



Reforms must ensure adequate pensions for all



As Europe's population ages, a demographic shift will take place over the next half-century that will pose significant challenges to the pension systems of Member States. Ongoing reform will be necessary if Europe's pension systems are to remain adequate and sustainable going forward. How can this be achieved?

A recent EU-commissioned report reviewing pension policy development across Europe reveals that structural pension reform alone will be insufficient to avoid a dramatic decrease in retirement incomes, or conversely, a situation in which the costs of pension provision rises so sharply as to become unbearable.

In addition to social security reform, a shift in cultural attitudes will be necessary: one that will encourage citizens to remain in the workforce later into their lives. Inadequate retirement incomes lead to poverty and thus pose a threat to the social cohesion. Moreover, a return to a situation where older people are poor or dependent on their children is unacceptable.

The report indicates that substantial progress has been made, as many member states have radically overhauled their social security systems while others have promised future substantive reform. "Figures indicate that pensioner poverty is still an issue affecting Europeans across the continent," says EU Director for Social Protection and Integration, Jérôme Vignon. "What is more, while pensioner poverty rates vary considerably from state to state, female pensioners are, almost without exception, far more likely to live below the poverty line than are their male counterparts. Ongoing reforms must look to tackle this historical injustice and ensure adequate pensions for all."

■ Incentives for working later in life

One measure through which Member States have attempted to face the upcoming demographic challenge has been a concerted effort to raise employment rates among older workers. Wholesale reforms have led to impressive improvements in this area, as the employment rate for workers between the ages of 55 and 64 has risen from 36% in 2000 to 41% in 2004. This progress must be maintained if Member States are to meet and exceed the 50% target set in Stockholm and Lisbon. The report suggests that incentives to working later into life must be coupled with labour market reforms that open markets to "new" older workers while enabling and supporting those already in the workforce.

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A second important measure listed in the report has been the notable increase in supplementary pension provision, an increase that has been reflected by the development of legislative frameworks that provide enhanced security for occupational and private saving. This upward trend it is hoped will have a positive effect on the





maintenance of adequate retirement incomes for Europe's ageing citizens. However, there are concerns over unequal access to private and occupational pensions and potential gender inequalities inherent in such provision, with many women in low-paid or part-time work unable to make sufficient contributions throughout their working lives.

New initiatives, such as those proposed by the UK government, advocate 'auto-enrolment' into low-cost and portable pension savings vehicles to workers on low and medium incomes. This is an innovative proposal aimed at ensuring that supplementary pensions are available for all not just the few.

"An increase in private saving is likely to be part of a successful response to the upcoming demographic challenge as we move forward," says Mr Vignon. "However, such private saving must be provided in an equitable, low cost, and secure manner and thus needs to be monitored carefully."

■ Tracking demographic trends

A third important development cited in the report has been the introduction of automatic and semi-automatic review mechanisms that track social security systems and ensure periodic monitoring of the sources of pressure that affect them – notably demographic trends. These periodic reviews act as drivers for change, while informing and facilitating debate regarding potential policy responses. Moreover, such review mechanisms not only promote the transparency of pension systems, but together with the provision of relevant pension information to citizens, build public confidence in them.

Finally, while the report indicates that reforms have tended to improve links between pension contributions and benefits in recent years and as a result have strengthened the incentive for older citizens to continue working, care must be taken to ensure that the results of this progress are not

reversed. "The resounding message of the report is clear," says Mr. Vignon. "For reform strategies to be successful, it must be recognized that adequacy and sustainability are not mutually exclusive and must be pursued jointly."

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