



Extending working lives Experiences with pension reforms in EU

Workshop - Extending the working lives of older workers: a European success story ? Brussels 13 march 2008

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Promoting longer working lives through pension reforms in EU

1. The key role of promoting longer working lives
2. Ongoing reforms to Increase and give more flexibility in retirement age
3. Ongoing reforms of early exits from labour markets



OMC context

- SPC 2004 Study on promoting longer working lives
- 2006 Synthesis report on pensions
- SPC 2007 (April) – First part on Flexibility in retirement age
- SPC 2008 (January) - Second part on early exits
- 2008 Joint Report and its supporting document

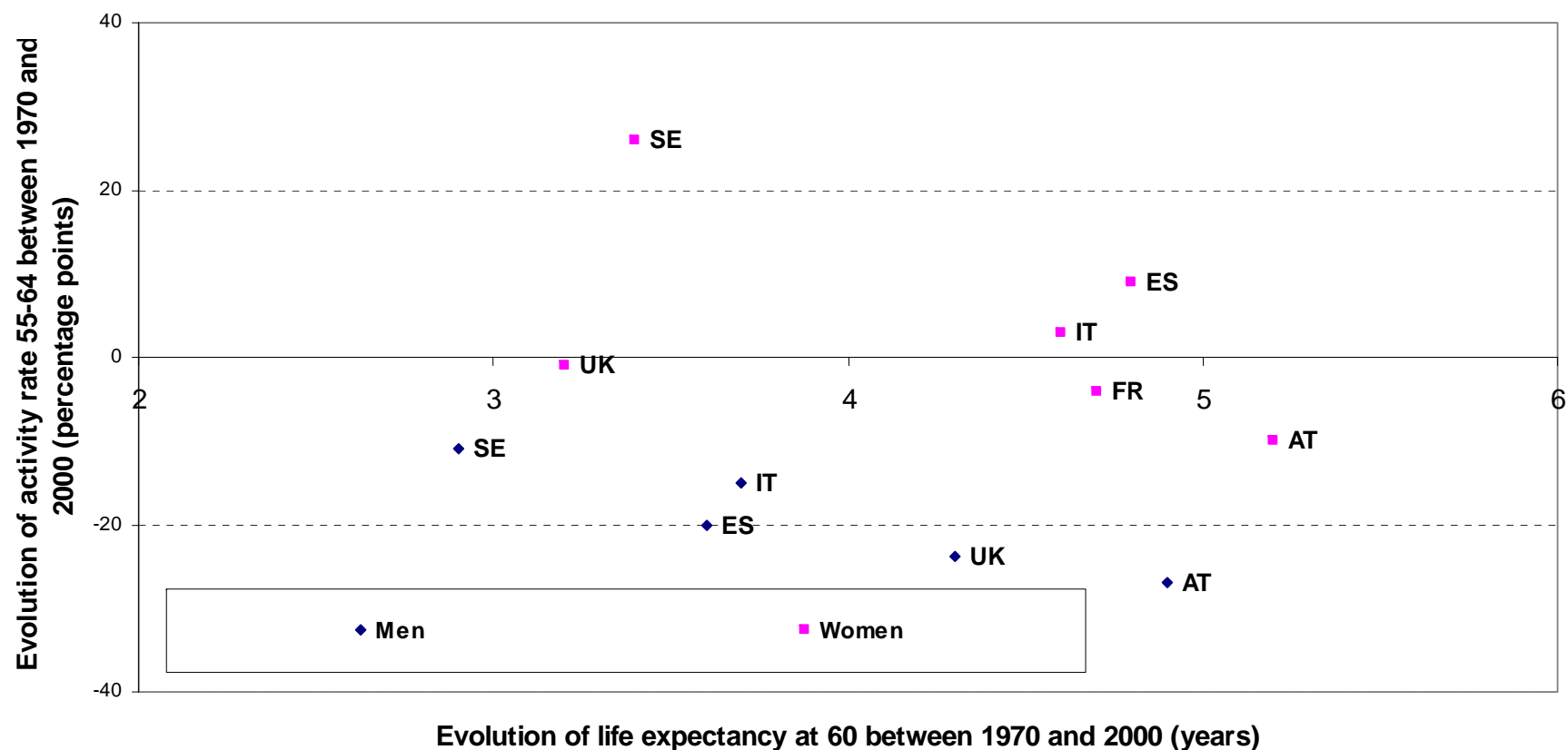


I - The key role of promoting longer working lives

- **The main driver of population ageing is the increase of life expectancy at higher ages**
- **A strong decline of employment rates from 55**
- **Most transitions from work into retirement are not direct for 55-64**
- **Some risks of divergence**



