



European Commission
Employment, Social Affairs
and Equal Opportunities

Trends in European Pension Reforms

Challenges and solutions for retirement Security

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Employment, Social Affairs & Equal Opportunities DG



Pension reforms in EU

- 1. The pension challenge and European framework**
- 2. Ongoing changes in the EU labour market**
- 3. Projected impact of reforms on adequacy and sustainability**
- 4. Some outstanding issues**



I – Pension provision in EU – Similarities and diversity

- Dominant general government PAYG pension schemes
- Minimum benefits for those who did not accrue sufficient pension rights.
- Often complemented by funded schemes, be they statutory, occupational or voluntary.



I – Pension provision in EU – Similarities and diversity

- **Earnings related PAYG** pensions, marginally complemented by occupational or voluntary pensions (notably PT, CY, CZ, MT, EL, ES, FR, LU, AT, SI, FI, RO). Some are also building **reserves** (notably FI, also BE, ES, FR or IE);
- Earnings related PAYG pensions increasingly complemented by **statutory funded** pensions (PL, HU, EE, LT, LV, SK, BG, and SE);
- Mainly flat rate public PAYG pensions traditionally complemented (sometimes increasingly) by funded **occupational funded** pensions (notably IE, UK, NL, DK);
- Earnings related PAYG pensions complemented (traditionally and sometimes increasingly) by **occupational or voluntary pensions** (notably BE, IT, DE, SE).

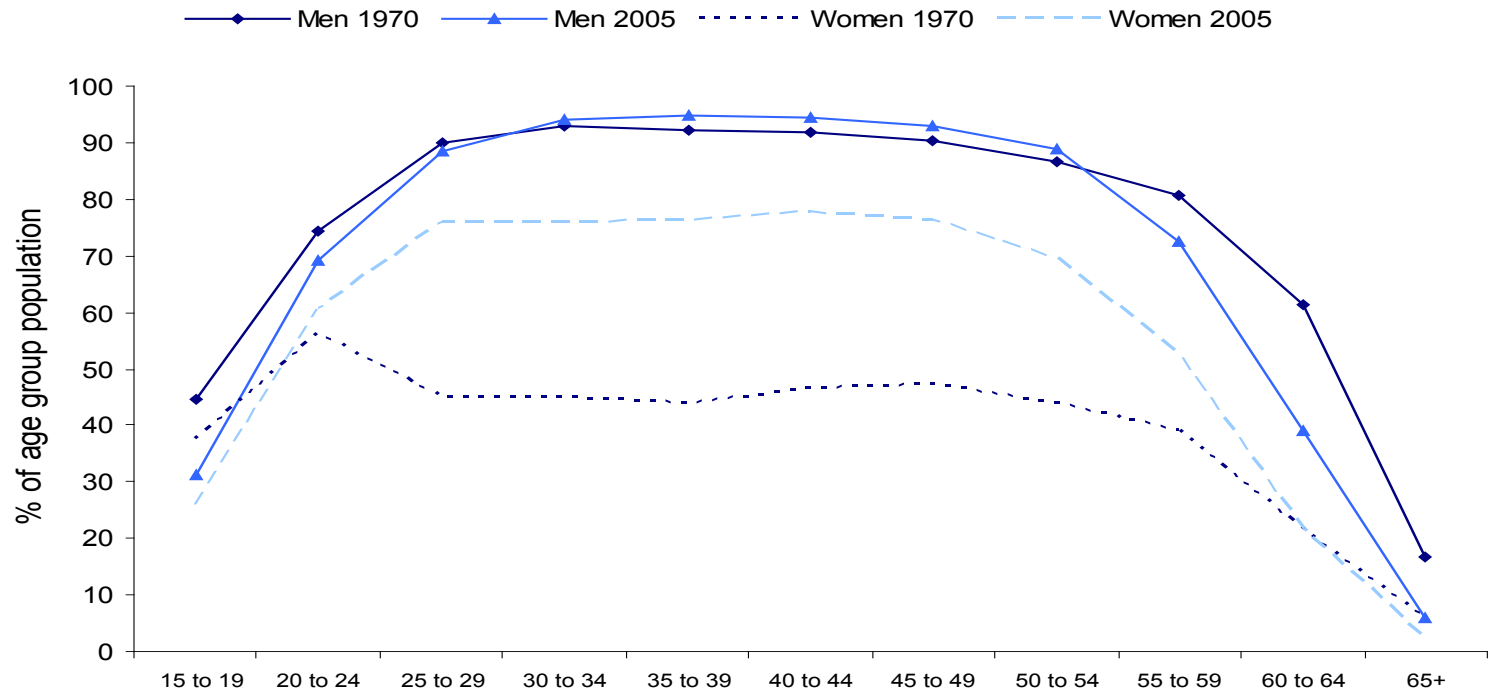


I - A common pension challenge - Adjustments are needed

- **Increase in life expectancy and dependency ratios**
- **Decline in effective retirement ages ... reversal in recent years**
- **Contribution rates – further increases ?**



