

Navigating the future: Challenges and opportunities of longevity in Europe

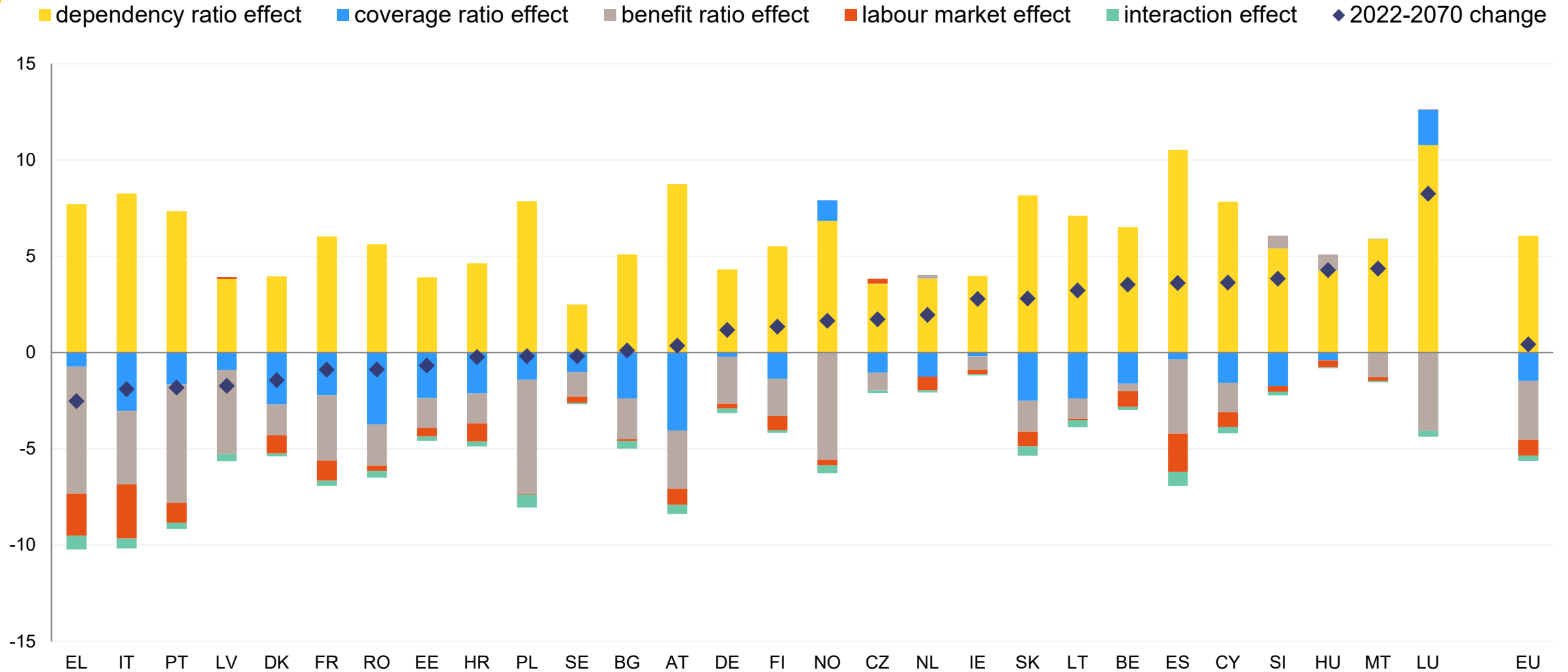
Balancing sustainability and adequacy in Europe's pension systems – A challenging act



