

# **Pension Adequacy Report and Long-Term Care Report**

## **Frequently asked questions**

**June 2021**

### **What are the Pension Adequacy and the Long-Term Care Reports about?**

The **Pension adequacy report** aims to present a comparative analysis of the degree to which pension systems in the EU Member States enable older people to retire with an adequate income today and in the future. The report reflects pension reforms, as well as underlying changes and current or future challenges in our societies related to the adequacy of income and quality of life in old-age.

The **Long-term care Report** brings together for the first time an in depth analysis of the common challenges faced by EU Member States in the area of long-term care, in particular with regards to access and affordability, quality, workforce and financing as well as informal care. Although it is acknowledged that people of all ages may require long-term care services, the focus of this report is on older people because of the expected increase in demand for long-term care for this age group due to population ageing.

Both reports contain key conclusions, which the Council endorsed on 14 June. Both reports consist of two volumes. Volume I is devoted to a comparative analysis of pension adequacy and long-term care in the EU, whereas Volume II (country profiles) provides a detailed discussion of developments in each of the 27 Member States.

### **Who prepared the pension adequacy and long-term care reports?**

The reports have been jointly prepared by the Social Protection Committee<sup>1</sup> (SPC) and the European Commission's Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL). The report also build on extensive analytical work, including from OECD, JRC and specific studies contracted by the European Commission.

### **Are the reports published every year?**

No. The **Pension Adequacy Report** is published every three years and is now at its 4th edition. The previous pension adequacy report was published in 2018. The next one is planned for 2024.

This is the second time that the **Long-Term Care Report** is published. The first long-term care report was published in 2014. While the first report focused on social protection for Long Term Care, the 2021 edition brings together for the first time multiple dimensions, including

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<sup>1</sup> The Social Protection Committee (SPC) is an advisory policy committee to the Ministers in the Employment and Social Affairs Council (EPSCO). The SPC is composed of two delegates from each Member State and the Commission.

access and affordability, workforce and informal carers, quality and financing and sustainability. The 2021 Long-term care report announces a third edition of the report.

### **Why do we need these reports?**

**Pension Adequacy Report** The increasing longevity and shrinking working-age population, as well as changes in the world of work, will put pressure on European pension systems in the decades to come. Continuous monitoring and analysis of pension adequacy is therefore needed. Analysis of how pension adequacy is secured now and will evolve in the future could inform national debates on pension reforms and provide a strong evidence base for new policy measures. The PAR and the Ageing Report<sup>2</sup>, published by the Economic Policy Committee (EPC) and the Commission, aim to assess the adequacy of pensions and the financial sustainability of pension systems, respectively, thus complementing one another. The two reports present consistent scenarios based on the same population, economic and employment projections, and taking into account the same recent reforms.

**Long-Term Care Report:** The European population is ageing and this has significant implications for long-term care systems and for our societies. While catering for the increased needs may bring new job opportunities, already now many people in need cannot access quality services for a number of reasons. The report thus sheds light on areas where more efforts are needed in order to meet the growing demand for accessible and good-quality long-term care services.

### **How are the reports linked to the [European Pillar of Social Rights](#)?**

**Pension Adequacy Report:** Principle 15 of the European Pillar of Social Rights promotes the right to old age income and pensions. The Pension Adequacy Report analysis serves to underpin the policy efforts at national and EU level to ensure adequate old-age income and pensions, a policy goal proclaimed in the **European Pillar of Social Rights (EPSR)**. As outlined in the European Pillar of Social Rights Action Plan, the 2021 Pension Adequacy Report supports national efforts to ensure adequate pensions and minimum income by analysing the adequacy of current and future pensions.

**Long-Term Care Report:** Principle 18 of the Pillar promotes *the right to affordable long-term care services of good quality, in particular homecare and community-based services*. Implementing the Pillar is a joint endeavour to be taken forward by the EU, Member States, social partners, and other stakeholders, in line with their respective competences. The Pillar action plan announced that the Commission will propose an initiative on long-term care in 2022, designed to set a framework for policy reforms that will guide the development of sustainable long-term care and ensure better access to high-quality services for those in need. The future initiative will to a large extent build on the analysis of the 2021 Long-term care report.

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<sup>2</sup> European Commission, '[The 2021 Ageing report: Underlying Assumptions & Projection Methodologies](#)', *Institutional Paper 142*, Brussels, 2020b.

## **Do the reports account for the impact of COVID-19?**

**Pension Adequacy Report:** While it can be expected that the Covid-19 crisis will have an impact on old-age incomes, it is premature to draw any conclusion at this stage and this would be covered in the next edition of this report. The report however includes a preliminary analysis of the expected impact of the COVID-19 crisis and the 2024 edition of the PAR will analyse in depth the impact of the pandemic on pension adequacy.