Life expectancy at 60 and activity rates 55-64



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



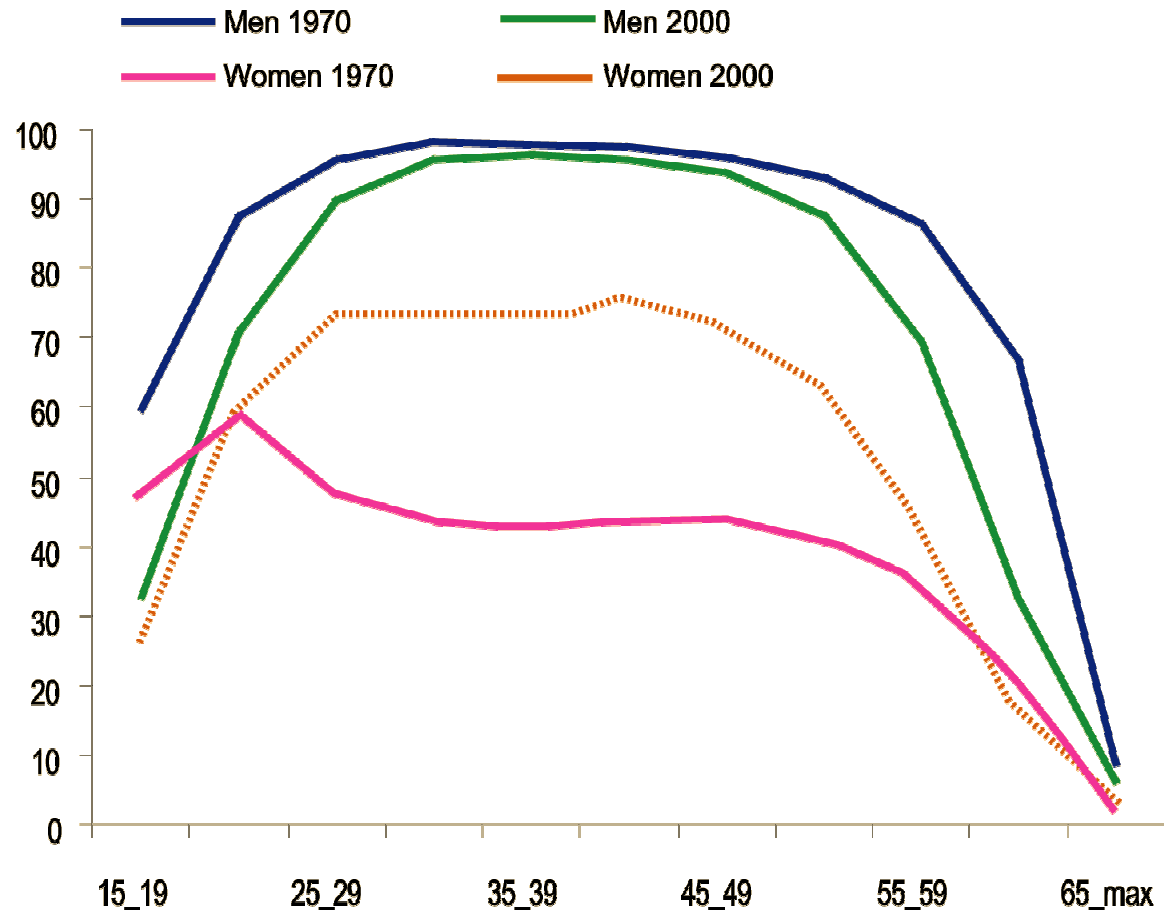
Trends in dependency ratios

	1960	1980	1990	2004	2025	2050
Ratio population 60+ /20-59	28%	33%	35%	39%	58%	80%
Ratio population 65+ /20-64	15%	21%	23%	27%	39%	58%
Ratio population 70+ /20-69	/	/	14%	18%	25%	40%

Note : EU25. Source : Eurostat 2005 demographic projections.



Chart Activity rates by gender in the EU, 1970 and 2000



Source: OECD

Note: See also ILO, Economically Active Population Estimates and Projections: 1950-2010.



I - The key role of promoting longer working lives

Longer working lives both strongly impacts on

- **adequacy – on individual replacement rates
compensation for declines induced by ongoing reforms
(ISG theoretical replacement rates)**
- **sustainability – on average benefit ratio
compensation for demographic pressure
(AWG projections)**