Chart : Activity rates by gender in the EU15, 1970 and 2005

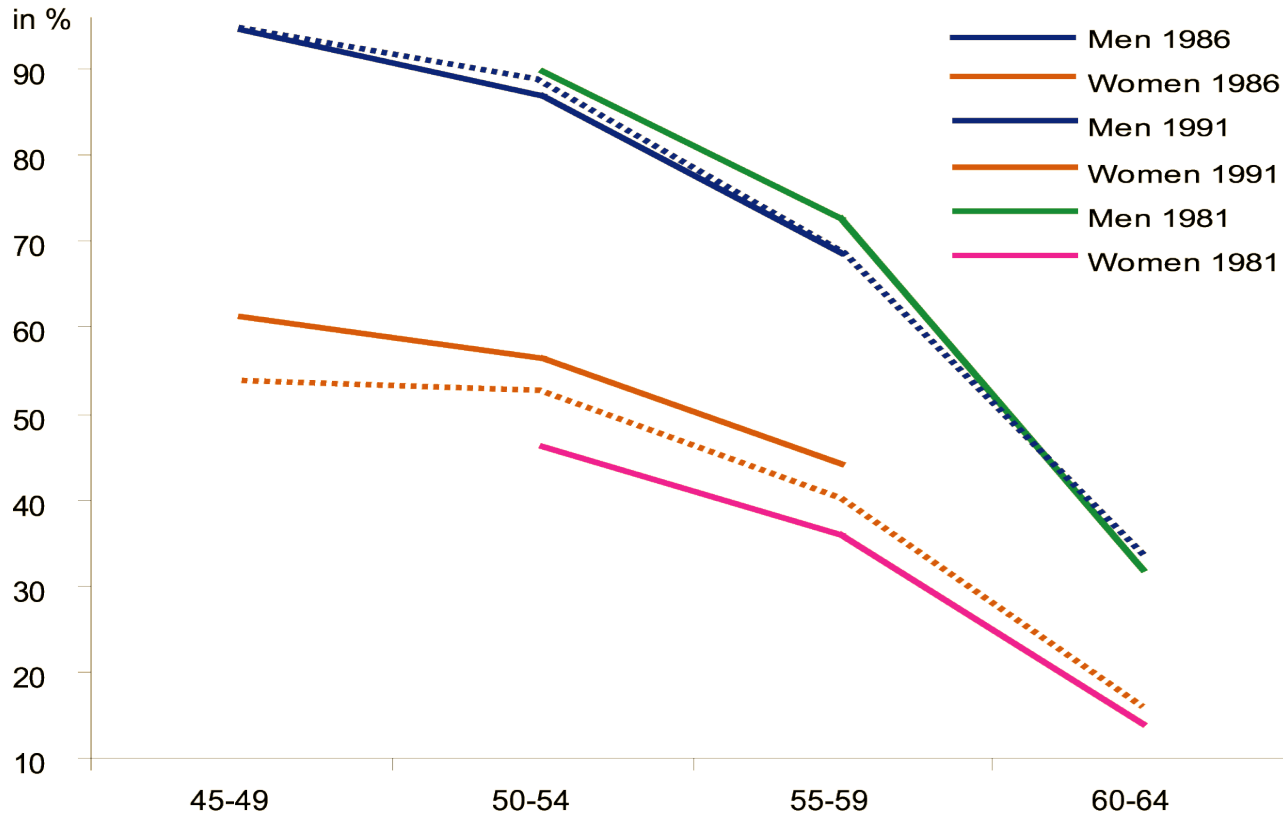


Source: OECD, OECD.Stat database

Source : Employment in Europe (2007), forthcoming.



Chart - Cohort comparison 1981-1986-1991 by gender in the EU



Source: Eurostat, LFS, spring results.

Note: the chart shows the activity rate of three cohorts in the EU12: 1) cohort of those aged 45-49 in 1986 (50-54 in 1991, 55-59 in 1996 and 60-64 in 2001); 2) cohort 45-49 in 1991 (50-54 in 1996 and 55-59 in 2001); 3) cohort 45-49 in 1981 (50-54 in 1986, 55-59 in 1991 and 60-64 in 1996). The slope of the lines shows the speed at which activity rates decrease as the cohort gets older. The position of the lines represents the actual level of participation. In the Netherlands, the 45-49 cohorts refer to 1985, 1990 and 1980, respectively.



Life expectancy at 60 and activity rates 55-64



Source Eurostat for Life expectancy and ILO (ES and SE 1970-2000, FR 1968-2000, IT 1971-2000, UK 1971-1991)



Projected evolution of dependency ratios

	2004	2025	2050
Ratio 60+ /20-59	39%	58%	80%
Ratio 65+ /20-64	27%	39%	58%
Ratio 70+ /20-69	18%	25%	40%

Note : EU25. Source : Eurostat 2005 demographic projections.



A common challenge

- **All systems are concerned: DB, DC, NDC, PAYG, funded,**
- **Member States are interdependent:**
 - public finance,
 - mobility,
 - common social rights and objectives,



A common European Approach

Pension systems to be reformed to ensure:

- **Adequate benefits: poverty and income replacement**
- **Financial sustainability**
- **Adaptation to societal/ labour market change**

Adequacy and Sustainability are mutually reinforcing : virtuous or vicious circle



European action - the OMC

Open Method of Coordination:

- **National Strategy Reports (2005)**
- **Social Protection Committee to review progress and prepare for Council,**
- **Synthesis report (2006)**
- **New objectives (adopted in Spring 2006)**



Key elements arising from current pension reforms

- Strengthening incentives for **working longer**
- Developing a **life-cycle approach** and strengthening the link between contributions and benefits while reducing access to early paths out of employment



Key elements arising from current pension reforms

- Making pension systems more **adaptable** to structural changes in society
- Develop secure **private pensions** complementing and partially replacing public pension provision

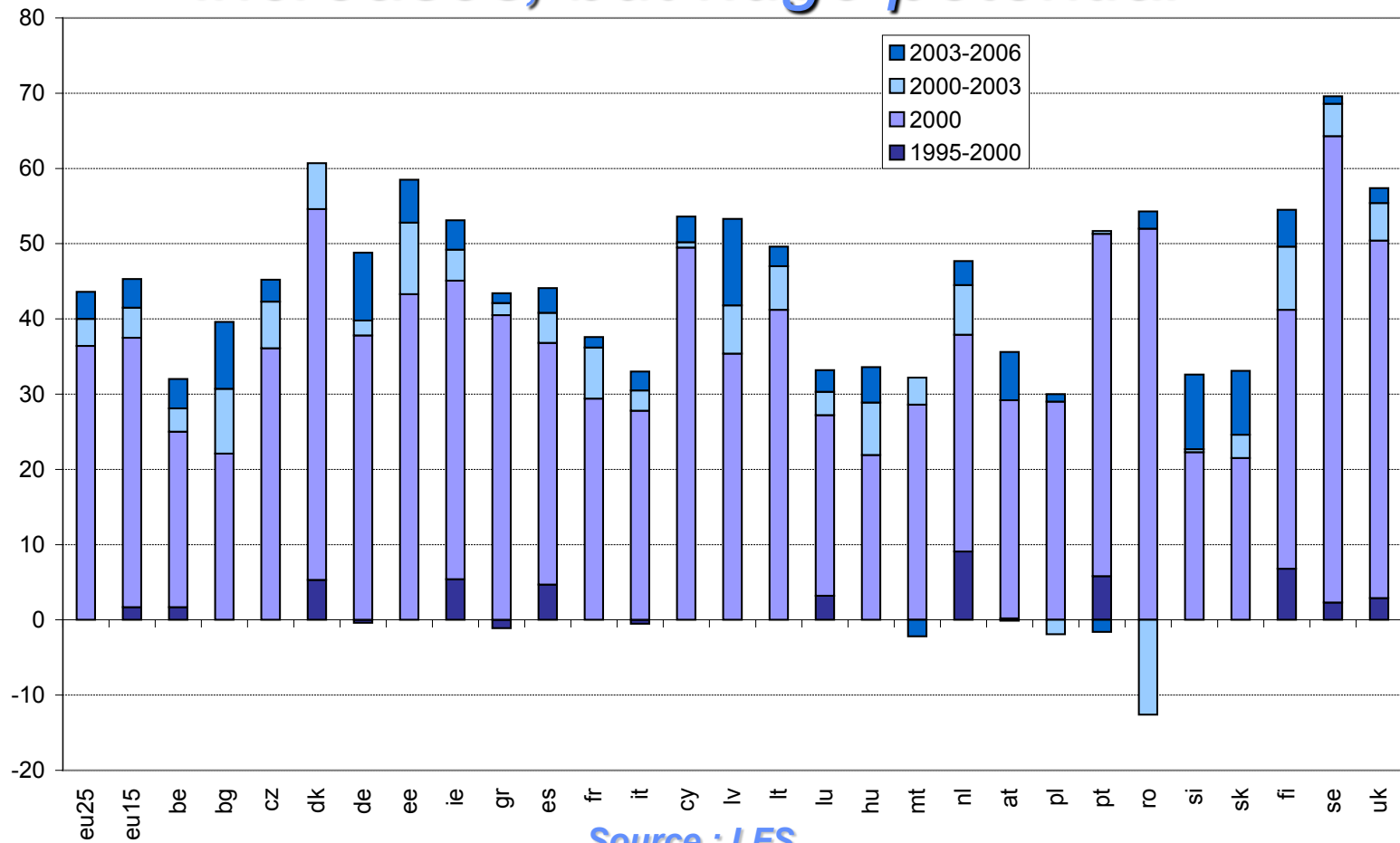


II – Ongoing developments

- **Labour market - a recent reversal**
- **Benefits - the key channel of working longer**



