

Old-age income adequacy in the EU

Key conclusions of the 2018 Pension Adequacy Report

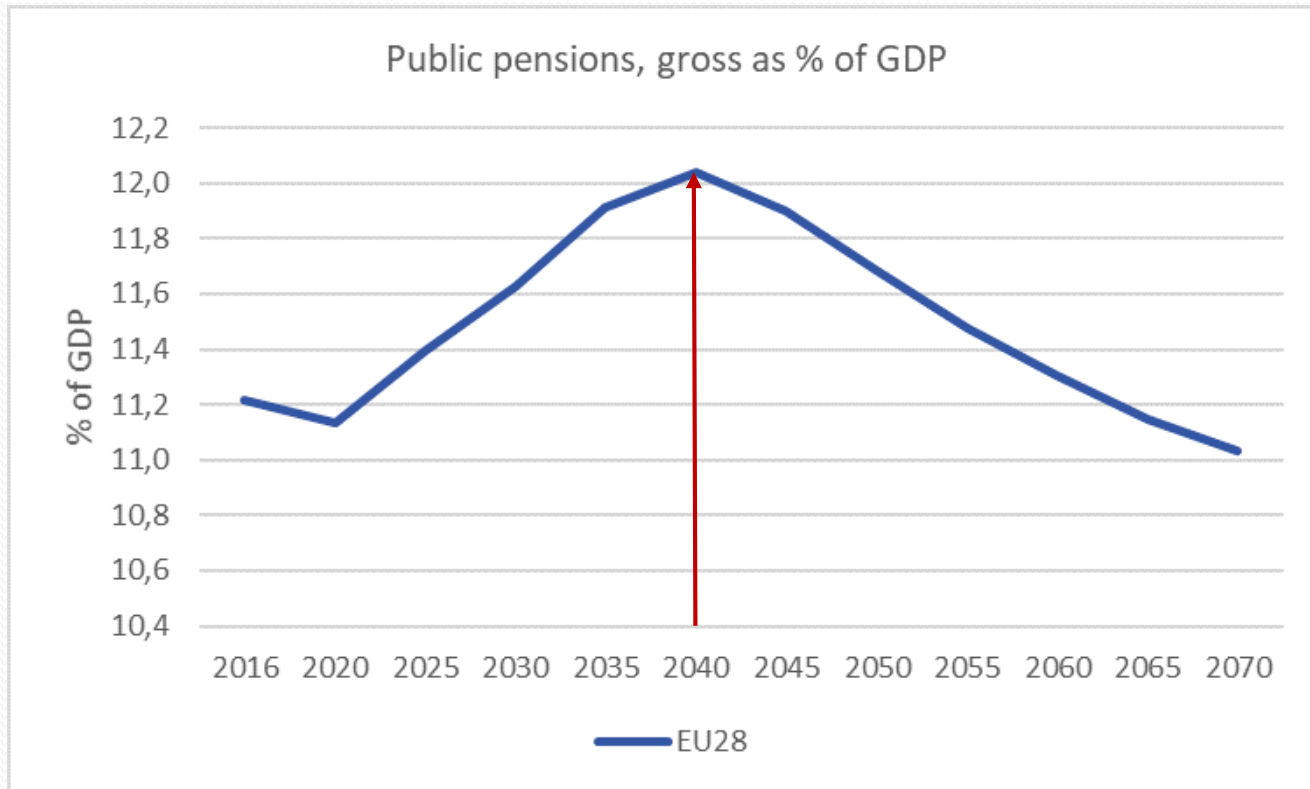
Andraž Rangus
Chair
SPC Working Group on Ageing Issues

2 July 2018, Brussels



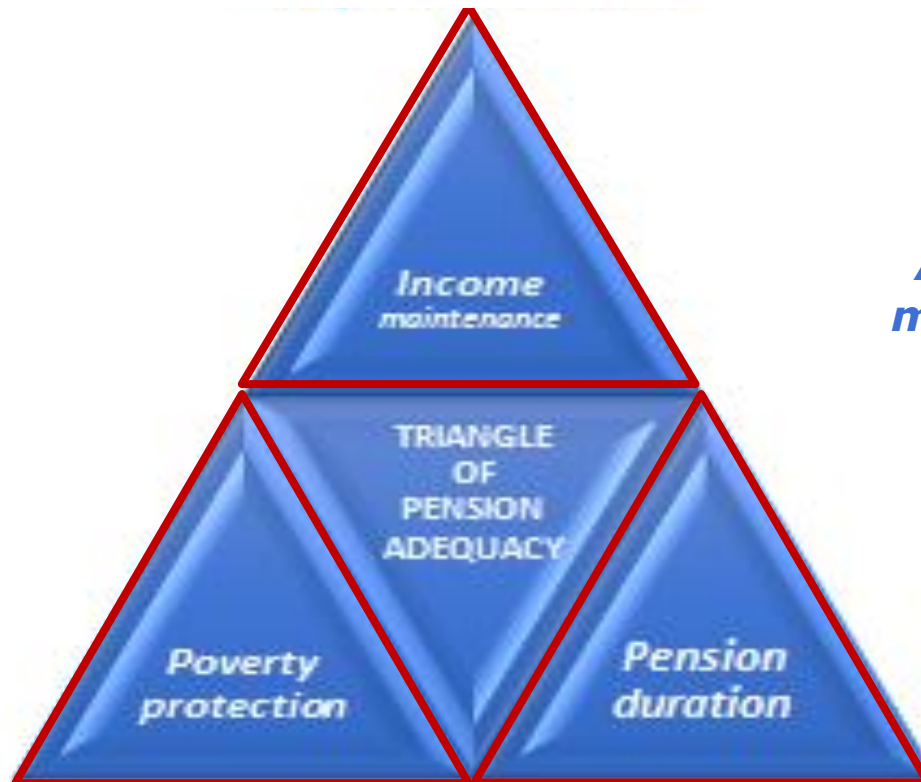
Demography

Pension expenditure



"Triangle of pension adequacy": multi-dimensional approach

Replacement rates



*A pension system
must find a balance
among three
dimensions of
adequacy*

New!