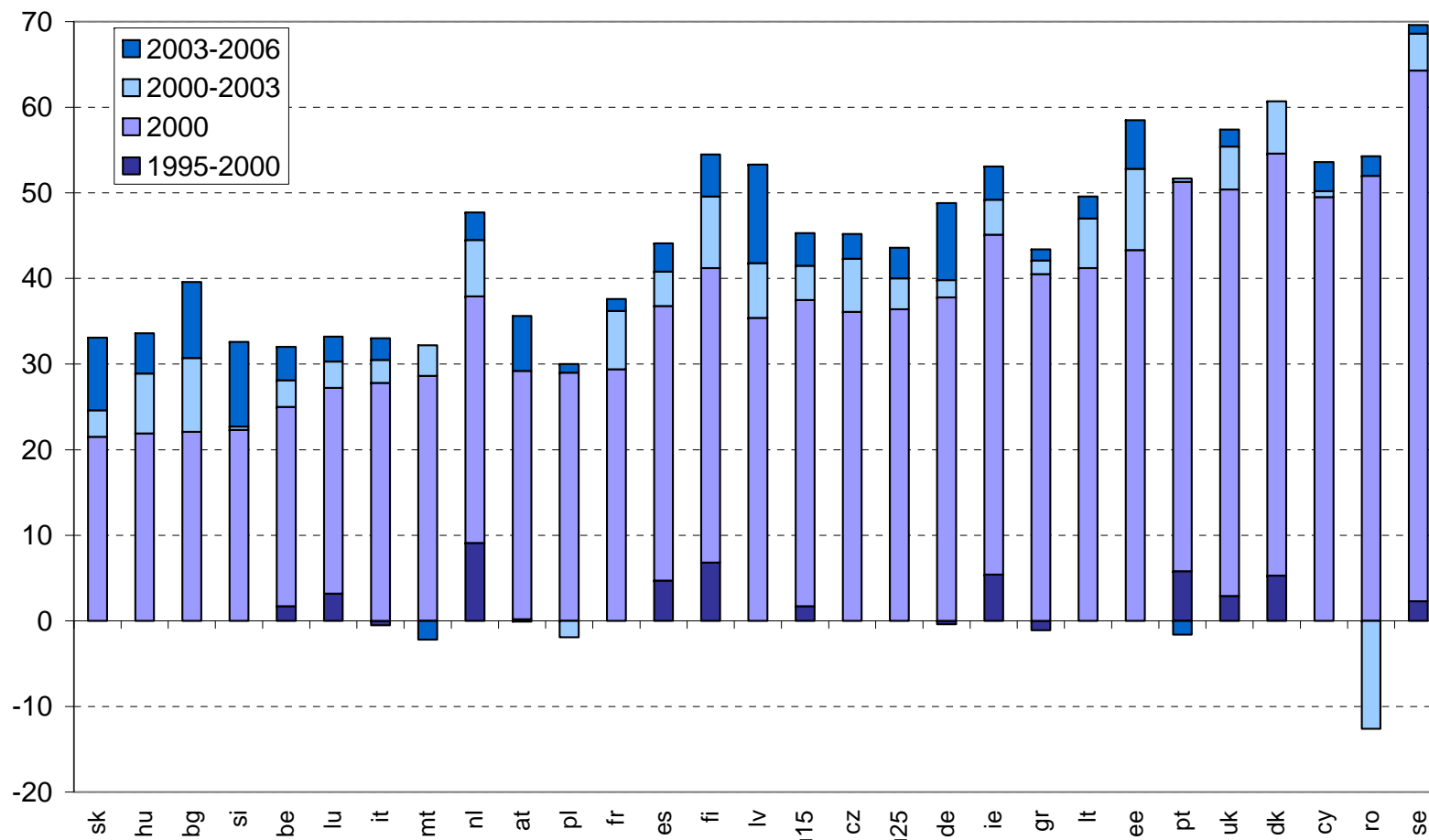


I - The key role of promoting longer working lives

- **Employment of older workers : a huge potential of progress**
 - Recent improvements, but still huge potential
 - Decreasing employment rate from age 55
 - Most transitions from employment to pensions are not direct