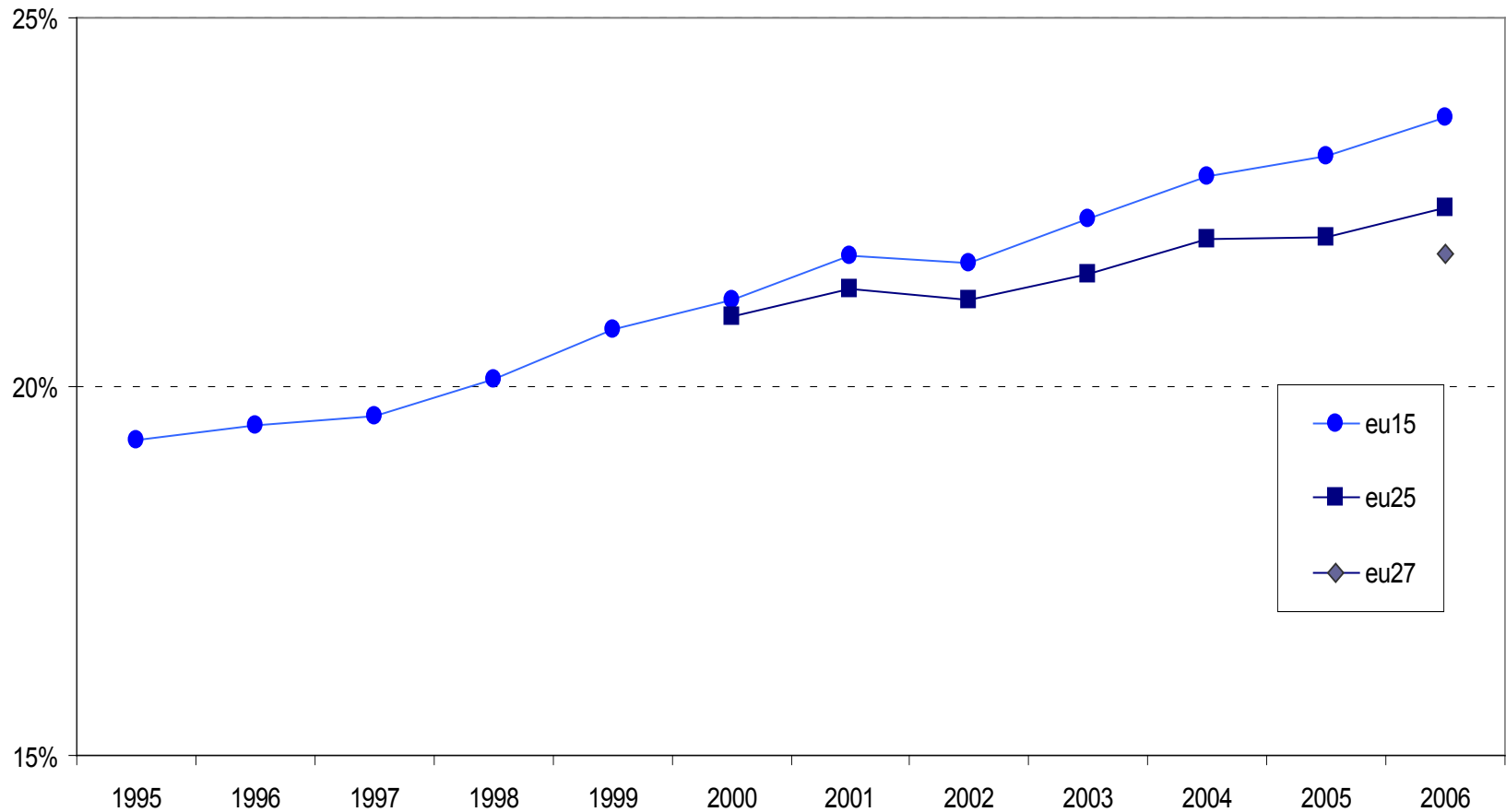
Employment of older workers: recent increases, but huge potential



Source : LFS

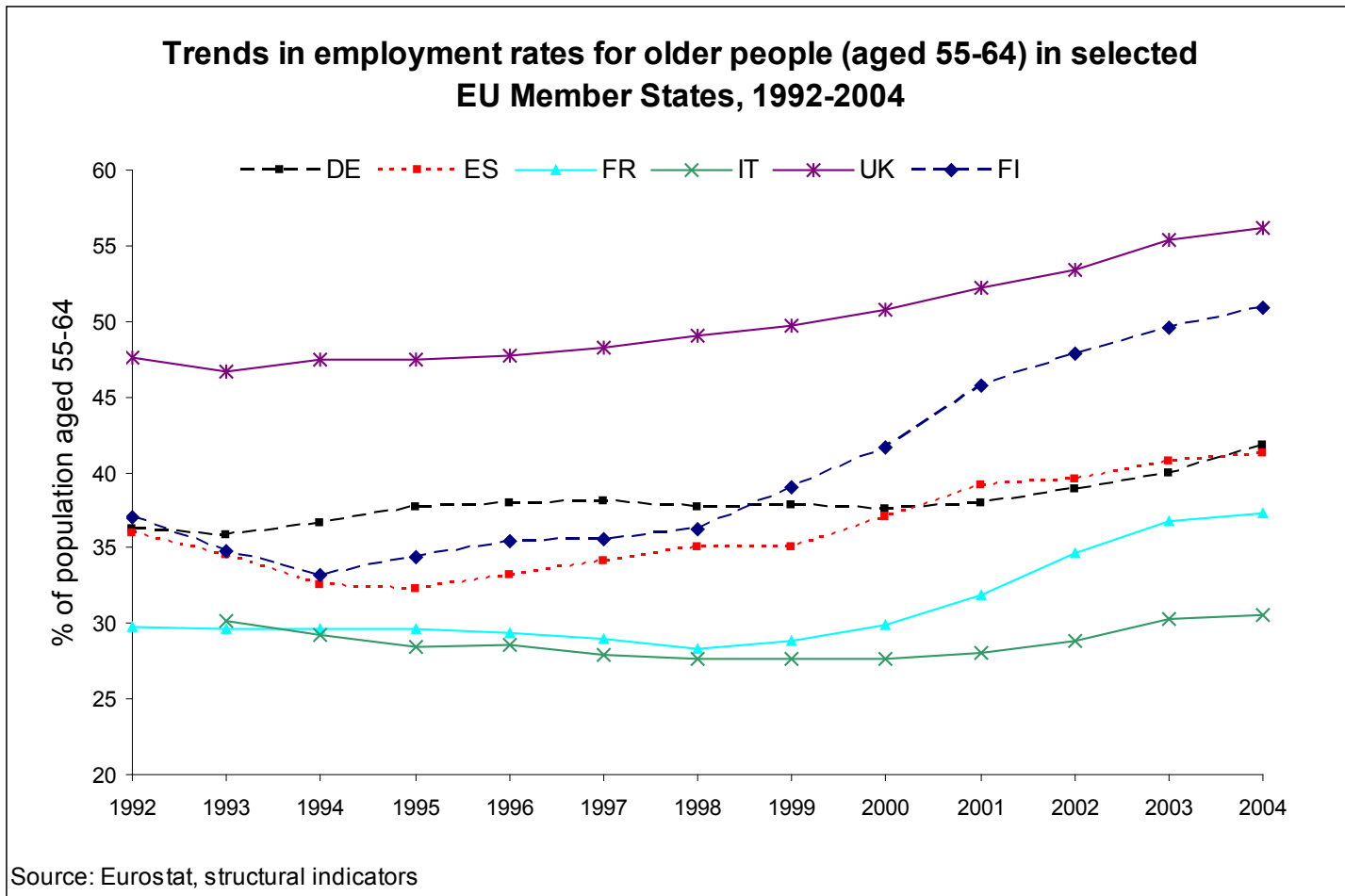


Part time employment (55-64)