*Length of
retirement*

AROPE 65+



- despite improvements, there is no room for complacency -

Old-age poverty: progress to Europe 2020 targets

Older people (65+) at risk-of-poverty or social exclusion in the EU

12,3 million (26.2%)



6,9 million (19.4%)



2008

19,2 million
(23.3 %)

11 million (20.6%)



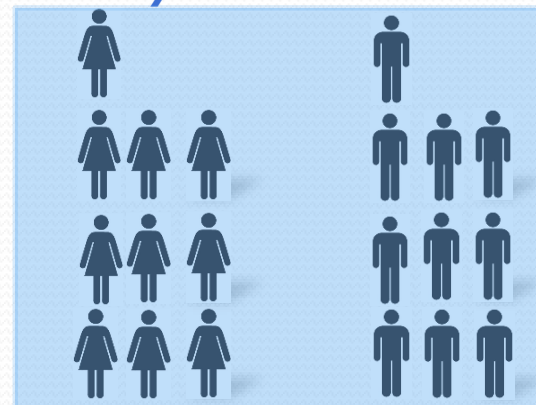
6,3 million (15%)



2016

17,3 million
(18.2%)

Europe 2020 Strategy:
*Target – reducing poverty
by at least 20 million*

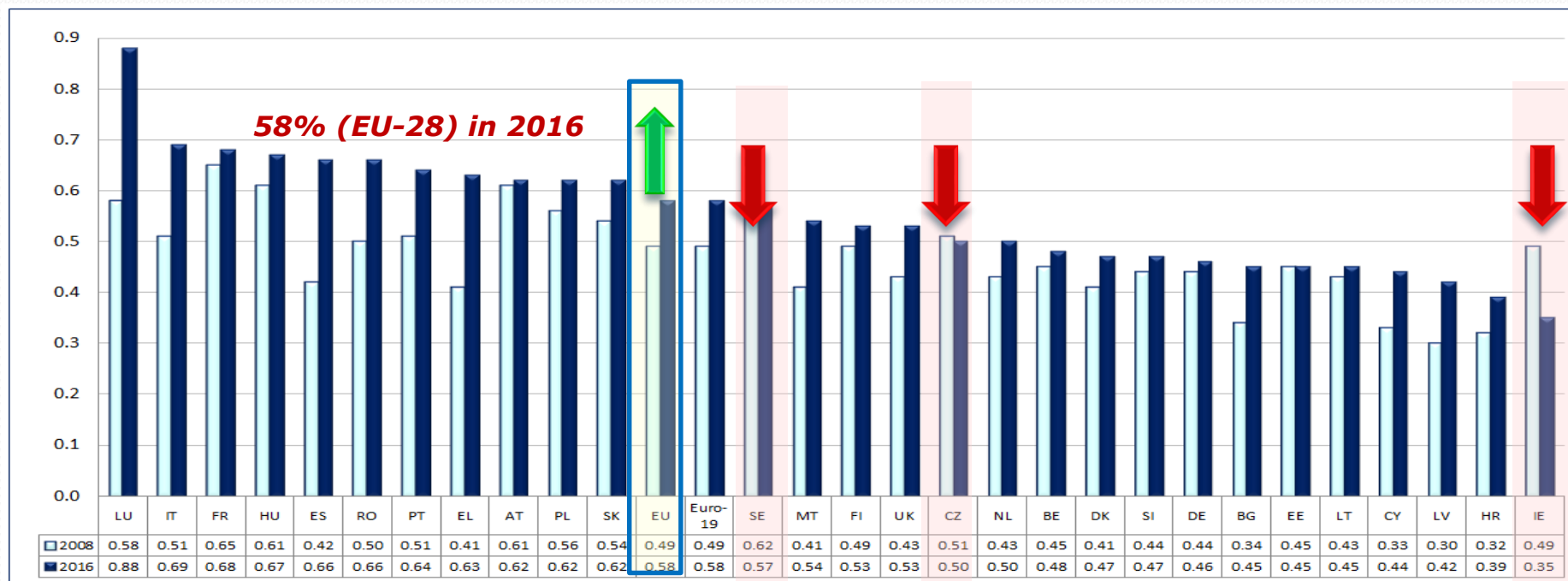


2020

Older people (65+) lifted out of poverty or social exclusion: 1,9 million (9.5% of target!)

Other the last decade, the replacement ratio of pensions has seen an overall improvement