Recent increases of employment of older workers – still huge potential

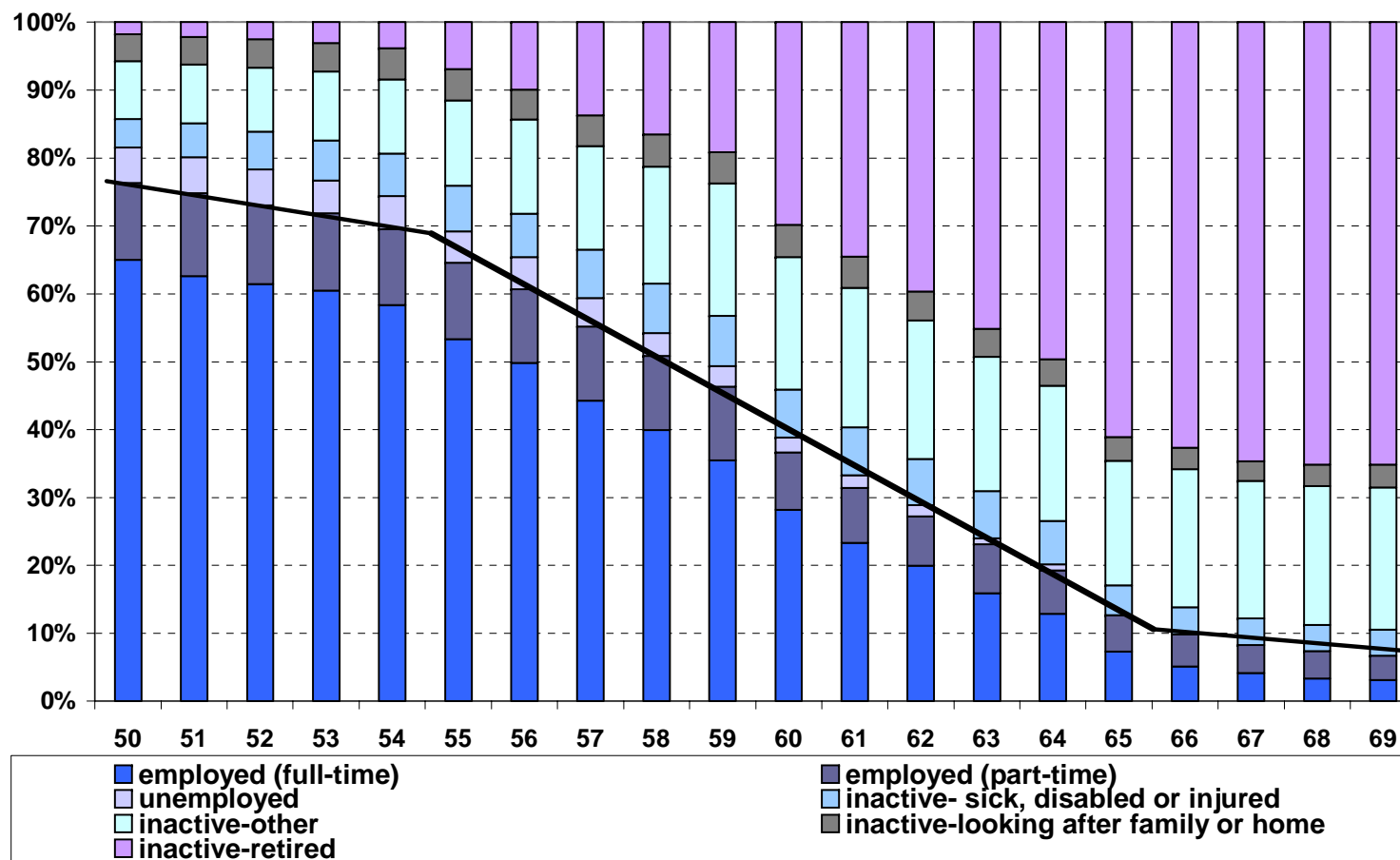


Source : LFS



I - Decreasing employment rate from age 55

Graph 2 - Economic activity by age in EU27 (2006)

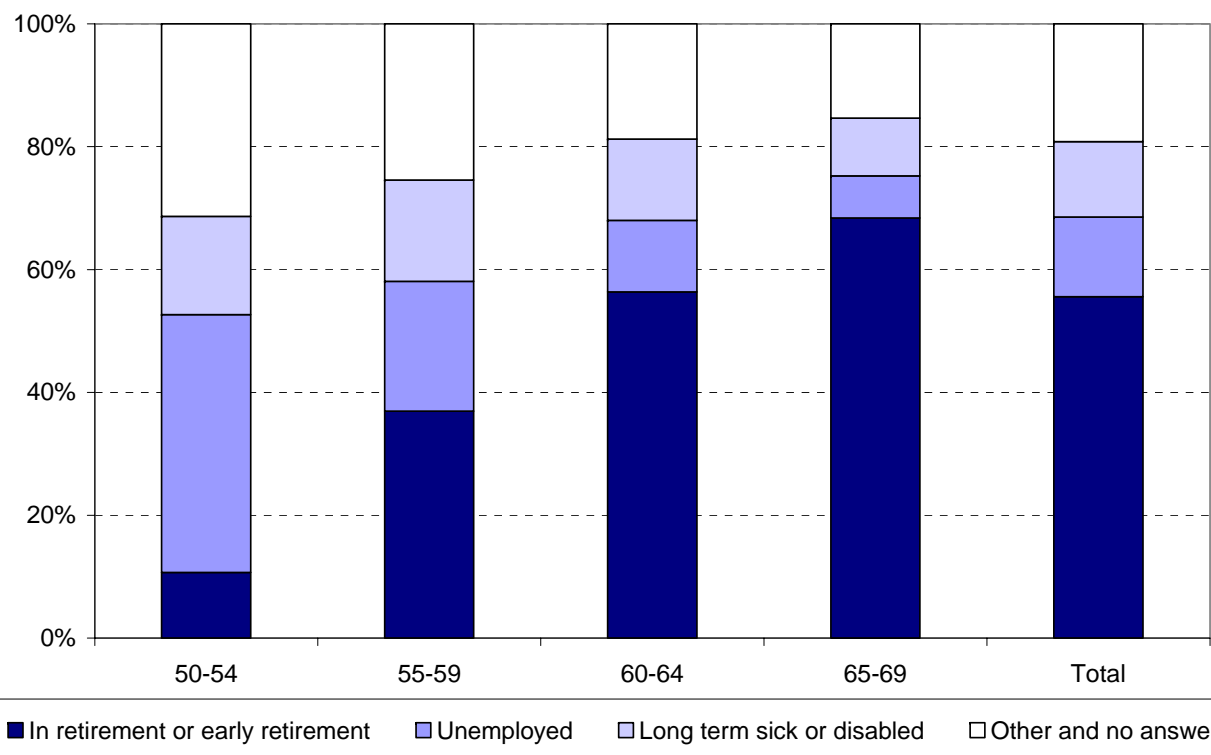


Source: LFS.