**Long-Term Care Report:** Long-term care systems have been strongly affected by the pandemic, due to their users' high vulnerability to the virus. In particular, high mortality rates in care homes have raised serious concerns about the capacity of long-term care systems to cope with the crisis. The crisis has also brought to the fore the already existing structural challenges that many long-term care systems are facing. The report provides a preliminary overview of the impacts of COVID-19 on the national systems and of Member States' corresponding responses. It is not to be excluded that this crisis will have long-lasting effects and will require a review of long-term care services provision, including their organisation and financing. However, as the pandemic was still continuing at the time this report was prepared, such conclusions cannot yet be drawn.

## **How is the long-term care report linked to the report on the impact of demographic change from June 2020 and the green paper on ageing?**

The [report on the impact of demographic change](#) published by the European Commission in June 2020 sets out the main drivers of demographic change and the impact they are having across Europe. The report states that a key challenge of demographic change *'is meeting a growing demand for sufficient, accessible, good quality and affordable health and long-term care services as enshrined in the European Pillar of Social Rights.'* Although it sets out that more demand for healthcare and long-term care may lead to increased public and private expenditure, it also points to the opportunity of an emerging 'silver economy' in the healthcare and long-term care sectors. The European Commission's [green paper on ageing](#) has launched a broad policy debate on ageing, including a discussion of the options for anticipating and responding to the challenges and opportunities ageing brings, and questions related to long-term care. The long-term care report is anchored in this work on population ageing and in the overarching efforts to support the implementation of the Pillar.

## **How is the Pension Adequacy Report linked to the report on the impact of demographic change from June 2020 and the green paper on ageing?**

Both the [report on the impact of demographic change](#) and the [green paper on ageing](#) contribute to a broad policy debate on the challenges and opportunities of Europe's ageing society. The green paper sets out the speed and scale of demographic change in society, as well as its impact on policies, and considers the required policy response, including as regards adequate, safe and sustainable pensions analysed in the Pension Adequacy Report. The report

on the impact of demographic change shares with the Pension adequacy report the analysis of the main drivers of demographic change and the impact they are having across Europe and it launches a process that will help identify concrete actions and solutions.

### **What are the common challenges that Member States are facing in the area of long-term care?**

Member States generally face four common challenges:

1. the challenge of providing affordable and adequate access to long-term care services for all in need;
2. the challenge of providing long-term care services of good quality;
3. the challenge of ensuring an adequate long-term care workforce with good working conditions, and of supporting informal carers; and
4. the challenge of financing long-term care in times of rising demand for care.

### **What are the common challenges that Member States are facing in the area of pensions?**

1. Despite the large variety of pension systems across the EU, all systems face a growing challenge of ensuring sufficient funding to provide adequate benefits and coverage.
2. In general, due to population ageing, the proportional size of the active population is decreasing and that of pensioners is increasing.
3. Furthermore, women's pensions remain substantially lower than men's, while a potentially rising number of people in non-standard careers might be excluded from social protection systems, or pay lower or no contributions.
4. All these trends contribute to the financing challenges, which have triggered various debates on the strengths and weaknesses of pension systems and on how reforms can increase resilience.

### **What are the main findings of the reports?**

#### **Pension Adequacy Report**

- After a decade of improvement, there is **no further progress in reducing the risk of poverty for older people** (18.5% or 16.1 million people aged 65+ at risk of poverty or social exclusion in 2019. In some countries up to 50%. Income poverty slightly on the rise).
- **Maintaining adequate living standards throughout retirement remains a challenge**, in particular for women (gender pension gap is 29.5% in 2019, a slight

decrease from 32.3% in 2016. The poverty risk for women becomes higher after the age of 75).

- **Income inequalities** among older people persist, though pension and tax policies can help to mitigate them.
- Future **careers will need to be longer** to maintain adequate pensions, while taking account of the diversity of careers, for instance, the situation of those who enter the labour market early.
- Pension systems evolve amid changing economy and labour market, and maintaining adequacy may require **reconsidering financing sources**.
  - o Many reforms promoted longer working lives, a number of Member States took action to boost pension adequacy.
  - o Spending on pensions remains broadly unchanged between 2005 and 2018 at around 10.8% of GDP.
  - o The design of tax systems and social contributions, including their eligibility criteria and progressivity, affects the financing basis of pension systems and their resilience in a changing economy and labour market.
- The Social Protection Committee calls for:
  - o Further efforts to implement relevant Pillar principles, as also called for in the Action Plan.
  - o Debate on how pensions systems together with broader social, employment and tax policies can support adequate old-age incomes against the background of ageing population and changing labour market. .