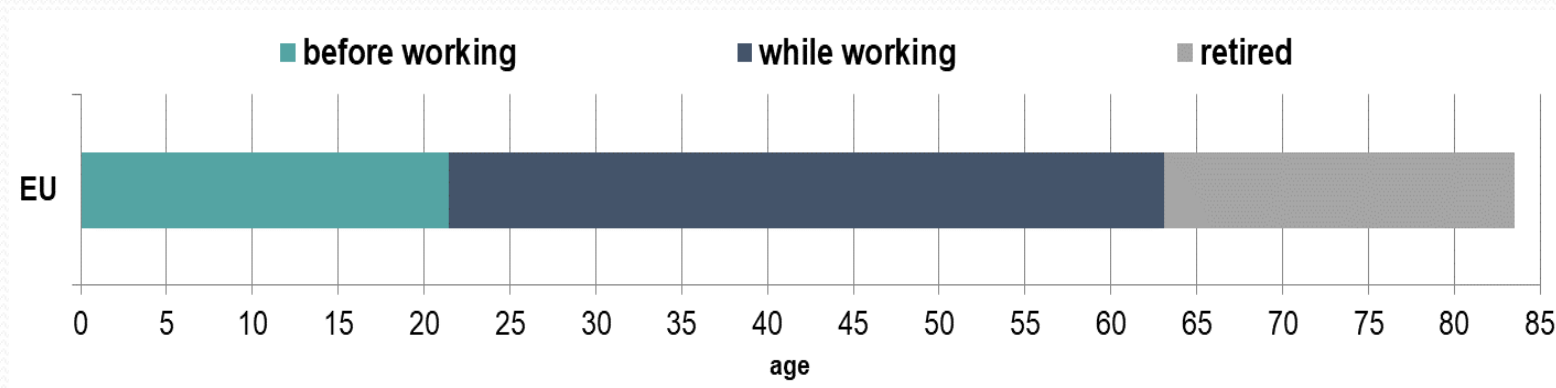
Aggregate replacement ratio, 2008-2016



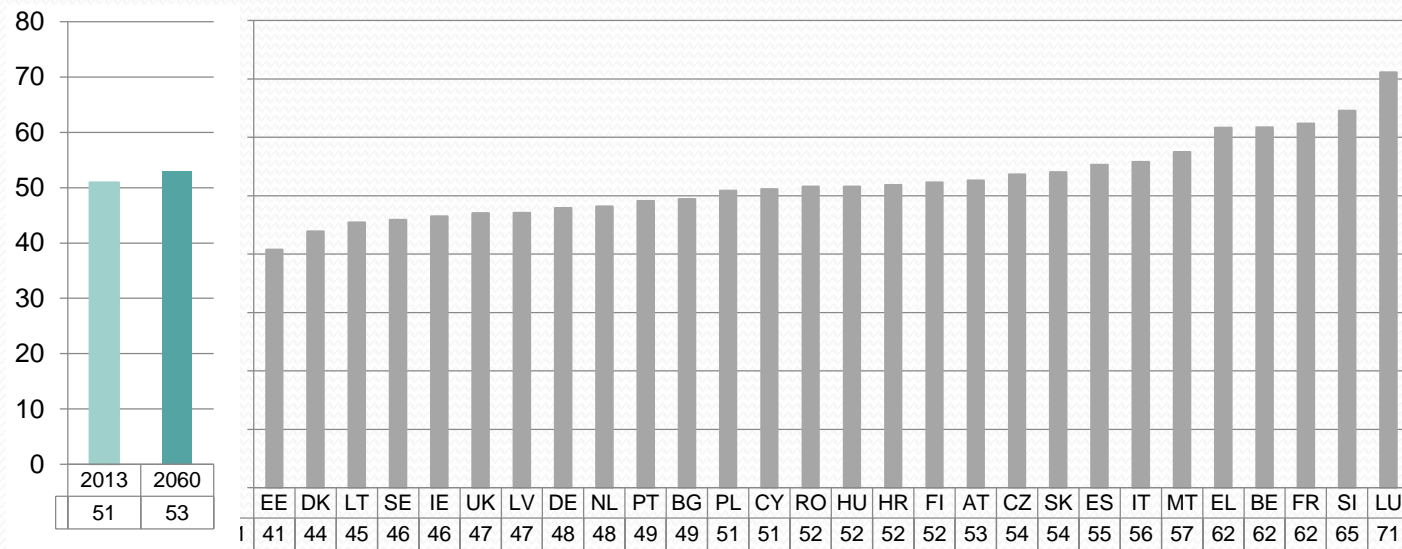
Source: Eurostat. * - 2010 data for HR. EU refers to EU-27 in 2008 and EU-28 in 2016.

Working lives get longer...

Average time before working, working time and retirement duration, 2015, years



...but not as fast as life expectancy



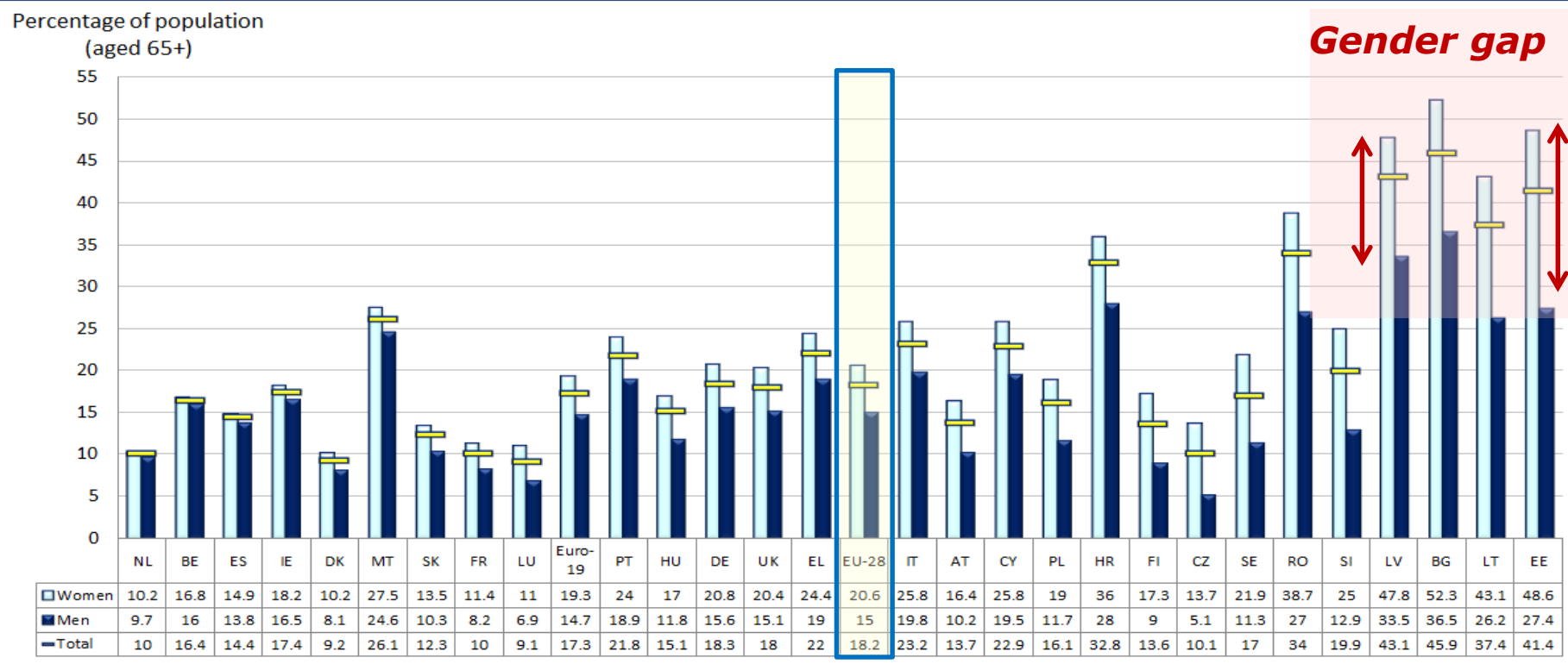


- inequalities remain and some groups require specific policy attention -

Women remain at a higher risk of poverty

One out of five older women (65+) is at risk of poverty or social exclusion in the EU

