The Social Protection Committee
The Secretariat

Thematic Discussion on Pensions in the context of the 2022 SPC Multilateral Implementation Reviews

(February 2022)

1. Background

Pensions, given their high budgetary weight and social importance[1], in particular in view of Europe's ageing societies and changing labour markets, have been a focus area since the very start of the European Semester. In the years prior to the COVID-19 outbreak, approximately three-quarters of the Member States received country-specific recommendations (CSRs) related to their pension system.

In 2020, the special circumstances and extraordinary nature of the COVID-19 crisis resulted in no CSRs on pensions being issued by the Council, even though pension issues were identified in recitals of the Recommendations. In 2021, given the comprehensive and forward-looking policy nature of the recovery and resilience plans[2], no (non-fiscal) country-specific recommendations were proposed either.

In this context, reform implementation in the areas of pensions continues to be monitored by the Social Protection Committee by means of a thematic discussion, as well as by country-specific reviews of the past CSRs, where relevant.

The thematic discussions on ***pensions*** took place on 28 February. At the meeting, the Member States engaged in a moderated exchange on two steering questions. The scene for the exchange was set by presentations from the European Commission and relevant case studies from Latvia, Italy and Croatia. The exchange was moderated by Gijsbrecht 'Gijs' Dekkers - former Chair of the SPC Working Group on Pensions Adequacy.

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[1] Pensions are the main source of income of older people in Europe, constituting over 80% of their disposable household income. Retired people drawing a pension are a significant and growing part of the EU-27 population (about one in four of the total population in 2020), while public pension expenditure accounts for more than 11% of Member States' GDP.

[2] The national Recovery and Resilience Plans include pension reform measures for six Member States (Belgium, Spain, Latvia, Austria, Romania and Slovenia).

2. Outcome of the discussion

In the first part of the meeting, ***the delegates reflected on the effectiveness of minimum pensions and minimum old-age benefits in tackling old-age poverty***. The presented case studies were from Latvia and Italy.

- During the exchange, a consensus emerged that non-contributory pensions, contributory minimum pensions and social assistance benefits for older people with low income can be effective in addressing old-age poverty by providing basic income safety. The exchange also demonstrated that while the provision of some form of minimum income support for older persons is ensured in most Member States, the conditionality and capacity of such support to prevent poverty varies substantially across the Member States.
- More concretely, in Member States where the public pension system provides a residence-based flat-rate pension or pension component, this benefit ensures some level of minimum income protection in old age, though those who don't meet the residence criterion may still fall through the gaps. In countries with an earnings-based pension system, the provision of a contributory minimum pension is subject to qualifying conditions and the level of benefit may vary, depending on the length of career, thus emphasising the importance of including periods of inactivity (such as unemployment, illness, care periods or career breaks) in the calculation of contributory periods. Beyond minimum pensions, almost all Member States provide specific social assistance benefits for older people, in most cases as a protection of last resort, subject to means- or income-testing.
- The delegates also agreed that the effectiveness of minimum pensions and minimum old-age benefits in addressing poverty can be augmented when combined with other measures, such as for example access to long-term care and healthcare, or benefits targeted to cover specific needs, such as housing costs.
- The rising importance of non-contributory pensions, as well as the proliferation of new forms of work often characterised by low contributions, illustrate the increasing need to balance the objective of the pensions systems of ensuring protection from poverty versus that of ensuring income replacement. In that sense, the interplay between the levels of minimum non-contributory and minimum contributory

pensions deserves special attention, as this interplay has a direct impact on incentives to contribute to the pensions system, thus affecting both the long-term sustainability and adequacy of pensions. In this respect, carefully setting the eligibility conditions for obtaining a contributory minimum pension is also important.

- A number of Member States also reflected on the increasing pressure to finance pensions through fiscal revenue, rather than social contributions – this is already the main source of financing public pensions in some Member States. Other delegates emphasised the view that to ensure the adequacy of future pensions, measures are needed to address labour market segmentation and the generally low levels of wages in certain professions, as those impact people's pension adequacy in contribution-based pension schemes.

In the second part of the thematic discussion, ***the Member States reflected on the role of pensions credits for care periods[3] in tackling the gender pension gap.*** The exchange confirmed the important role of such credits to improve gender equality in the pensions systems.

- The delegates acknowledged that across Europe, older women face a significantly higher poverty risk and lower pensions than men do. Given the longer life expectancy, the old age-poverty risk among women becomes even higher after the age of 75. Care responsibilities, which often push women into part-time work, career breaks or early retirement; and negatively affect their income and pension entitlements, in conjunction with the gender pay gap, were identified as one of the main contributing factors for old age poverty among women.
- To that end, almost all EU Member States are offering credits to compensate caregivers (mostly women) for the time spent out of paid work to look after family members. Such credits may be limited in time, or conditional on the caregiver being entitled to childcare benefits, but there is clear evidence from several countries that additionally credited periods of care are very important and effective in protecting the future pension income of care providers.

[3] Broadly understood as pension rights granted for non-working periods, when the person is taking break from paid employment to provide care for dependent children or adults

- A number of interventions pointed out the role of labour markets in addressing the gender pension gap. Future old-age poverty among women can be addressed by measures that encourage labour market participation rather than directly increasing pension benefits. Such measures include supportive policies for working mothers (such as flexible working conditions, provision of formal child care, income tax subsidies), but also measures to facilitate re-entry into the workforce after a career interruption. In addition, the gender pay gap should be addressed. Several Member States also emphasized the importance of ensuring that individuals are well informed about the impact of lost contribution periods on pensions.
- The delegates agreed on the importance of systematic monitoring of the gender pension gap and the effects of reforms on women's pension adequacy. Comprehensive assessments of Member States' pension systems should always consider the systems' capacity to promote gender equality in old age.