## **Long-Term Care Report**

- **The demand for high-quality long-term care is set to rise.** Reinforcing its provision can contribute to gender equality and social fairness (over the next 30 years, the number of people aged 65+ will increase by 41%, to over 130 million. COVID-19 showed the urgency of strengthening long-term care systems. Strong gender dimension: almost 90% of workers and most informal carers are women and more women than men need long-term care; adequate social protection important so that everyone can afford it).
- **Access, affordability and quality are key challenges** (more than one third of households say they don't use (more) professional care because of financial reasons, social protection for long-term care needs is often not sufficient, a common understanding of quality in long-term care is needed).
- **The current labour shortage may intensify further** (up to 7 million job openings are estimated to arise by 2030 and most Member States expect staff shortages. Difficult working conditions and low salaries may contribute to staff shortages. Increasingly complex skills requirements make finding staff more difficult, but may also make the profession more attractive. Targeted and systemic policy efforts needed).

- **Informal care has been essential, but this often comes with neglected costs** (informal carers carry out the bulk of care-giving (use of solely informal care varies between 30% to 85% across MS). This often comes with significant costs for the carers. Informal care has economic value (2.4-2.7% of GDP, exceeding in most Member States expenditure on formal care) which is not immediately visible. Formal care services should be reinforced and informal carers supported).
- **Reforms of long-term care systems and related investments need to be pursued, building on the lessons from the pandemic** (sustainable financing mechanisms needed as long-term care expenditure projected to be one of the fastest rising social costs, increasing efficiency can help to address the financial challenge. In the last three years, several MSs have addressed specific challenges rather than pursuing systemic changes).
- The Social Protection Committee calls for:
  - Further work at EU and Member State level to address structural weaknesses.
  - Improved data, including with the support of Eurostat.
  - Further consideration of how to shape long-term care policies and systems.

## **What developments have there been since the previous versions of the Pension Adequacy and the long-term care reports?**

### **Pension adequacy**

The 2021 Pension adequacy report follows the same concept of adequacy as the previous (2018) edition, distinguishing three main dimensions of adequacy: (i) poverty protection, (ii) income maintenance and (iii) pension/retirement duration. Furthermore, the report looks for the first time at the interplay between taxation and social contribution and the redistributive effect of pensions bringing innovative data to inspire measures that tackle adequacy and sustainability of pensions.

As in the 2018 Pension Adequacy Report, the analysis of the theoretical replacement rates confirms a general decrease in adequacy across Member States pension systems.

Pension reforms in 2017-2020 followed similar patterns to the period 2014-2017, which was covered in the 2018 PAR. Nevertheless, while Member States have continued to pursue the objective of prolonging working lives to ensure the financial sustainability of pension systems, several reforms have aimed to reinforce the income-maintenance capacity of pension systems. Following the reforms in the period 2015-2017, which mostly focused on mitigating the impact of the economic crisis and the related cost-containment measures on the poverty-protection dimension of adequacy (see the 2015 and 2018 PAR), the post-2017 reforms have sought to further boost both the poverty-protection and the income-maintenance capacity of pensions, while continuing efforts to adjust the duration of retirement to the demographic changes.

Moreover, the pension adequacy report 2021 analyses for the first time how the sharing of risks and resources in pension systems is evolving. It focuses on income inequalities and income replacement for people with different income levels and to the distributional impact of the taxation of pension contributions and benefits, and the role of solidarity mechanisms (such as minimum benefits or pension credits) and links these analytical angles to the current policy debate on social fair.

## **Long term care**

While the first EU wide report focused on social protection for long term care, the 2021 report looks in depths into the key challenges of access and affordability, the key characteristics of the workforce in the sector and challenges linked to working conditions and pay; it further analyses the role of informal care and the hidden value and costs it brings to carers and economy. It further looks into the financing of long term care and projections for the future, helping thus government consider in due time options for addressing the foreseen increased expenditure, while also ensuring quality and affordability of long term care services.

In recent years, several Member States have implemented reforms of their long-term care systems. The reforms have mostly been parametric – that is, only affecting some aspects of the system. The main trends concern reforms to: improve the situation of informal carers; facilitate access, affordability, and quality in relation to both homecare services and residential care; and improve the situation of the professional long-term care workforce. The COVID-19 crisis has laid bare some of the structural weaknesses in long-term care systems and Member States have also taken measures to respond to the COVID-19 pandemic by introducing mainly ad hoc measures, and to a lesser extent structural changes.

## **How are the reports linked with the European Semester and the previously published Country Reports and Country Specific Recommendations?**

The adequacy and sustainability of long-term care and pension systems are monitored in the European Semester.

As regards long-term care, previous country reports have outlined challenges at national level, including in relation to long-term care systems. Country-specific recommendations concerning long-term care have mostly focused on fiscal sustainability, women's labour market participation and informal care provision, and adequate access to long-term care.

Many of the pension reforms analysed in the pension adequacy report have been designed in response to the country-specific recommendations (CSRs) issued in the context of the European Semester. These CSRs have focused mainly on promoting longer working lives through increasing the pensionable age and restricting early retirement opportunities.

The 2021 long-term care and pension adequacy reports will be a useful source for future European Semester analysis, to inform the debate and contribute to monitor challenges in the area of pensions and long-term care in the Member States.