AROPE rate of older people (65+), by gender, 2016

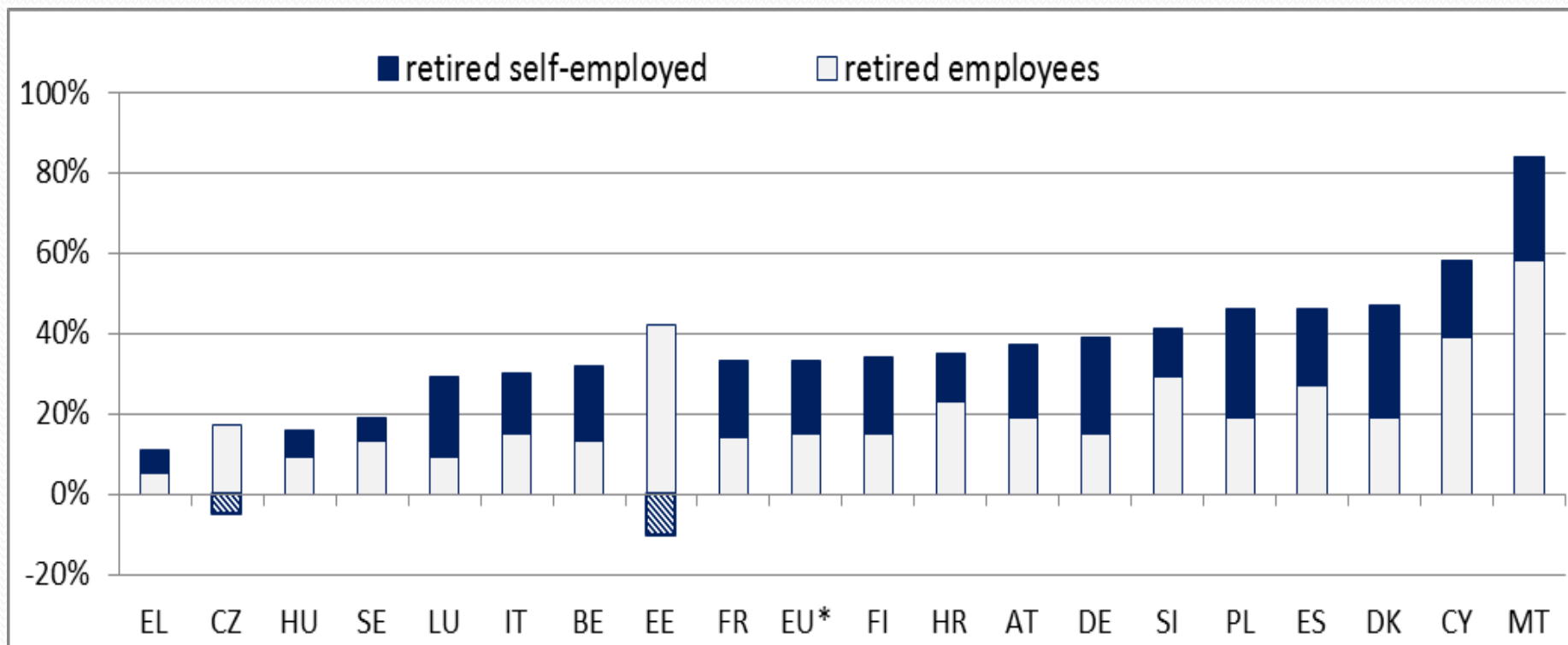


Source: Eurostat. Notes: Sorted by gender gap in at-risk-of-poverty or social exclusion rate.

Retired self-employed: SHARE evidence

Lower income and **higher income poverty risk** compared to former employee

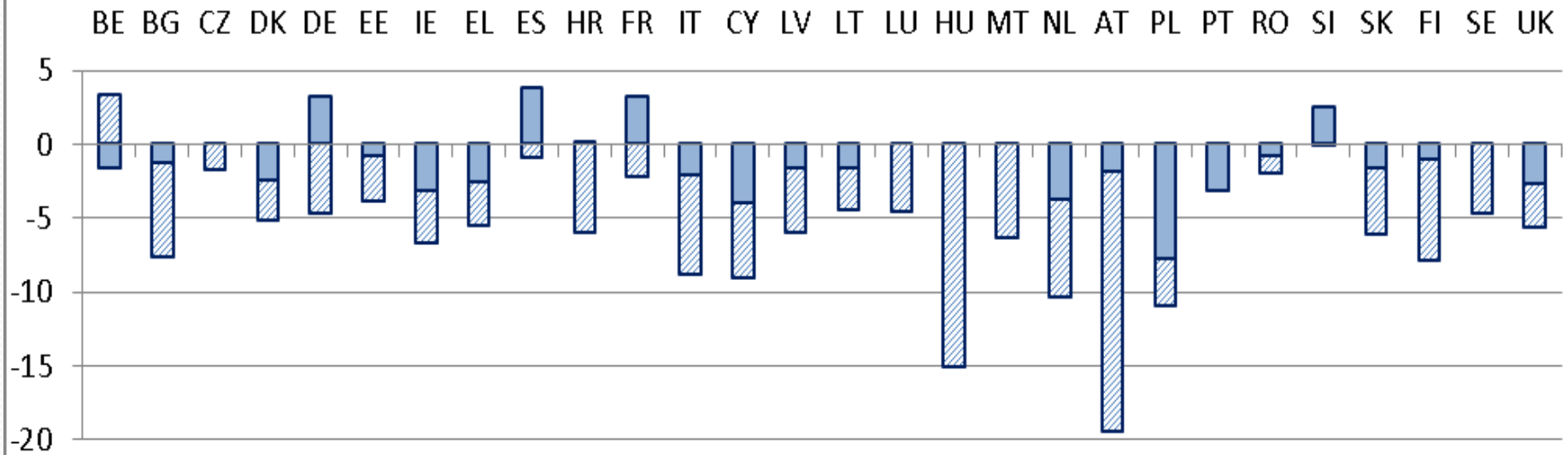
At-risk-of-poverty rate by former work type (SHARE wave 7, 2017)



Career breaks are partly compensated by credits

child-break and 10-year part-time (after child-care break)

■ 3-year career break for child-care ▨ plus ten years of part-time





*- pension systems and labour
markets continue to evolve -*

Shifting reform trends in 2014 -2017

Latest changes of pension systems

Double click to edit

PENSIONABLE AGE

BE, BG, EL, FI,
NL, UK



PL



EARLY RETIREMENT

AT, BE, BG ,
DE, DK, EL,
FI, LU,



DE, IT



FLEXIBILITY & DEFERRAL

AT, FI, DE, SI AT, HR, DK,
SI, FI, FR

LOW INCOME PROTECTION

AT, BE, BG ,
DE, CY, IE,
MT, PL, RO,
SK, SI



CZ, EE, IT, SE



BG, CY, LT,
PT

SUPPLEMENTARY PENSIONS

BE, DK, EE, FR, DE IE, SI

Shifting reform trends in 2014 -2017

- *New reforms to balance **pension duration**...*
 - **Pensionable age** (+ longevity link)
 - **Career length**
 - **Reduced early retirement** options and more **incentives to defer**
 - Increasing focus on **flexible retirement pathways**
 - BUT - some **policy reversals**

Adequacy back in focus - but will it do the trick?

