

Pension Adequacy Report 2024 - ETUC comments

The ETUC thanks DG EMPL and the Social Protection Committee for the preparation of the 5th edition of the Pension Adequacy Report (PAR). Its in-depth analyses of the functioning and performance of pension schemes across the EU represent an indispensable complement to the Ageing Report, which essentially only estimates the future development of the (public) costs of pension systems against the background of population ageing.

Providing people with income in old age that allows them the maintenance of a decent living standard and protect them from poverty is the very purpose of pension policy. The PAR, with its focus on three adequacy dimensions of pension schemes (income maintenance, poverty avoidance, pension duration), builds on these objectives and the underlying rights enshrined in the European Pillar of Social Rights.

The analysis of recent reform trends reveals developments that give rise to expectations and clear demand that trends determining lowering of benefit levels, raising the statutory retirement age, progressive individualisation of pension rights from mandatory solidarity-based public schemes to private and even voluntary membership and no risk-sharing – whose negative effects are widely proven.

Against this background, it is very positive that the PAR pays greater attention to the importance of reforms that tend to provide improved performance levels, especially for women, and a stronger poverty avoidance effect of pension schemes.

It is also very welcome that due relevance is given to reform focusing on incentives for longer and more complete and quality careers, rather than raising the statutory retirement age - massively exaggerated in many countries.

Despite some positive reform trends regarding performance levels provided by pension schemes, **old age protection of many older people still falls far short of the rights enshrined in the Pillar**, both regarding poverty avoidance and income maintenance. The data presented in the PAR point out substantial weaknesses. “Working longer” should be mainly about “working better” and the reduction of career breaks. Unfortunately, the “duration of working life” indicator used is still only based on the length of time between the average age of entry and exit from the labour market. Based on this unfortunate definition (prepared by the EPC-AWG) the reduction of unemployment is ignored from the outset as an instrument for extending employment careers.

The risks of poverty and social exclusion since 2015 have slowly increased, with the sole exception of the extraordinary situation of 2021. In 4 countries in 2022, the AROPE rate among women aged 65+ was close to 50% or even higher! The deprivation rates have fallen significantly in recent years. But here, too, the existing rates are still alarmingly high in many countries. Given the increasing number of older people, even a stable rate would mean a significant increase in the number of people affected!

Even average earners with several decades of uninterrupted employment career suffer a massive loss of income after retirement in several Member States, as shown by the calculations carried out to estimate the income maintenance dimension of pension schemes and the impact of different career trajectories, based on Theoretical Replacement Rates (TTR). In most countries, under current legislation the income replacement rates for today’s labour market entrants will be lower than it is today. Unsurprisingly, in the case of shorter or interrupted careers, the income replacement is even lower. With a number of variants for the central ‘base-case’ TRR calculation, the report examines the impact of divergent career trajectories on pension entitlements. In these variants, the impact of unemployment seems to be insufficiently reflected, especially regarding long-term unemployment.

Women are particularly affected by inadequate pensions, as widely and correctly shown in the PAR. This is shown not only by the higher poverty rates, but also by high gender pension gaps. In 2022, the Eurostat's Gender Pension Gap was still above 30% in 8 EU Member States and the average value in the EU was as high as 26%. And this is only part of the picture as the Gender Pension Gap only considers older people who receive a pension and fewer women than men meet the qualifying criteria for receiving a pension, which are very strict in some countries. At least, gender gaps are receiving increased attention. In this context, the analyses in the PAR are of particular importance.

The very calculations in the PAR clearly signal that the pension schemes must be reinforced. It is unconceivable that an ageing society doesn't address the demographic trends in a forward-looking manner, as is precisely recommended by the High-level Group's Report on the Future of Social Protection and the welfare states in the EU.

Adequate pension entitlements are strictly related to quality jobs and secure career paths. Major interventions have to be made at employment and labour market level. The EU's EPSR Action Plan will contribute to the necessary acceleration. The achievement of the Action Plan's key employment targets (raising the employment rate among those of working age by 5 pp, halving the gender employment gap, creating quality jobs) would substantially benefit both pension adequacy and the financial sustainability of pension systems. There would be better pensions especially for those who currently have poor pension prospects, as is the case for many women. Particular attention must be paid to the achievement of creating quality jobs. Although there currently is no indicator for verification in the Action Plan, it is clear that poor work-related income and low work engagement per week cannot ensure adequate pensions nor contribute to systems' fiscal sustainability.

Moreover, pension systems have to be reformed in order to meet the current and future needs of generations facing lack of investments supporting overall career quality as well as major transitions such as the digital and the environmental ones.

It is urgent to tackle the evident inadequate compensation mechanisms in many pension schemes: systems must address the reduced earning capacity in connection with childcare or caring for relatives, activities which are still largely carried out by women, but also long-term involuntary unemployment.

The progressive individualisation and privatisation of pension rights has to be stopped and reversed. In addition – and this aspect is unfortunately missing in the report - is a risk analysis of the growing number of funded parts of the pension systems in which the insured persons or pensioners bear the investment risks. In these cases, the amount of pensions will depend to a large extent on the effective investment return generated. The 2% real interest rate (as per the Ageing Report) on which the TRR calculations are based might turn out to be too optimistic and even if this is not the case, there will certainly be periods with significantly lower or even negative real interest rates which can lead to much lower pension entitlements than promised.

The ETUC firmly believes that public solidarity-based pension systems offer the best and safest form of old-age provision, both today and in the future. The PAR analyses and data not only show that very much remains to be done before the Pillar's pension rights become a full reality for all people in the European Union. The Report also shows, with reference to positive country examples, directions and paths to get closer to this goal. We hope the report gets the attention it deserves.

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