

## Joint Report on Pensions

# Progress and key challenges in the delivery of adequate and sustainable pensions in Europe

**Joint Report by the Economic Policy Committee (Ageing Working Group) and the Social Protection Committee (Indicators Sub-Group) and the Commission services (DG for Economic and Financial Affairs and DG Employment, Social Affairs and Equal Opportunities)**

*Ensuring that public policies cater for sustainable, accessible and adequate retirement incomes now and in the future remains a priority for the EU. While Member States share similar fundamental challenges there are considerable differences in the timing of demographic ageing, the design of pension arrangements, the growth potential and in constraints on account of the fiscal situation and external competitiveness. The projected increase in public spending due to population ageing poses an important challenge to EU Member States. Policy action to improve the long term sustainability of public finances while ensuring adequacy of pensions is crucial.*

### **Main challenges and achievement**

- *People today are healthier and live longer than ever in history. At the same time they have fewer children than they used to.*
- *Faced by a strong increase in the old age dependency ratio, most Member States have over the last decade reformed their pension systems to retain sustainability as well as adequacy and to ensure fairness between and within generations and between men and women. Reforms have brought important progress, notably in sustainability for public pension schemes, and to varying degrees also in some aspects of adequacy and minimum income provisions for older people in particular.*
- *Recognizing the progress, the challenge of adapting the pension systems in some of the EU Member States to expected demographic changes is still very real. Additional reforms of pension policy will be needed in several countries. Furthermore, there are signs that ongoing reforms might bear considerable risks in terms of both adequacy and sustainability. As changes in pension systems will tend to make benefits more contingent on developments in labour and financial markets, important risks relate to employment rates not increasing enough or capital markets not delivering as expected. Budgetary consolidation, which is more urgent after the*

*economic crisis, is essential in order to reduce public debt and to contribute to financing the future increase in public pension expenditure.*

### **Remaining risks aggravated by the economic crisis**

- *Sustainability and adequacy concerns for all types of pension schemes have been aggravated by the crisis. Lower growth prospects and increasing deficit and debt affect sustainability. Regarding adequacy, today's pensioners have generally been well-protected against the crisis, but pensions may be affected by unemployment periods and lower contributions and poorer returns in financial markets. The crisis has an impact on the currently active population, and thus on the accumulation of pension rights, notably for younger generations.*
- *The crisis has highlighted the need to review the degree of financial market exposure and the design of risk sharing in funded pensions.*

### **Aggravated challenges and prospects**

- *Adequacy and sustainability are two faces of the same coin. In general, people need to work more and longer to ensure both.<sup>1</sup> There is no one-size-fits-all solution to pension delivery: all systems have pros and cons and all need to adapt to long-term demographic and economic trends. The challenge for policy makers is to aim for a good balance between sustainability and adequacy. The crisis and possible lower economic growth will make this harder and more urgent. It is therefore vital to strengthen awareness of available routes to adequate income in retirement. Transparency and information are essential to gain public trust and guide behaviour. To fully ascertain the balance between adequacy and sustainability in pension systems, better coordinated work at EU level on measurements and data will be needed.*
- *Employment rate improvements over the last decade may come under threat and there is still considerable need for progress. Growth prospects, appropriate work incentives, open labour markets and increasing effective retirement ages are needed to enable more people working more and longer.*

### **Policy implications**

- *Pension systems and pension policy differ considerably across EU Member States. All systems entail risks and need to adapt to long-term demographic and economic trends. The challenge for policy makers is to pay attention to the different associated risks and aim for a good balance between sustainability and adequacy concerns. It is of utmost importance that pension systems are designed such that long-term fiscal sustainability is not put at risk, while providing adequate benefits.*
- *Pension policy needs to ensure that retirement incomes are adequate now and in the future. Measures need to be put in place to ensure that pensions together with other sources of income and taking account of the country-specific situation, replace a reasonable part of pre-retirement income and avoid poverty in old age.*
- *To facilitate progress towards adequate and fiscally sustainable pensions the European level provides value added. Several procedures contributing to this end have been put into place, including the Europe 2020 strategy, the Open Method of Coordination on Social Protection and Social Inclusion, and the Stability and Growth Pact.*

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<sup>1</sup> People in bad health may require special consideration.