- *Protecting **low-income pensioners***
 - **Basic pensions**
 - **Indexation**
 - **Tax allowances**
- *Improving **access** and **transferability** for different categories*
- *Facilitating **supplementary saving***

Minimum income provisions for older people

- *Recently retired cohorts are overall less dependent on minimum income benefits than previous cohorts, possibly due to more robust labour market performance, in particular for women.*
- *However, **women** continue to be overrepresented among the recipients of minimum benefits.*

Factors in increased employment rates

Factors in increased employment rates of older people

Overall increased employment

Women
working
more

Younger
cohorts
better
educated

Better
health

Overall
increase in
labour
market
participation

Behaviour in late careers

Extended
working
lives

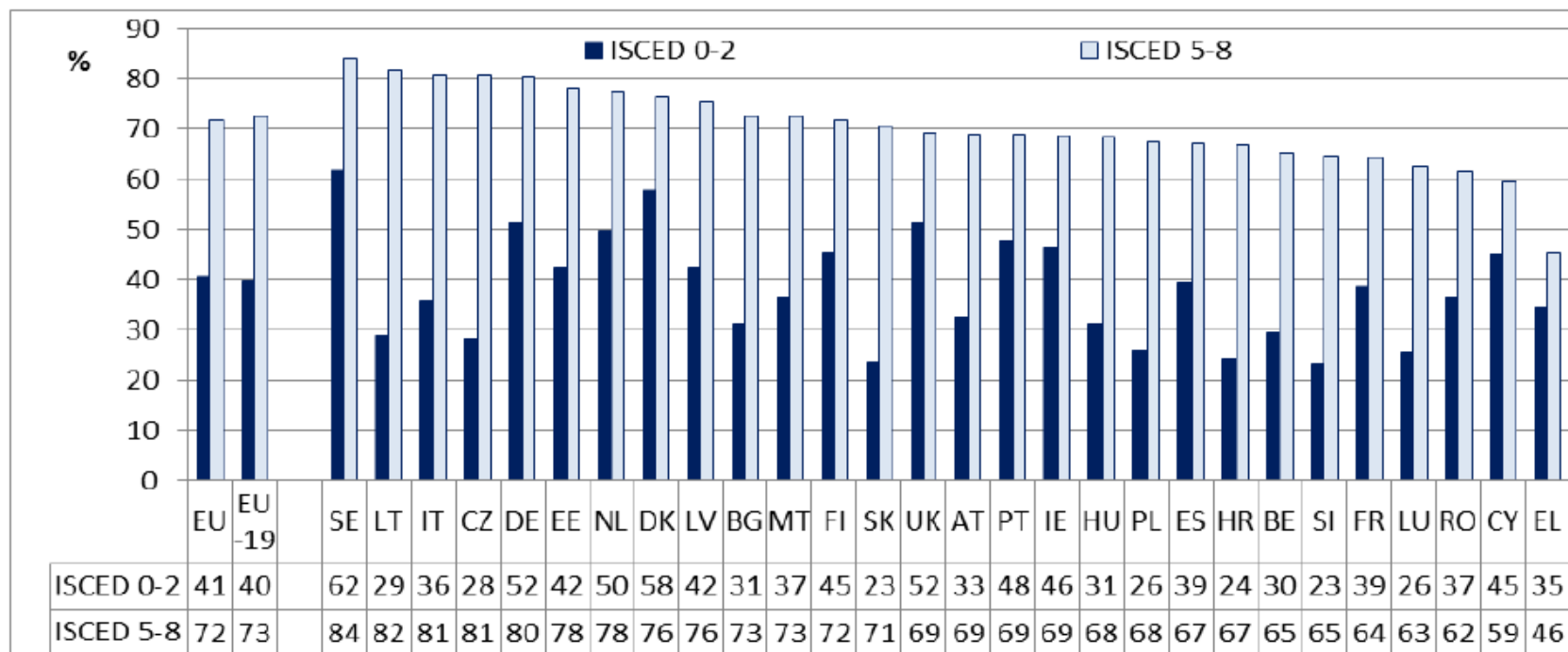
Higher
pensionable
ages

Better old-
age health

Better and
safer
working
conditions

Higher educated have higher employment rate

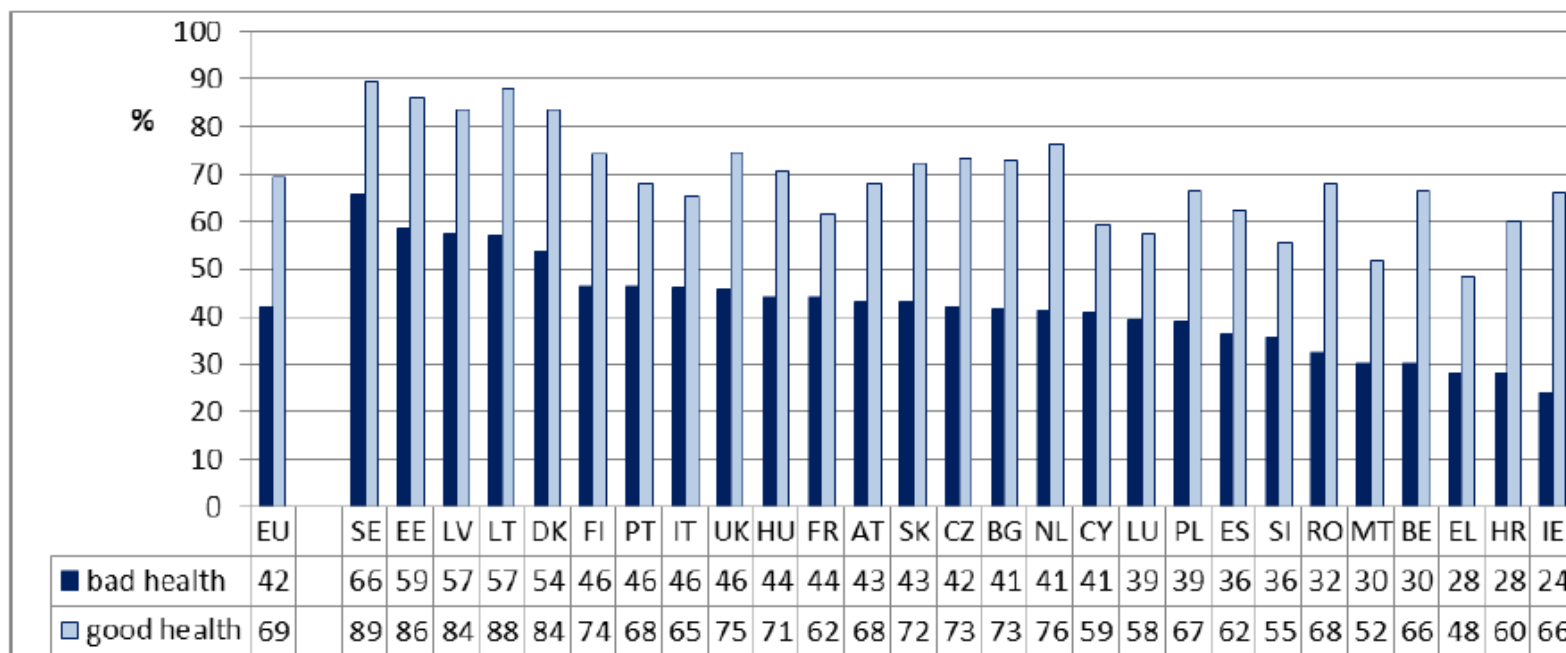
Figure 55: Employment rates of 55-64-year-olds by education level and country in 2016, %



Source: Eurostat.