Older workers employment (55-64)





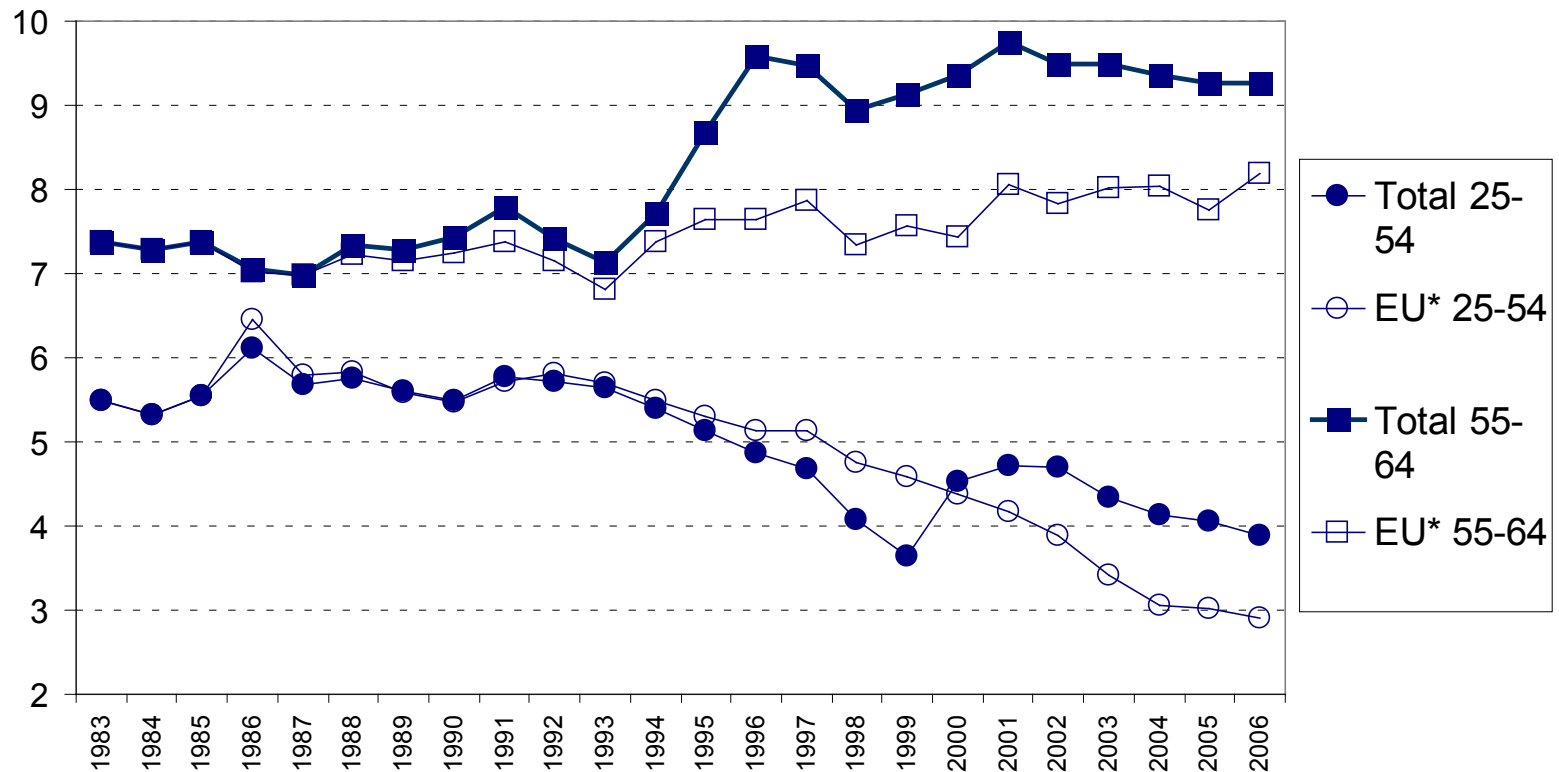
Some risks of divergence ?

- **Between MSs ?**
- **Men / Women ?**
- **Less / medium and high skilled ?**



Non convergence between MSs?

