacy

- **Pensions and poverty prevention**

- Increasing the relative equivalised income of older people who are at-risk-of-poverty by 20% could help to lift around 7 million persons
- A relative drop in incomes of elderly people by 1/7th could add another 8.7 million people to the group at-risk-of-poverty

The Pension Adequacy Report, a critical reading

Pros

- A more holistic approach;
- More articulated understanding of ageing (old age vs economic dependency ratio)
- The focus shifts towards activation (rather than cuts)
 - All age groups/main focus on effective retirement age
- Stress on inequalities (gender dimension)
 - Problems of career breaks

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Cons

- Limited focus on taxation (revenue side);
- Inequalities have to be better addressed (e.g. type of contracts: typical/atypical);
- Limited reference to the need for flexibility;
- ‘Rosy’ picture of the crisis and its impact on pensions

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Cons

- Future adequacy (only income replacement);
- Still partial review of the pension mix (few information on pension funds);
- Limited reference to regulation of pension funds (investment risks)

Points to Be Debated

- The right mix between pension and labour market policies needs to look at job quantity and quality
- Referring to pension funds as the solution to adequacy problems is risky
- Still limited understanding of inequalities
 - In some countries the coverage of specific groups is limited (SME; services sector; atypical workers; migrants)