

KEY CONCLUSIONS OF THE PENSION ADEQUACY REPORT

Principle 15 of the European Pillar of Social Rights¹ stresses the right of workers and the self-employed to a pension commensurate with contributions and ensuring an adequate income, the right of women and men to equal opportunities to acquire pension rights, and the right to resources that ensure living in dignity. The EU supports Member States' efforts to ensure a high level of social protection, including pension adequacy, through facilitating mutual learning and exchange of best practices. Sustaining adequate pensions in ageing societies is key to the economic coordination efforts and ensuring inclusive growth in the EU, as pensions are both the main source of income for older Europeans and an important component of public expenditure.

The 2018 Pension Adequacy Report prepared jointly by the Social Protection Committee and the European Commission analyses the adequacy of current and future pensions, that is: how they help **maintain the income of men and women** for the **duration of their retirement** and **prevent old-age poverty**. It supports Member States in designing pension systems that are adequate while remaining financially sustainable, being mutually complementary with the Ageing Report. The report highlights that:

- despite improvements, there is no room for complacency -

1. **Some 17.3 million or 18.2 percent of older people (aged 65 and over) in the EU remain at risk of poverty or social exclusion, even though they are 1.9 million fewer than in 2008.** Old-age poverty and social exclusion have remained nearly unchanged since 2013 in the EU on average, with improvement in 16 Member States and deterioration in 12. Women face a higher risk than men. At the EU level, older people are less often at risk of income poverty than people of working age, but significant country differences remain. In seven Member States, the older population faces higher income poverty risk than the rest of society. **As the main source of old-age income, pensions are key to preventing income poverty.**
2. **The average income of older people in the EU is 93 percent of the younger population's income**, with large differences by gender and among Member States. **Pensions in the early years after retirement currently amount to more than half of late-career work income (58 percent in the EU).** At national level, the ratio ranges from above 80 percent to less than 40 percent, having increased in all but three Member States since 2008.
3. **Although the duration of working life is increasing, the duration of retirement is expected to grow even faster, as life expectancy continues to increase.** On average in the EU, the time spent in retirement is about half (51%) of that spent in employment. This ratio is projected to increase to 53 percent by 2060, posing the

¹ Commission Recommendation of 26.4.2017 on the European Pillar of Social Rights, C(2017) 2600 final

challenge of finding a new balance between working life and retirement and of sustaining adequate pensions.

- inequalities remain and some groups require specific policy attention -

4. **Pensions, alongside taxation, help ensure that retirement income is distributed more equally than income during working life.** However, **the depth of old-age income poverty indicates that inequality among older people persists.** High at-risk-of-poverty rates can be caused by low overall income, as well as inequality. In the EU as a whole, there was an increase in income inequality (up in 16 countries, down in 9) and in poverty depth (up in 19 countries) in old age between 2013 and 2016. Older people at risk of poverty are now poorer.
5. **The risk of poverty or social exclusion in old age increases with age.** More than half of all older people at risk of poverty or social exclusion in the EU are aged 75 or over (8.8 million in 2016), partly due to past labour market performance. **While the needs increase with age, the value of pensions is eroded during retirement.** Pension indexation and access to publicly provided or subsidised services can help support the quality of life throughout retirement.
6. **More than 20 percent of older women (aged 65 and over) are at risk of poverty or social exclusion in the EU,** compared to 15 percent of older men. Older women are more likely to live longer, live alone and have lower pensions. As a result, older women are exposed to a higher risk of poverty or social exclusion in all Member States. In some countries, more than 10 percent of older women cannot afford the necessary health care. As the EU population ages, the number and population share of older women (and, with them, single older women) will increase. **Even though identical careers for men and women would lead to similar pensions, the gender gap in pensions is 37.2 percent in the EU.** Although lower for new retirees, the gap has remained persistently high in many countries since 2009. Equal opportunities for women and men to acquire pension rights depend on labour market and pension policies that support equal careers and earnings.
7. **People in non-standard or self-employment often face less favourable conditions for accessing and accruing pension rights** than those in open-ended, full-time job contracts. For employees who were in non-standard employment, once retired these barriers can amplify the income gap with those who were in standard employment. **The self-employed are a highly diverse group and are more likely than employees to build their savings outside the pension system. The retired self-employed have on average lower pensions, higher assets and a higher risk of income poverty, and are more exposed to financial hardship.** Member States are increasingly taking steps to facilitate access to pension systems for people in different types of non-standard employment and self-employment.

8. **Career breaks for social reasons**, be they related to unemployment, childcare, care for dependent family members or own disability, **result in slightly lower pensions**. Pension credits are a key policy lever that limits the impact on pension adequacy of such career breaks, compared to career breaks without a social reason.