Average standard deviation of employment rates 55-64 and 25-54

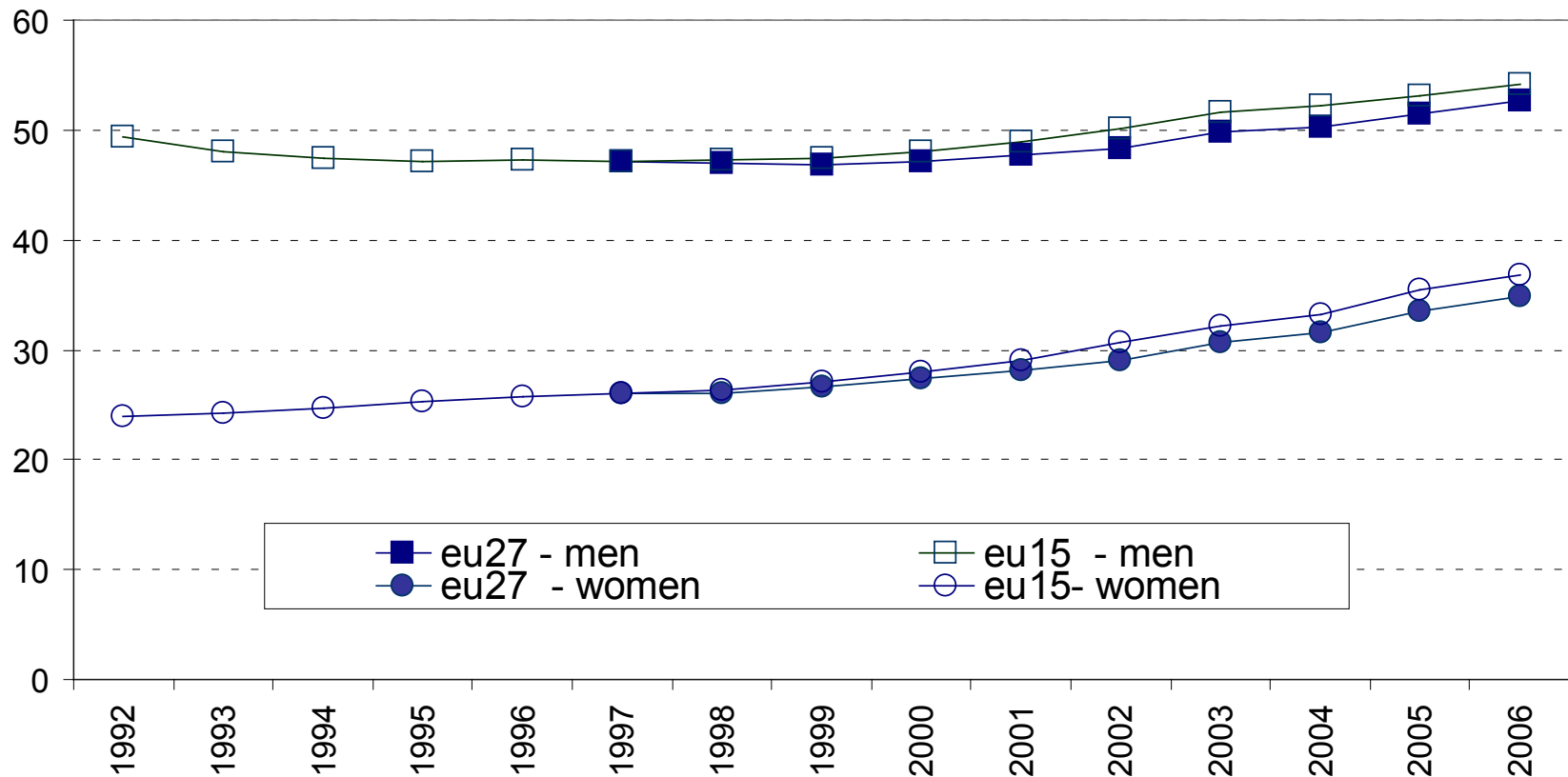


Source : LFS – Note : Total for all Member States available , EU* for a group of Member States where are available all the period long (BE, DK, DE, IE, EL, FR, IT, LU, NL, UK)



Slow convergence between Genders ?

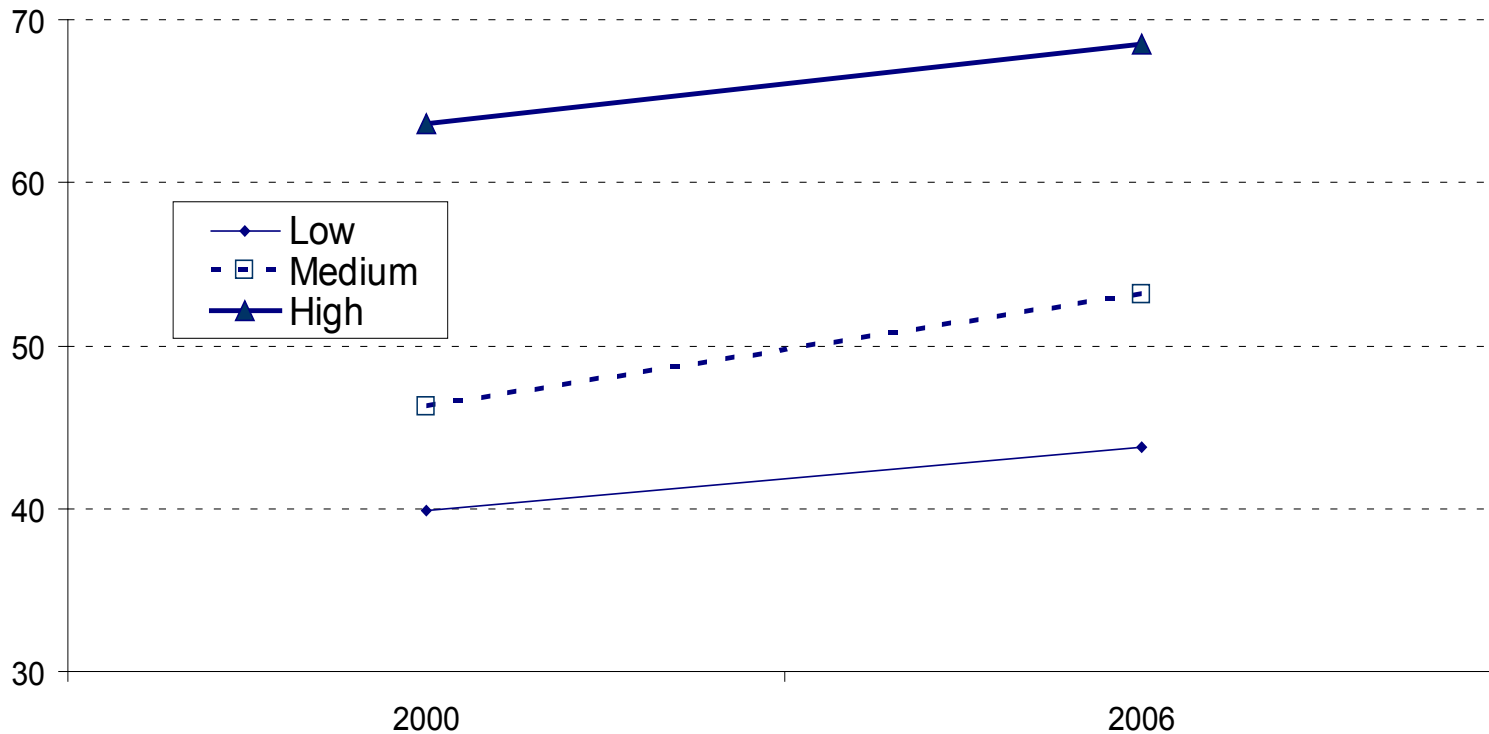
Employment rates by gender for 55-64 in EU





Divergence between skill levels?

Employment rate of men 55-64 in EU25





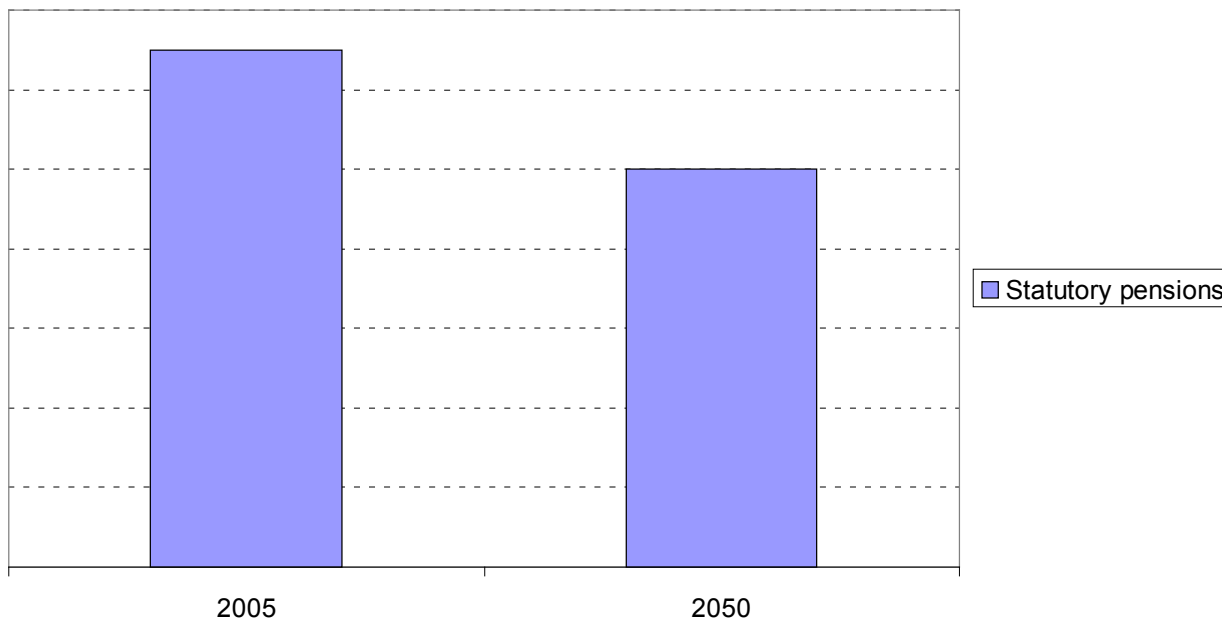
Projected long term trends

- **Adequacy : theoretical replacement rates**
- **Sustainability : expenditures projections**



