



Towards a European Pillar of Social Rights

PENSIONS

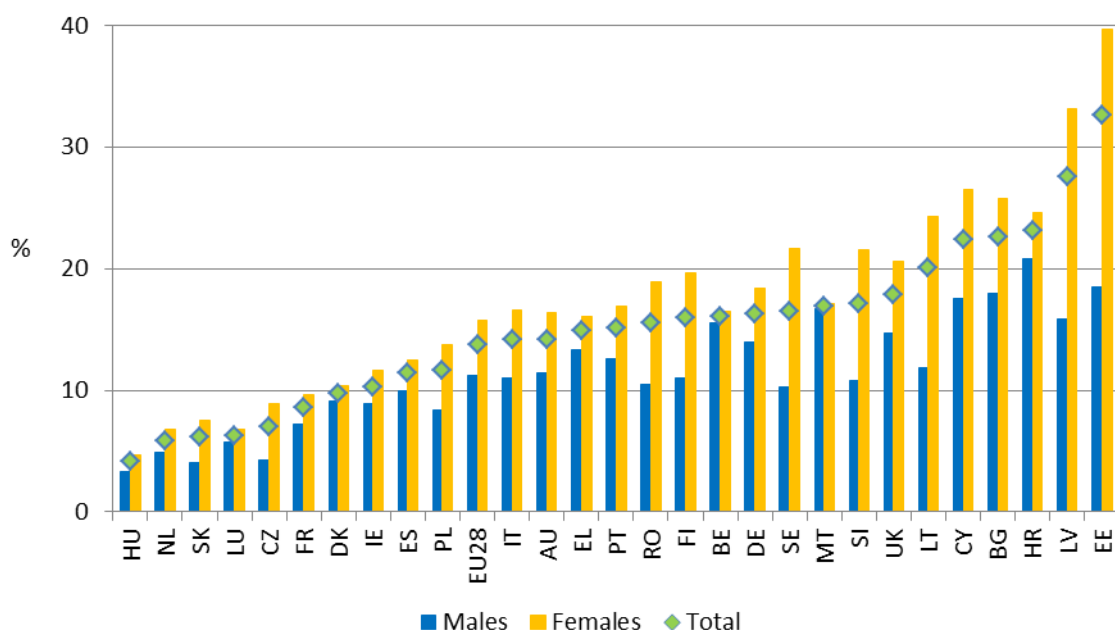
Pensions provide income after the end of the individual's working life and serve to secure the standard of living at retirement. Adequate minimum pensions provide effective protection against poverty. This concerns particularly women and certain categories of workers (self-employed, workers with non-standard contracts), more likely to have lower pension entitlements. Guaranteeing the financial sustainability of pension systems is a concern also to ensure the future adequacy of pensions in the light of demographic ageing and changing world of work.

Challenges

Population ageing will make it harder to finance adequate pensions in the coming decades, as the growing share of older people vis-à-vis working age population will weigh on pension systems. Recent reforms have largely improved the ability of European pension systems to withstand the demographic impact through higher pensionable ages, stricter eligibility conditions and changes in benefit calculation. In some cases, further reforms are needed to secure sustainable pension systems – including in particular by linking pensionable ages to life expectancy. At the same time, changes in eligibility and benefit calculations for public pensions are expected to lead to lower income replacement levels. Improving old age income would thus require women and men to work more years and save more. Supplementary pensions will need to play a larger part in retirement income provision, but their coverage remains very uneven across the EU. Even where occupational pensions are well developed, the changing world of labour relations poses new challenges to their ability to cover all segments of the workforce.

The risk of poverty is much lower for pensioners than for the rest of the population, and in general pensioners had more stable incomes during the crisis. Yet, workers with low-pay, interrupted careers or part-time jobs are more likely to have inadequate pensions. This increased link could contribute to the persisting gender pension gap - with women's current pensions averaging 40% less than men's. Individuals with reduced access to social protection, such as the self-employed or workers with atypical contracts also risk to be affected. As a result, more people could fail to qualify for an earnings-related pension and fall back on minimum old-age benefits. Pension systems can help mitigate these risks by encouraging longer careers, facilitating access to supplementary savings and crediting pension rights for career breaks linked to parenthood or care. This can be done through linking the pensionable age to life expectancy, facilitating the employment of older workers, allowing for lifelong learning and upskilling to allow people to change careers later in life, closing pathways to early retirement and encouraging later retirement.

Figure: Rate of older people at risk of poverty (aged 65 years or over) by gender, 2014



Data source: Eurostat.

Situation at the EU level

The Charter of Fundamental Rights of the European Union recognises the entitlement to social security benefits in old age in accordance with the rules laid down by Union law and national law and practices. The Treaties stipulate that the EU supports Member States and encourages their cooperation in social security, including pensions, respecting the national competence over their fundamental principles and financial equilibrium. EU legislation coordinates how national pension rules are applied to mobile workers¹ and regulates some aspects of supplementary pension provision, notably the activities of pension funds² and the rights of mobile workers³. Given their budgetary impact and importance for income stabilisation, pensions are central to the stability of the euro area.