Better health contributes towards higher employment

Figure 57: Employment rate by health status, people aged 50-64, 2015, %



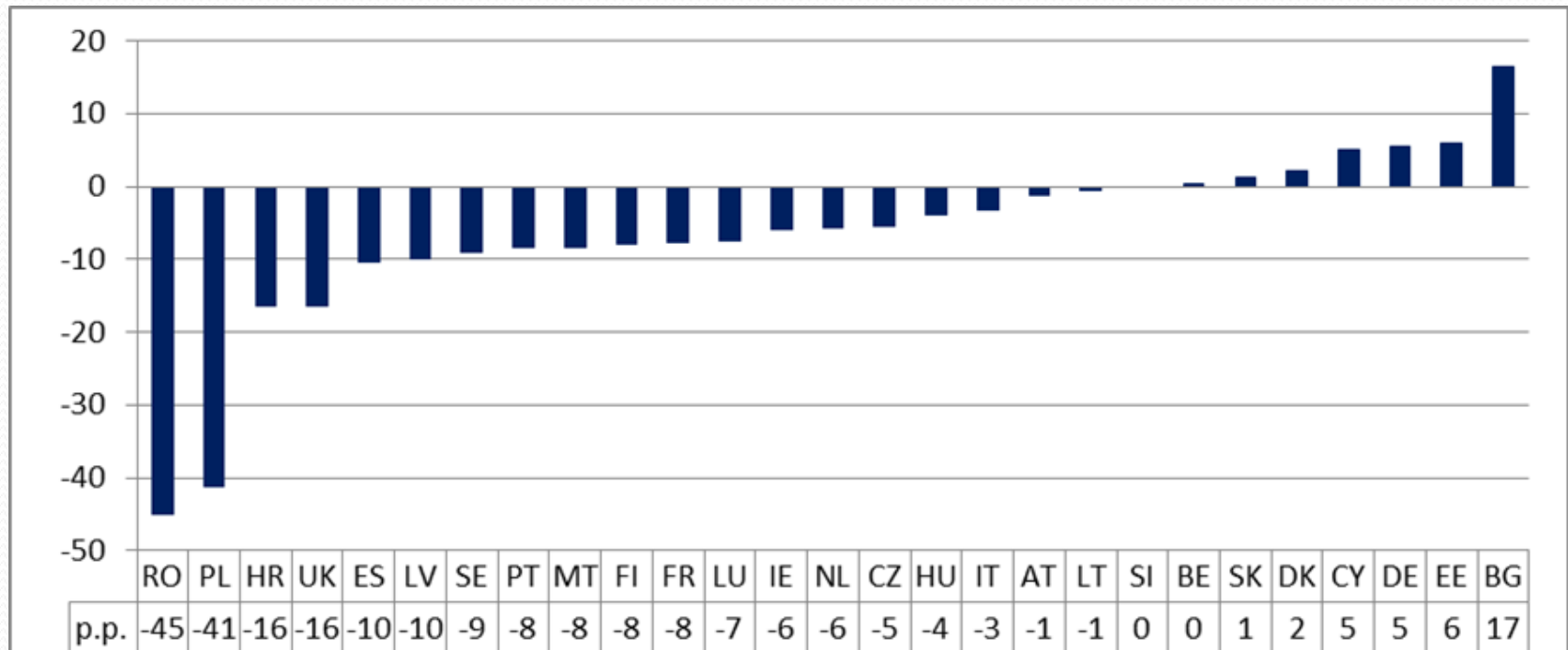
Source: Eurostat, EU-SILC, 'PH010: General health', where 'bad health' denotes answer 'Fair, bad or very bad health status'; OECD calculations. Germany: missing data.



*- adequacy of future pensions will
require further improvements -*

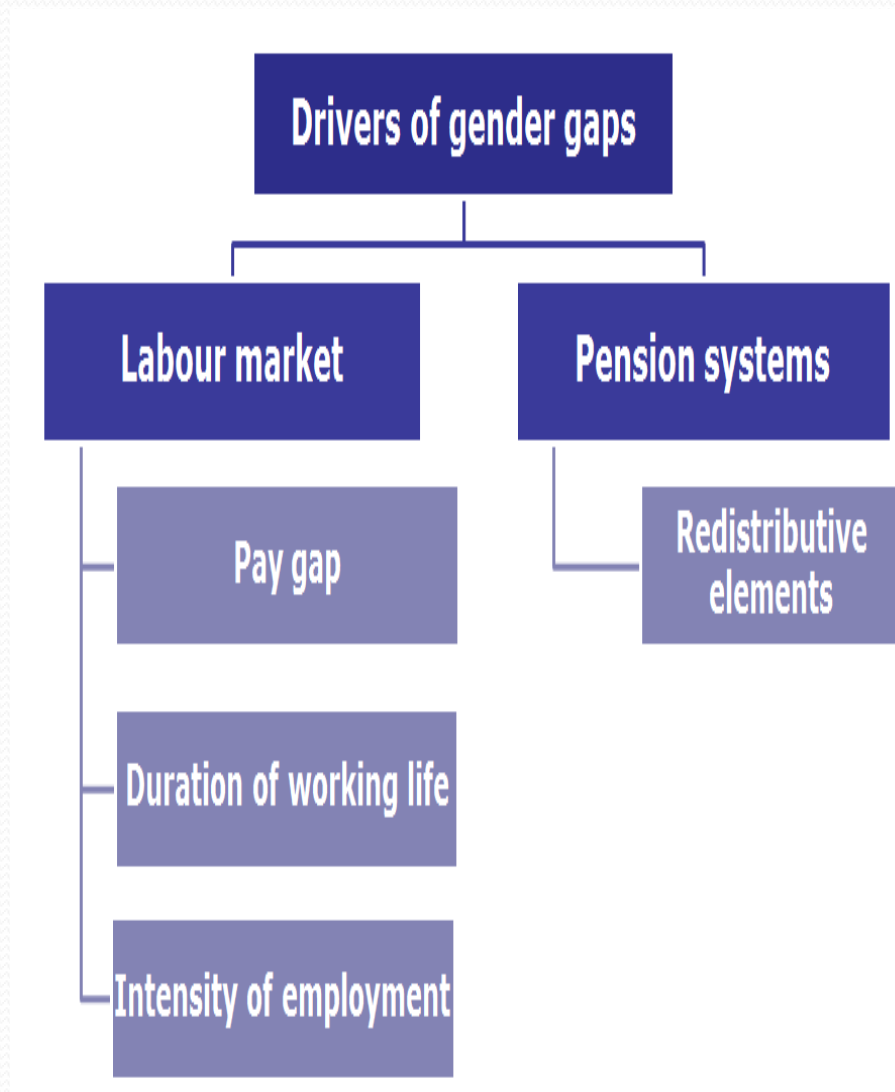
As life expectancy improves, pension income for a similar career will be lower