The key role of reducing early exits from the labour market

Graph 6– Main labour status just after leaving last job or business in EU by age (2006)



Note: The variable is based on self assessment. Unemployed may include government training, persons waiting to start a job, etc. Source: 2006 ad hoc module LFS – provisional figures, see annex.



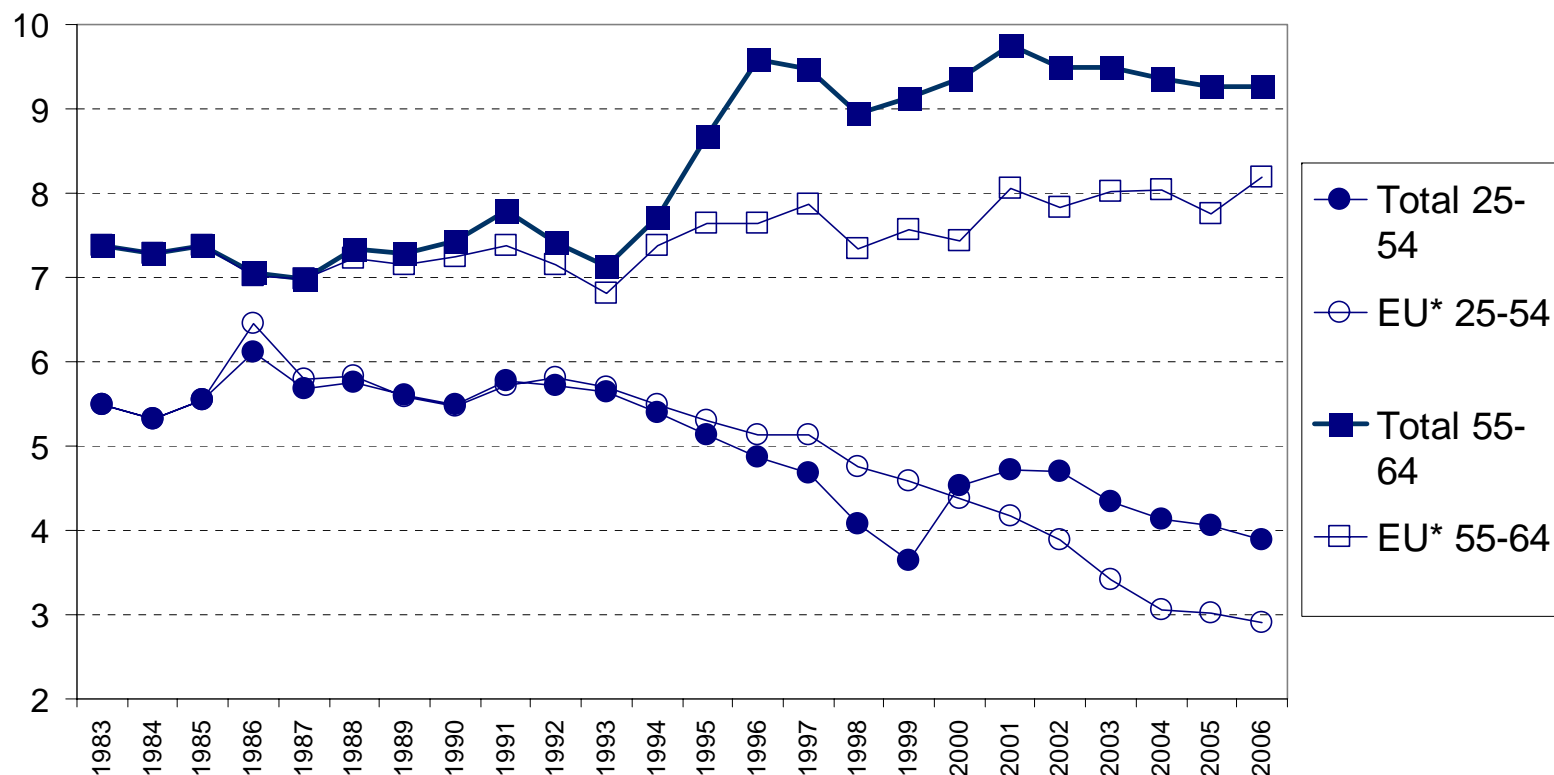
I - The key role of promoting longer working lives

- **Employment rates of older workers : some signs of divergence**
 - Between Member States : divergence
 - Between genders : slow convergence
 - Between qualifications : divergence



Non convergence between MSs?