- pension systems and labour markets continue to evolve -

9. **Measures to safeguard adequacy of pensions, in particular targeted at low-income pensioners, are becoming more prominent in the EU**. The pension reform dynamic in Member States started to shift in 2014-2017, reflecting the sustainability gains achieved through earlier reforms and the recognition that these should be accompanied by measures to safeguard pension adequacy.
10. **The recourse to minimum income provisions for older people has declined slightly in the past 3 years**, possibly thanks to better labour market outcomes. Their role as an old-age safety net nonetheless remains vital, particularly for older women, who remain the main beneficiaries of minimum income schemes, even though they have become less dependent on them.
11. **As people remain on the labour market for longer, the employment in the age group 55–64 grew by 5.1 percentage points or 4.2 million workers (2.2 million women and 2 million men) in the years 2013-2016**, following the trend of the past 10 years. **Later retirement is the most important factor behind the growth in employment; this is also an effect of pension reforms**. The share of pensioners in this age group strongly decreased, while the share of unemployed and those unable to work due to illness or disability increased slightly. **Gains in older people's labour participation can also be attributed to new, better-educated age cohorts replacing previous ones**. Depending on specific country situations, effective policies to boost participation vary from investing in early education to improving access to lifelong learning, and from improving health conditions to promoting active ageing and age management in the workplace.

- adequacy of future pensions will require further improvements -

12. **As life expectancy improves, longer working lives will be vital to enable men and women to acquire adequate pensions. People retiring in 2056 will have lower pensions compared to their work income than a similar career would have earned them in 2016**. Pension systems can promote longer working lives by adjusting pensionable ages (e.g. by increasing the statutory retirement age to reflect life expectancy gains), pension benefits or career length requirements, rewarding later retirement and discouraging early exit. The strength of (dis-)incentives varies across countries. At the same time, flexible retirement options, including possibilities to combine pension with income from work, and tax incentives promoting later retirement are becoming increasingly widespread.

13. **While gradually narrowing, the pension gap between women and men is likely to persist.** While the difference in career length is set to shrink, the cumulative effect of the multiple career gaps affecting women (pay, career duration, childcare breaks, part-time work, care for dependent adults) is likely to have a continued impact on women's pensions, only mildly compensated for by pension systems. Reducing the inequalities requires equal opportunity policies targeted at women and men of working age (promoting the work-life balance and equal distribution of caring responsibilities, addressing labour market participation and career opportunities, work intensity and career breaks) and pension policies that adequately protect care-related breaks.
14. **The ability of pension systems to cover different types of economic activity will have a significant bearing on the future adequacy of old-age incomes.** Extending pension coverage to more people in non-standard or self-employment and adapting accrual conditions to diverse work patterns can help more people build up adequate pension rights.
15. **Complementing statutory pensions** with broad and well-designed supplementary schemes can help support adequate pension outcomes. While **in some Member States maturing occupational pensions are expected to contribute more to old-age incomes**, in many others, including those facing some of the biggest pension adequacy challenges, the **coverage of any type of supplementary pensions remains very low.** Depending on the national context, mandating, auto-enrolment, collective bargaining and tax and financial incentives, including cost-effective access for different income groups, are all avenues to develop supplementary pensions and boost their coverage, as is promoting awareness of different saving options. The potential contribution of supplementary schemes to adequacy within the different national pension systems calls for further in-depth consideration.
16. **The living standards of older men and women are influenced by wealth and access to services, in particular health and long-term care.** The wealth of older people tends to be substantially higher than that of the working-age population, though it is unevenly distributed. Some individuals at risk of poverty may have an opportunity to make up for it by using their assets. A large proportion of older people own the house where they live, while in some countries many older people are overburdened with housing costs. Quality and affordable public or subsidised services are important for the living standards of older people. These services are generally accessible in most Member States, although in some countries worryingly high proportions of older people do not have sufficient access to health care.

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

17. **Policy measures at the EU level support Member States in implementing the principles proclaimed in the European Pillar of Social Rights, including on gender equality, social protection, pensions and old-age income.** The proposed

Directive on work-life balance for parents and carers² aims to promote equal sharing of caring responsibilities between women and men that is crucial for equal opportunities to acquire pension rights. The proposed Recommendation on access to social protection for workers and the self-employed³ aims to improve the social protection of people with different economic statuses, including their right to an adequate pension. To explore the potential contribution of supplementary pensions to adequate old-age incomes, the Commission has set up a High-level group of experts on pensions⁴.

18. **The Social Protection Committee (SPC) stresses the need for a holistic reflection on the adequacy of old-age incomes and the financial sustainability of pension systems.** In this context, the SPC invites the Economic Policy Committee to jointly promote the findings of the 2018 Pension Adequacy Report and the 2018 Ageing Report.
19. In view of the constantly evolving pension policies, demographic situation and labour markets as well as the diversity of policy issues that merit reflection, **pension adequacy requires continuous monitoring and analysis. In this context, the SPC intends to prepare the fourth Pension Adequacy Report for adoption in 2021** and calls on the Commission to work together in the preparation of the report.

² Proposal for a Directive of the European Parliament and of the Council on work-life balance for parents and carers and repealing Council Directive 2010/18/EU, COM(2017) 253 final

³ Proposal for a Council Recommendation on access to social protection for workers and the self-employed, COM(2018) 132 final

⁴ Commission Decision of 18.12.2017 setting up a High-level group of experts on pensions, C(2017) 8523 final