Net TRR, base case (40 years up to the SPA), men, average earner, p.p. change, 2016-2056



Women's pensions **37% lower**, reflecting multiple labour market gaps

- *Different careers*
- *The gender pay gap - 16.3%*
- *Women (33) work on average almost 5 years less than men (38)*
- *31.6% of women (15-64) work in **part-time** employment compared to 7% of men in the EU-28.*



People in **non-standard employment** and **self-employment** often face **less favourable conditions for accessing and accruing pension rights**

The earnings gap

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graph TD; A[The earnings gap] --> B[Gaps in access and benefit accrual]; B --> C[High risk for old-age income adequacy];
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Gaps in access and benefit accrual

High risk for old-age income adequacy



- *what can be done-*

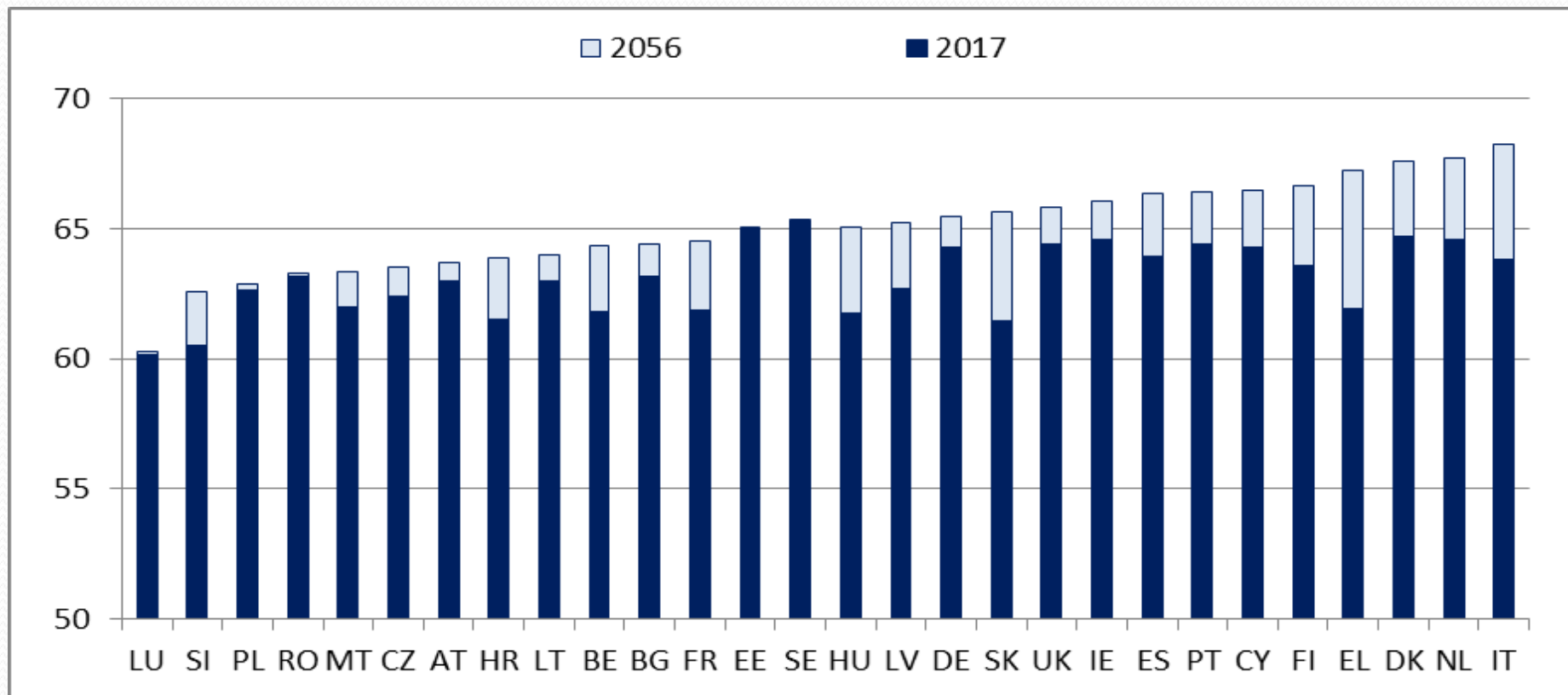


Policy response

- Adequate coverage and access to pensions for all
- Raising effective retirement ages
- Expansion of complementary savings