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

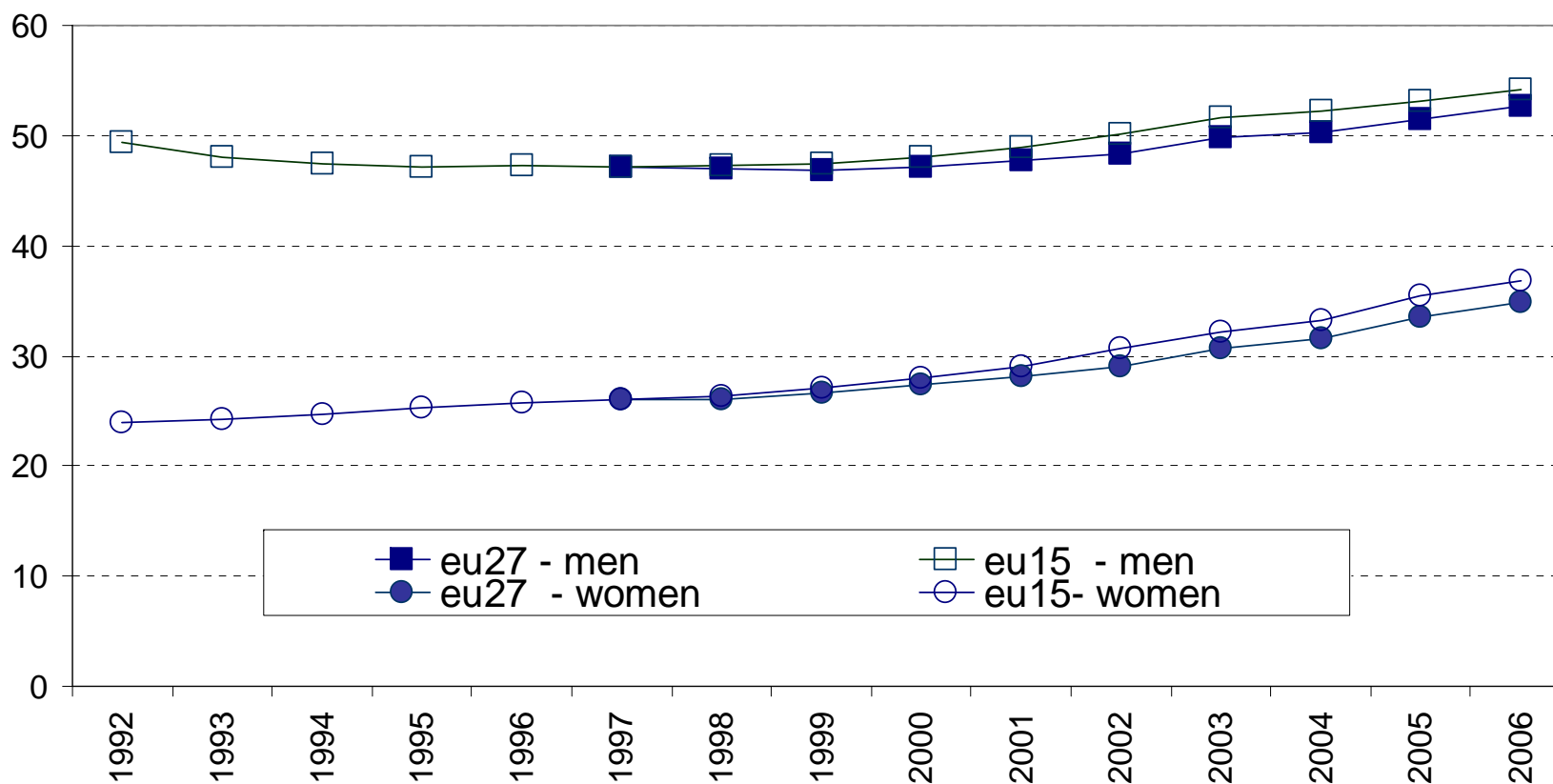


Source : LFS – Note : Total for all Member States available , EU* for a group of Member States where are available all the period long (BE, DK, DE, IE, EL, FR, IT, LU, NL, UK)



Slow convergence between Genders ?