Trend of replacement rates : effect of enacted reforms at a given retirement age 2005-2050

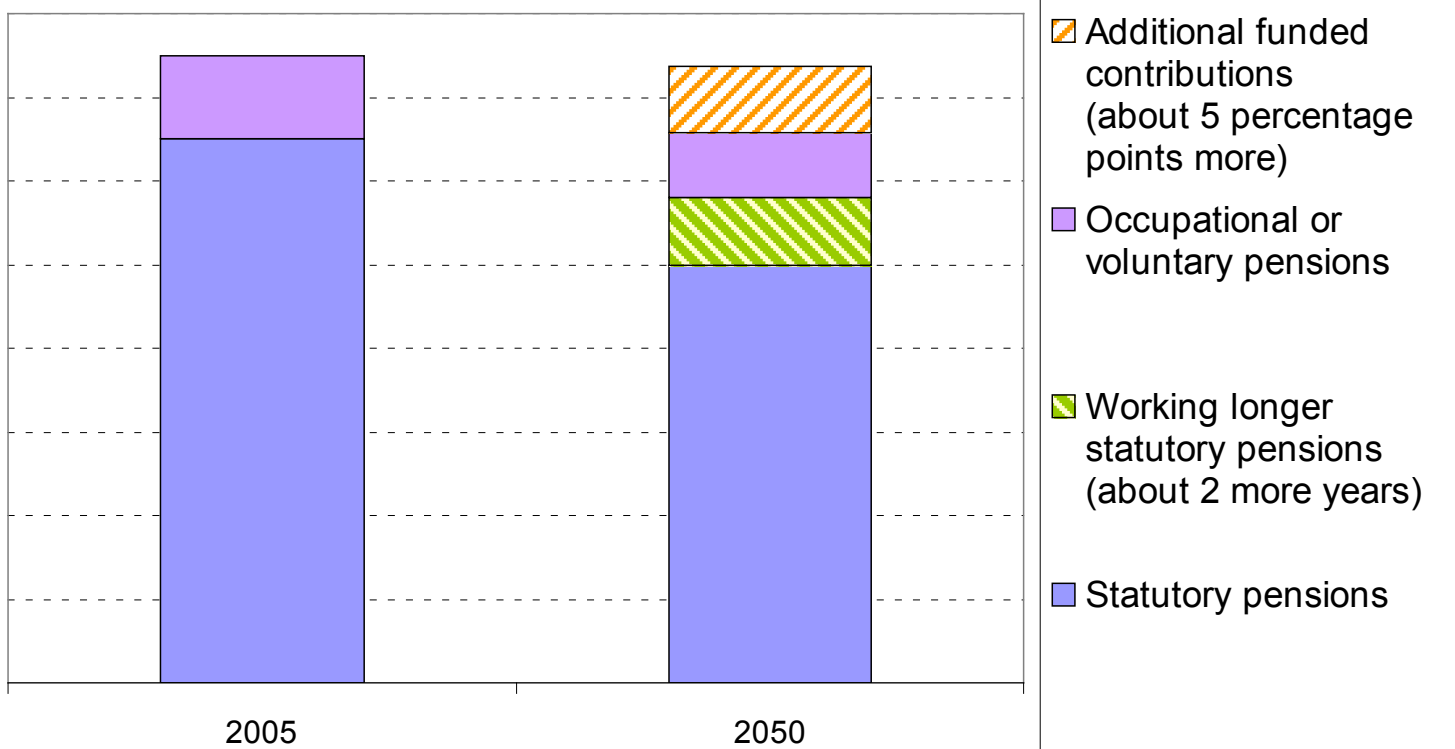
A trend toward a decline in most statutory schemes



Source : Stylised illustration from ISG results on gross replacement rates



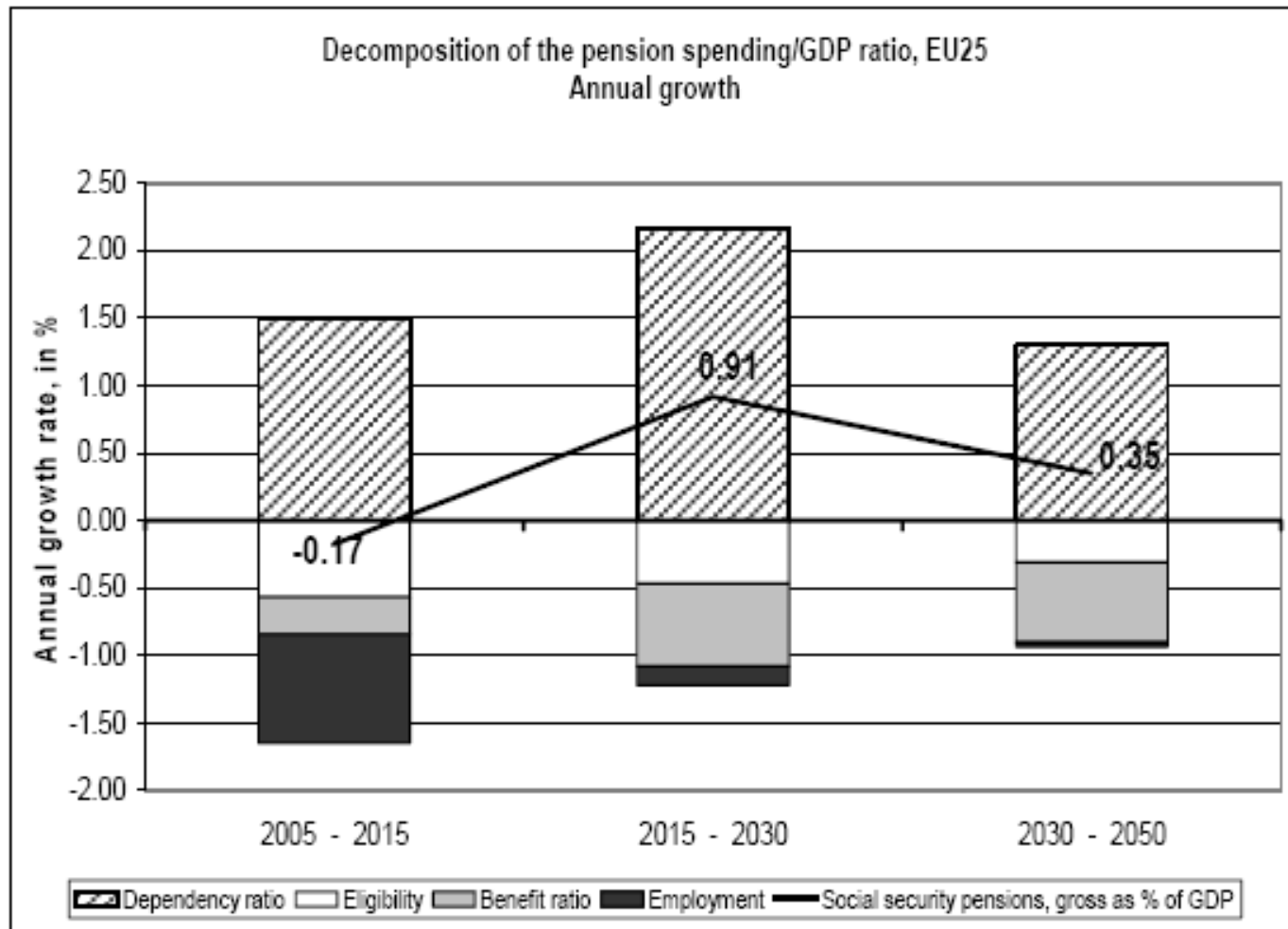
How to compensate for this decline ? Working longer and private pensions