Situation in the Member States

In most Member States the entitlement to pension is based on the individual's work record, while in some it is a universal right. Pension rights may also be credited for periods outside the labour market, such as parental leave. Eligibility to a State pension depends on having reached a certain qualifying age and/or career length; earlier retirement may be allowed but often implies a reduction of benefit. Pensions can be financed from general tax or earmarked contributions. The amount of benefit can either be fixed in relation to previous earnings, or depend on the return on assets. Retirees who do not qualify for a higher earnings-related pension are typically entitled to a minimum benefit. On top of the State-provided pensions, workers may accrue supplementary rights in occupational or personal schemes. While in a few Member States occupational pensions are mandatory and provide the bulk of retirement income, elsewhere the contribution of supplementary schemes to pension adequacy remains limited.

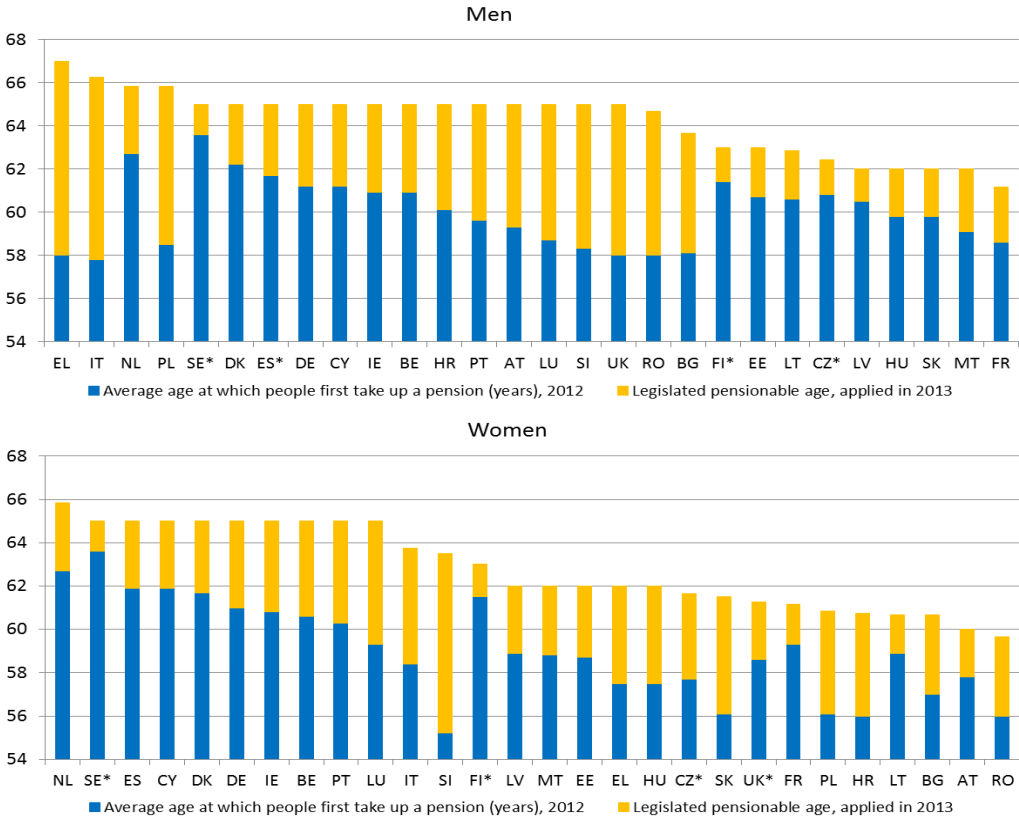
¹ Regulation (EC) No 883/2004 on the coordination of social security systems

² Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision

³ Directive 2014/50/EU on the acquisition and preservation of supplementary pension rights

Recent and ongoing reforms mainly focus on rebalancing time spent in work and in retirement in line with increasing life expectancy. Almost all Member States have legislated current or future increases of the pensionable age and have equalised pensionable ages for women and men or adopted future reforms to that effect. Among those, 9 have directly linked it to future gains in life expectancy, and more countries are considering doing the same. Many Member States are also taking measures to support the employment of older workers and close the gap between the effective retirement age (the age at which people first take up a pension) and the pensionable age (see Figure below).

Figure: Average age (years) at which people first took up a pension in 2012 and legislated pensionable age (applied in 2013), for men and women



Data source: European Commission (2015) Pension Adequacy Report

Note: * The pensionable age varies across national legislation

International dimension

The legal instruments of the International Labour Organisation (ILO) provide for basic social rights in ratifying States, including the minimum coverage and level of old-age benefits⁴. ILO standards also encourage governments to set basic income security, including old-age benefits⁵. The legal instruments of the Council of Europe (CoE) either refer to the ILO standards⁶ or set their own minimum standards⁷. The various ILO and CoE legal instruments are in force in parallel and have been fully or partially ratified by various Member States.

⁴ ILO Social Security Minimum Standards Convention, 1952 (N°102) and the Invalidity, Old-Age and Survivors' Convention, 1967 (N°128)
⁵ ILO Recommendation on Social Protection Floors (N°202)
⁶ Council of Europe's European Social Charter (1961) refers to the ILO Convention N°102. The European Social Charter is a Council of Europe treaty which was adopted in 1961 and revised in 1996.
⁷ Council of Europe's European Code of Social Security (1964) and the revised Code (1990) set minimum standards in social security. The Revised European Social Charter (1996) refers to the Code of 1964.