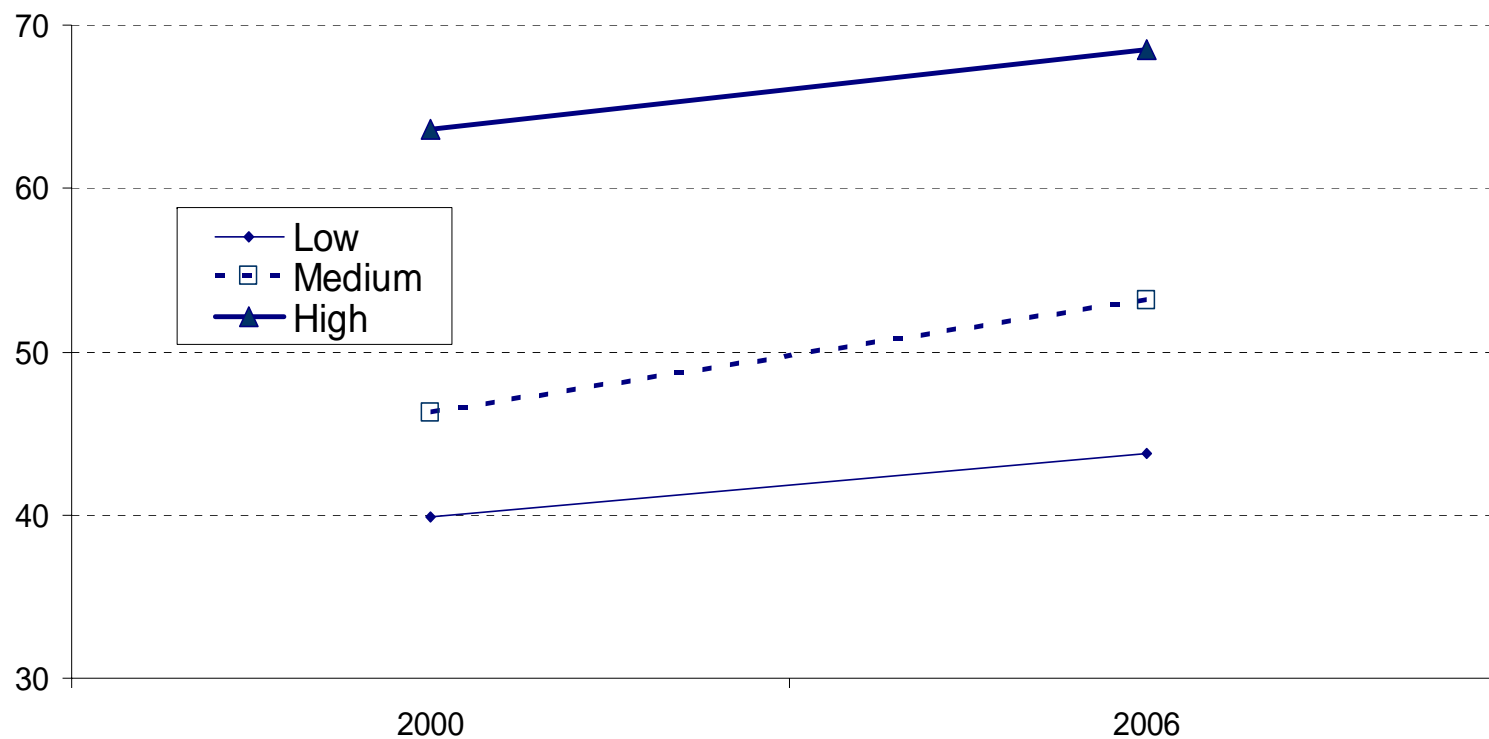
Employment rates by gender for 55-64 in EU





Divergence between skill levels?

Employment rate of men 55-64 in EU25





Ongoing changes in pension systems

- **Retirement age and flexibility in retirement age**
- **Adaptation of early exits schemes**