Source : Stylised illustration from ISG results on gross replacement rates



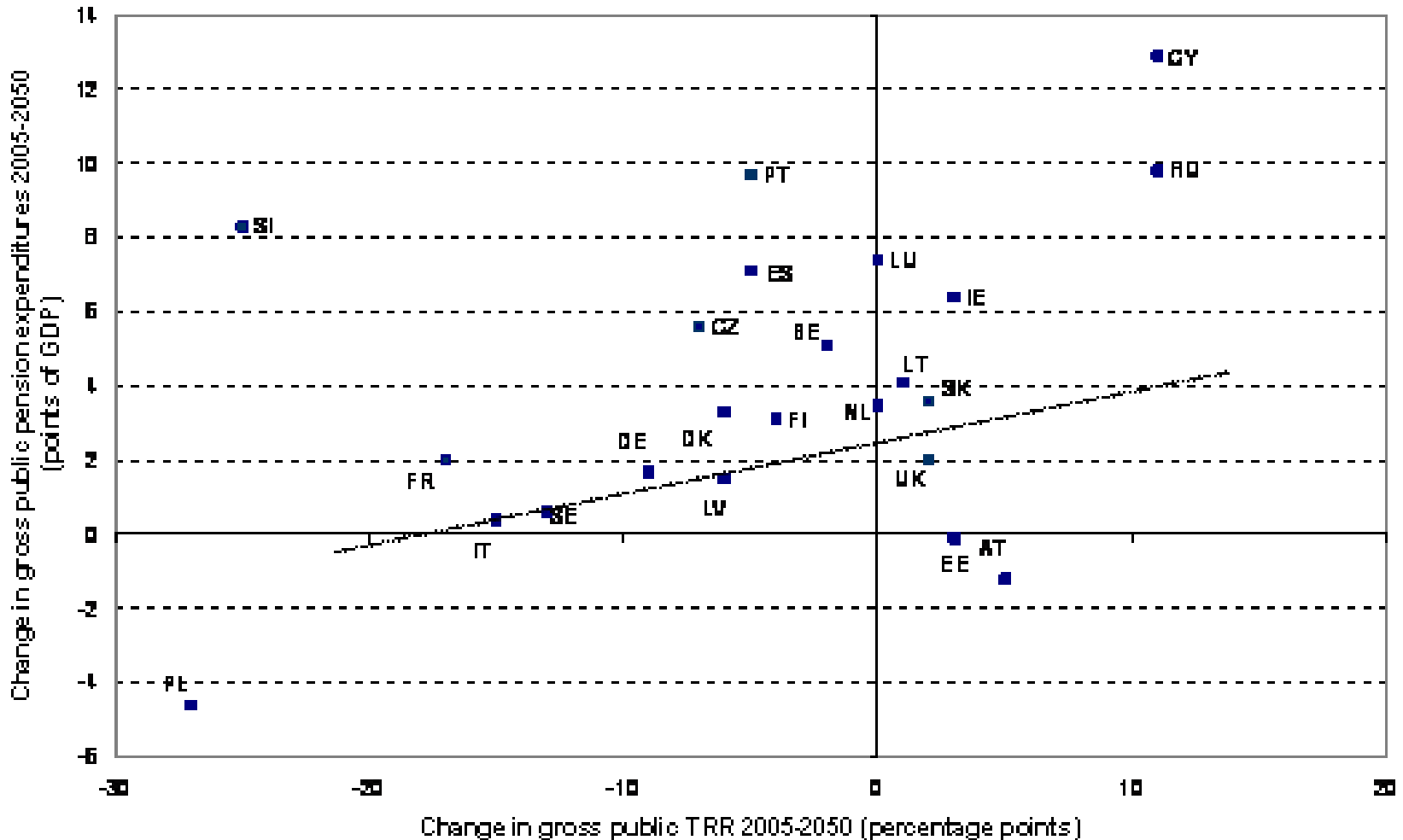
Trends of future pension expenditures



Source: AFD projections



Projected evolutions : adequacy and sustainability



Source : Stylised illustration from ISG and AWG results
(public pension schemes include the funded tier of statutory schemes)



IV - Some outstanding issues

- **Concerns about equity and poverty**
- **Compulsion vs. incentives : private pensions and working longer**
- **How to fully restore social and financial sustainability ?**