Policy response: longer working lives

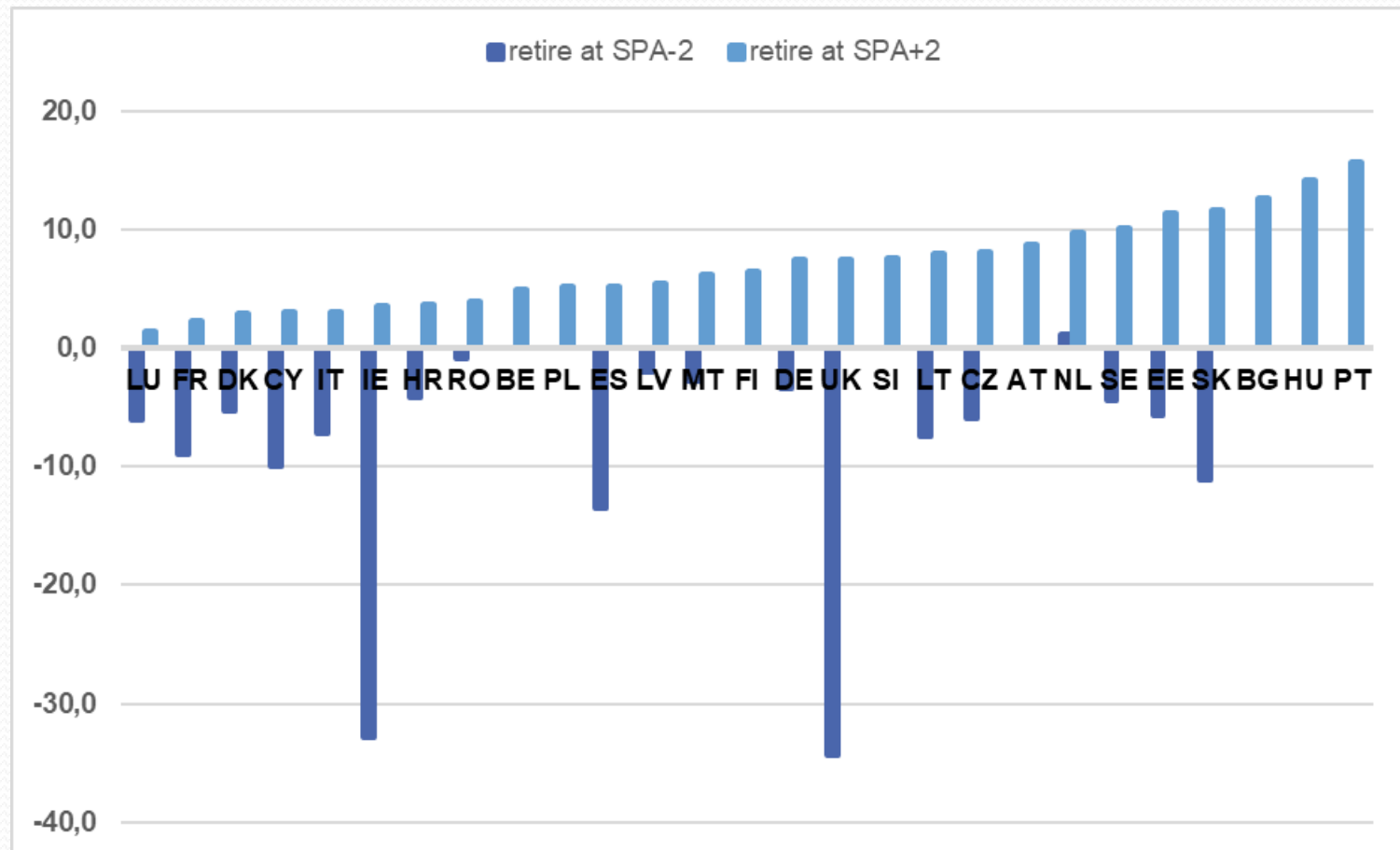
Projected exit ages from the labour market, 2017 and 2056, years



Source: The 2018 Ageing Report assumptions

Policy response: longer working lives

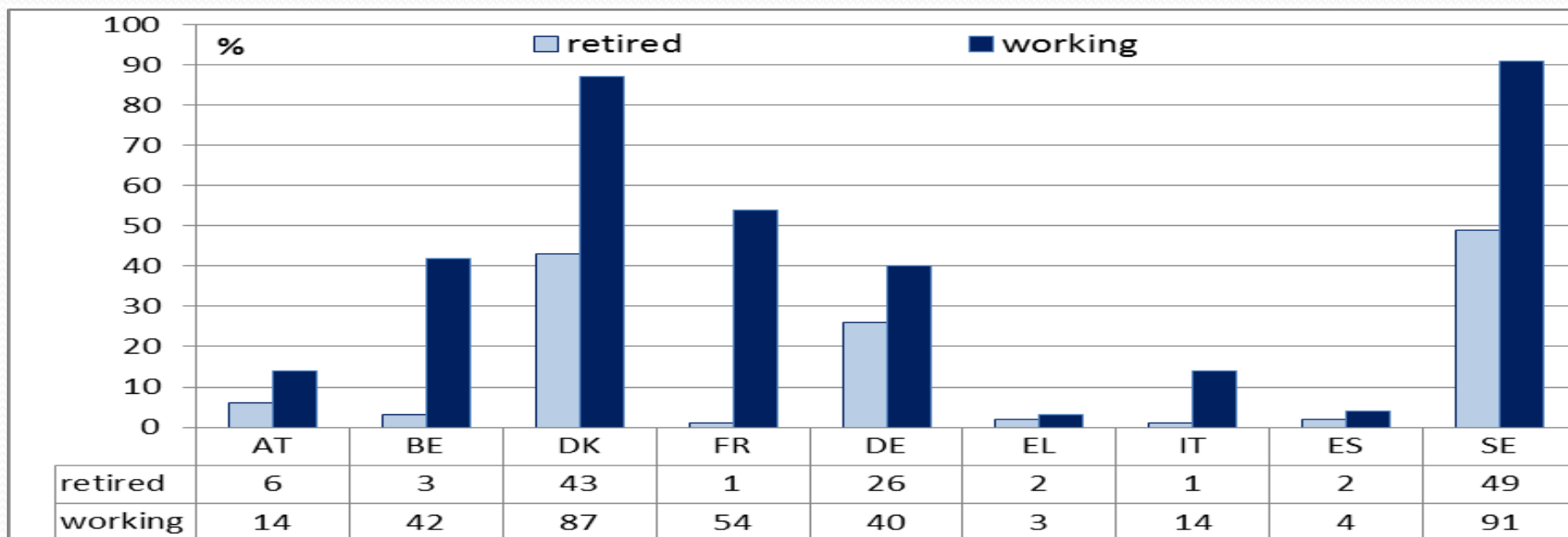
Net TRR, differences between the cases retiring 2 years earlier, 2 years later, compared to the base case, average earner, men, 2056, p.p.



Policy response:

**Maturing occupational pillars to contribute more to old-age incomes in some countries...
...while supplementary pensions remain marginal in others**

Coverage of retirees and working people (50+) by occupational pensions, 2017, %



Source: SHARE wave 7; countries with missing values not shown; survey does not include Ireland, the Netherlands and the UK. Notes: "Retired" refers to share of retirees with an occupational benefit. "Working" refers to share of working people with an occupational pension entitlement. All respondents are older than 50.



*- joint efforts at the EU level need
to be pursued -*

Policy response at EU level

- ✓ European Pillar of Social Rights and related initiatives
 - ✓ Directive on work-life balance
 - ✓ Recommendation on access to social protection
 - ✓ High-level group of experts on pensions
- ✓ Holistic reflection on adequacy and sustainability
 - ✓ Pension Adequacy Report and the Ageing Report
- ✓ Adequacy monitoring to continue
 - ✓ Next Pension Adequacy Report in 2021

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Questions & discussion