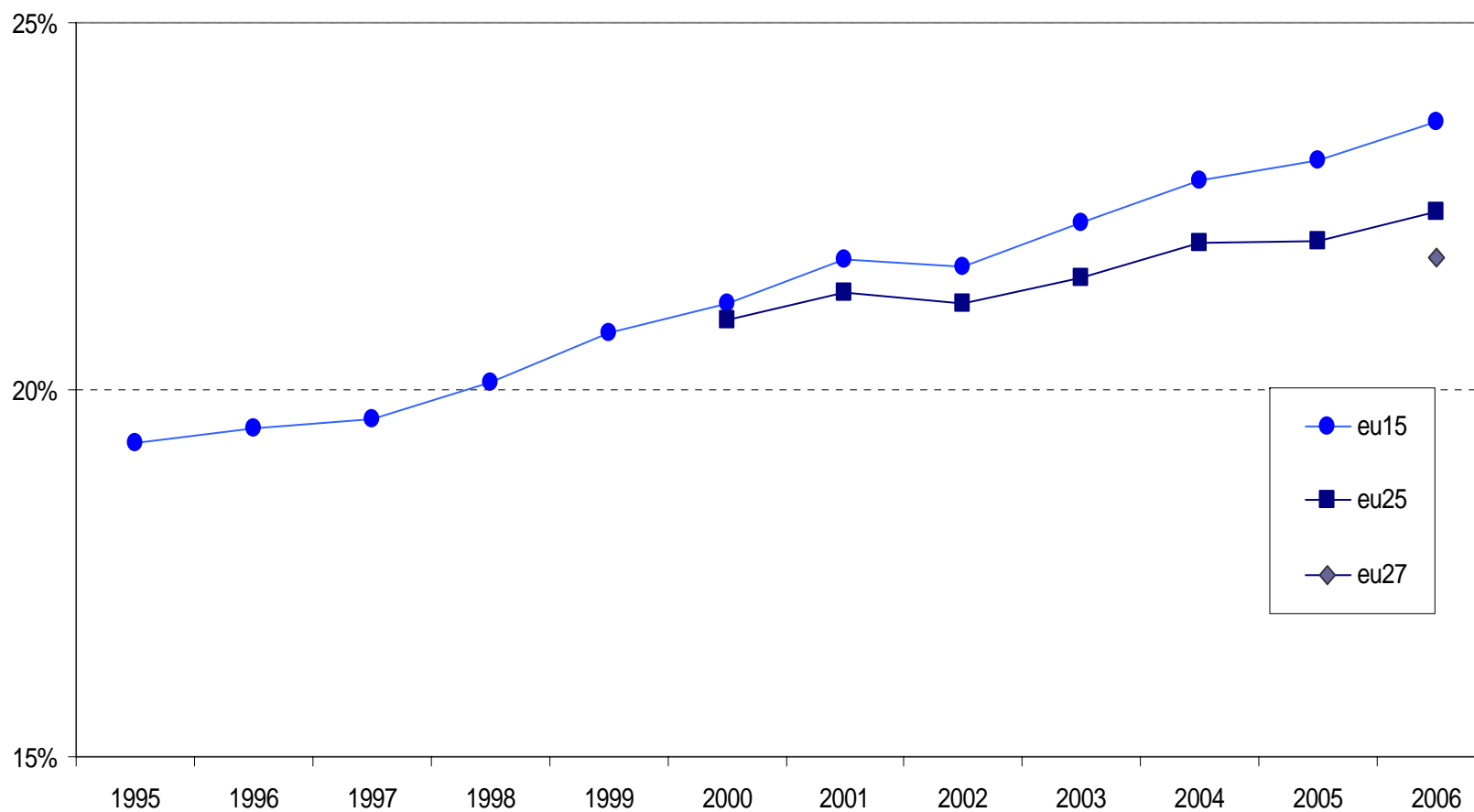


Retirement age

- **Compulsion vs. incentives :**
 - Changes in retirement age (DE, DK, UK)
 - More flexibility in choice of retirement age and transitions from work to retirement (combination, part-time work...)



Part time employment (55-64)





Flexibility in retirement age

- **Appropriate incentives**
 - Choice and incentives for earlier / deferred retirement, partial retirement
 - Importance to review incentives structures: are incentives strong enough?
 - But pension reform can not do everything



Flexible age of retirement

- **Strength of incentives, notably for lower wages**
- **Conditions to cumulate earnings and pensions**
- **Importance of accurate understanding of pension rules**
- **Importance to open up labour markets**



Early exits from the labour market

- **A high take- up**
 - around **20% of population 55-64** on average
 - Does not really decline from 55-59 to 60-64
- **Most Member States are making reform steps**

Reforms in most Member States are already on the way and there are plans for further steps in half Member States.
- **Trend: seems on decline though difficult to assess**



Variety of take up of early exit schemes

		Take up as a share of population 55-64		
		Low (<10%)	Medium (Between 10% and 20%)	High (≥20%)
Main benefits in take up	Mainly unemployment or early retirement	ES, CZ		BE, LU, PL
	No main take-up or others	CY, DE, PT	FR	
	Mainly disability	IE, LV	BG, DK, EE, SI, SK, UK	HU, NL, LT, RO, FI, SE

Note: (*) stands for not available, (/) for not applicable (no scheme).

Source: National replies to the SPC questionnaire. These figures are generally taken from administrative sources

are not necessarily completely comparable. Figures generally refer to 2006. <To be added: include respective dates for Member States where and when different >.



Early retirement and unemployment benefits

Reforms aim in particular at :

- Ensuring that **employers bear the costs** (all or at least a significant share),
- Finding an appropriate manner to **compensate for particularly demanding or hazardous jobs**,
- **Tightening eligibility rules or closing schemes**,
- Improving **working conditions and help unemployed** older workers back into the labour market.



Ongoing reforms of invalidity pensions

Recent reforms took place in AT (2000, 2003, 2008), ES (2007), LU (2002), PL (2006), HU (2008), LT (2005, 2006), PT (2007), MT (2007), NL (2005), FI (2004) and UK (2007).

- These reforms aim in particular at offering better possibilities to combine benefits and work, retraining, improving adaptation of enterprises, including of workplaces.
- Incentives are strengthened both for employers to employ the people with reduced capacity for work, while incentives for beneficiaries can also be reviewed to reduce barriers to returning to working life.
- The prevention of invalidity and development of professional rehabilitation of people with health problems can also make an important contribution and it has to start from an early age.



Supplementary pension benefits and taxation

Reforms of **supplementary pension** benefits and of **taxation** are :

- Tightening **eligibility** rules for supplementary schemes, while increasing awareness of consequences of early exit on future level of benefits.
- Through taxation increasing **incentives** of later take-up of early exits benefits for **beneficiaries**
- Through exemptions of social contributions, increasing incentives for **employers** to hire older workers.



Trends - early exit schemes

- **Reforms** in most Member States are already on the way and there are plans for further steps in about half Member States.
- Recent **declines of take-up** of early exit benefits are observed and most Member States expect further declines, though reforms are expected to change behaviours gradually and in the long term.
- **Evaluations and assessments** of enacted reforms do not seem very developed and often remain at very general levels, notably as regards future impacts on adequacy.



Conclusion

- **Key importance of working longer for future adequacy and sustainability of pensions**
 - *Some **progress** achieved but risks of **divergence***
 - *Key contributions of more flexibility and **incentives and reforms of early exits***
- **But, need for**
 - ***opening up labour markets***
 - *investing more on **assessments and evaluations***



More information

On European Union :

<http://europa.eu.int>

On the site of DG EMPL

http://ec.europa.eu/employment_social/index_en.html

On OMC pension

**[http://ec.europa.eu/employment_social/spsi/adequacy_sustainability_en.
htm](http://ec.europa.eu/employment_social/spsi/adequacy_sustainability_en.htm)**