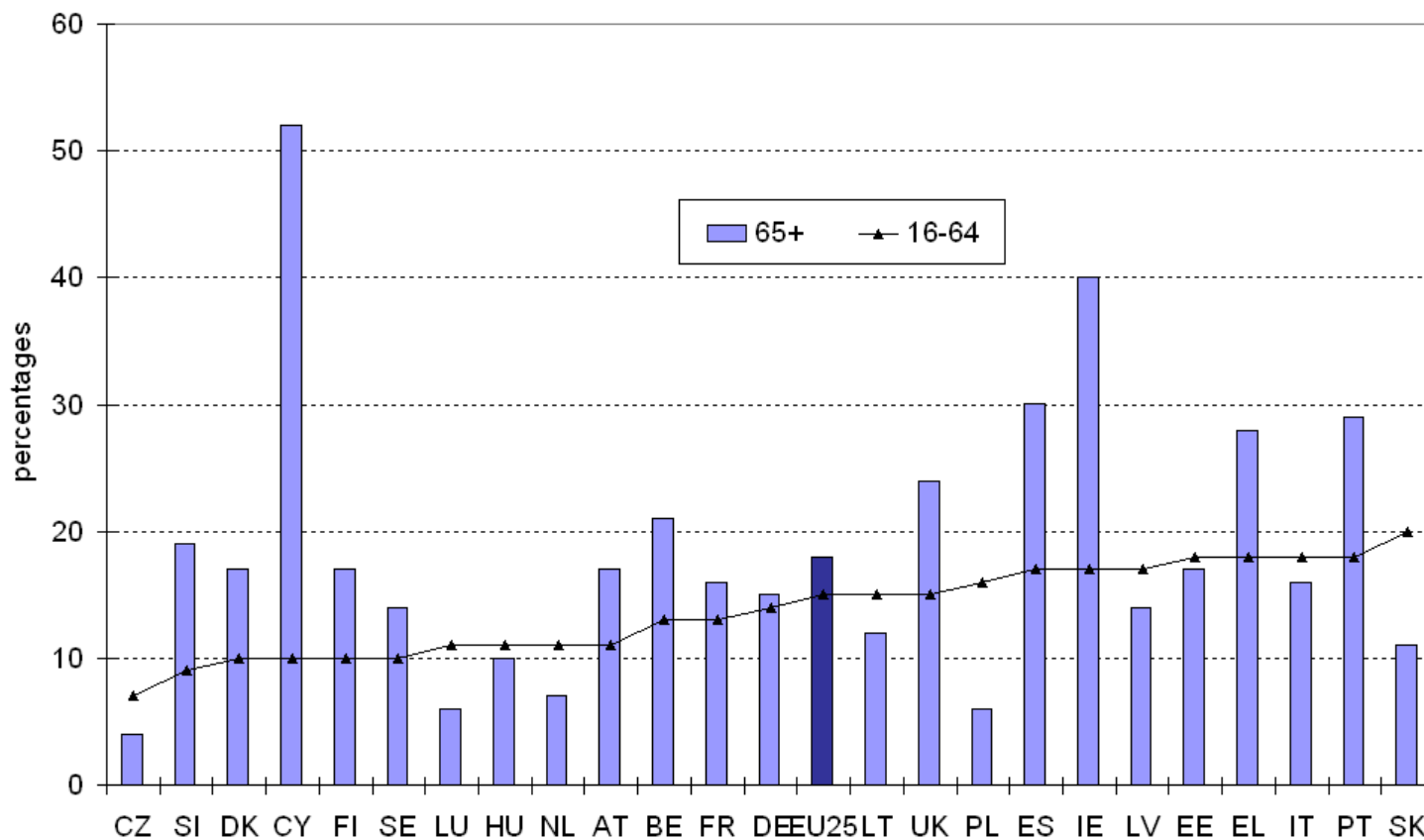


Outstanding issues (1)

- **Concerns about equity and poverty**
 - *Risks related to inadequate pension provision*
 - *A revival of minimum income provision*



Poverty risk among elderly



Source Eurostat, income data



- **How to strengthen the role of minimum pensions and solidarity in pension systems ?**
 - Poverty risk among elderly remains generally higher than overall population
 - Links between level of benefits, degree of means-test, incentives and indexation rules
 - A need for appropriate monitoring tools

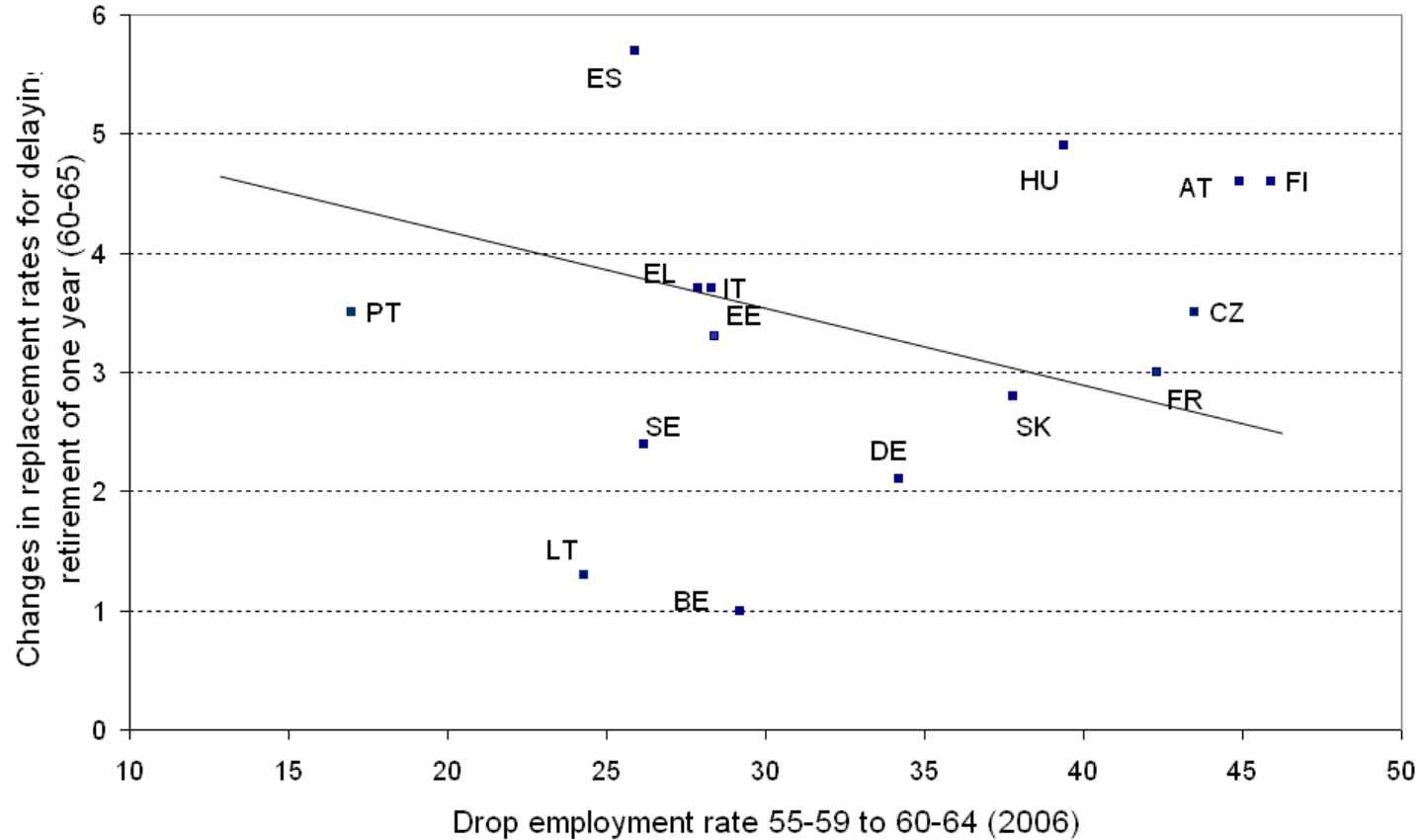


Outstanding issues (2)

- **Compulsion vs. incentives : private pensions and working longer**
 - Choice, incentives for earlier / deferred retirement, partial retirement
 - Importance to review incentives structures: are incentives strong enough?
 - But pension reform can not do everything



Retirement: incentives and behaviour



Source : Illustration from SPC report on flexible age of retirement (forthcoming), Replacement calculations from EU Commission-OECD project 'Modelling pension entitlements'



Outstanding issues (3)

- **How to fully restore social and financial sustainability ?**
 - Importance of an integrated approach
 - Development of automatic and semi – automatic adjustment mechanisms: automatic mechanisms vs. regular reviews
 - Transparency



Conclusion

- **Pension reform in progress**
- **Working longer: a breakthrough needed**
- **Promoting longer working lives involves not only pension reform**
- **Improve transparency and governance to allow policy decisions on priorities**



Further information

All information about the European Union:

<http://europa.eu.int>

Synthesis reports on Pensions (2003, 2006)
and the National Strategy Reports (2002, 2005):

http://europa.eu.int/comm/employment_social/soc-prot/pensions/index_en.htm

Reports by the Economic Policy Committee on the budgetary
implications of ageing:

http://europa.eu.int/comm/economy_finance/epc/epc_ageing_en.htm