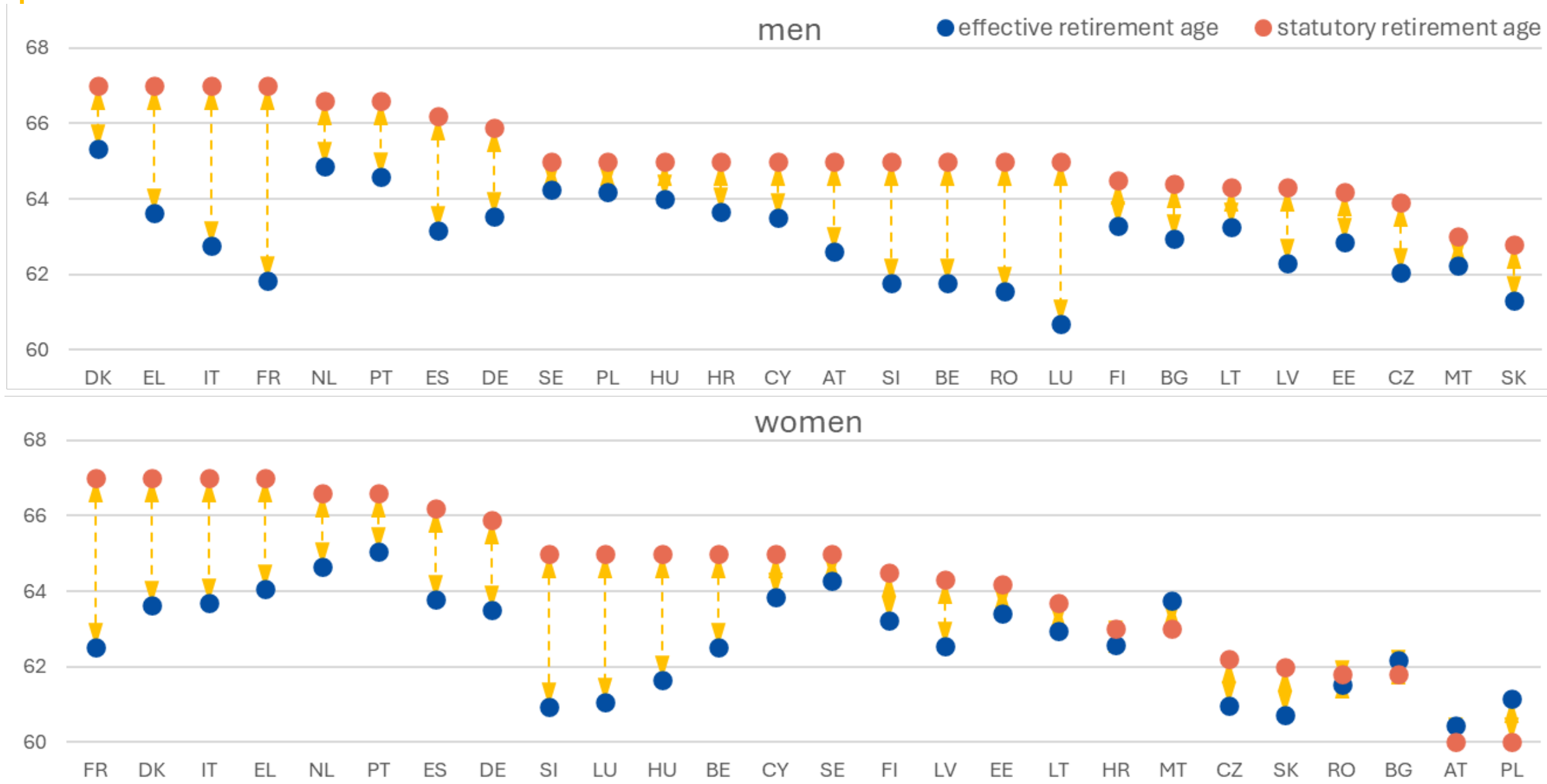
27-06-2024

Ben Deboeck, ECFIN.C2

Breakdown of projected change in public pension spending

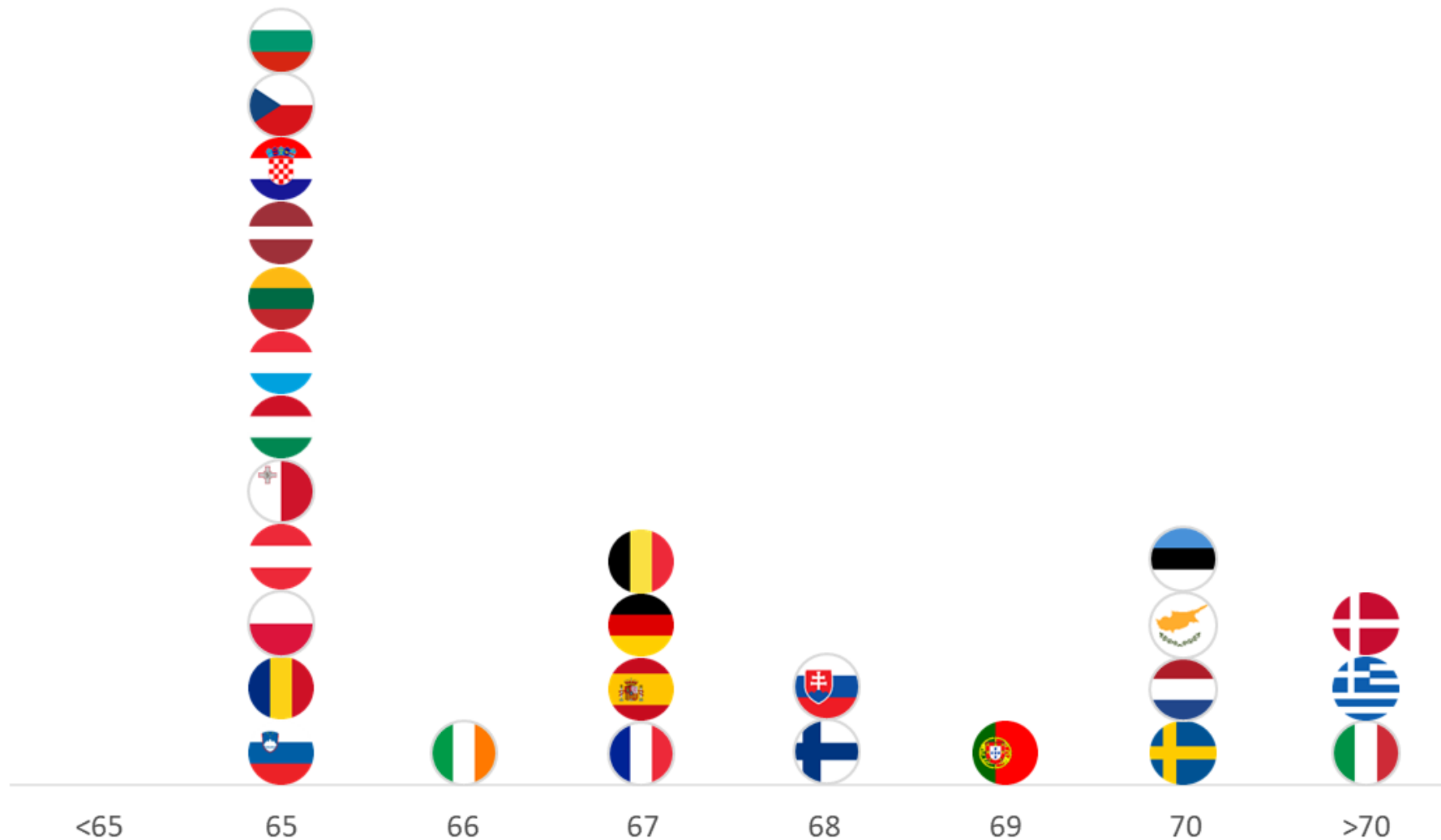


Effective versus statutory retirement age



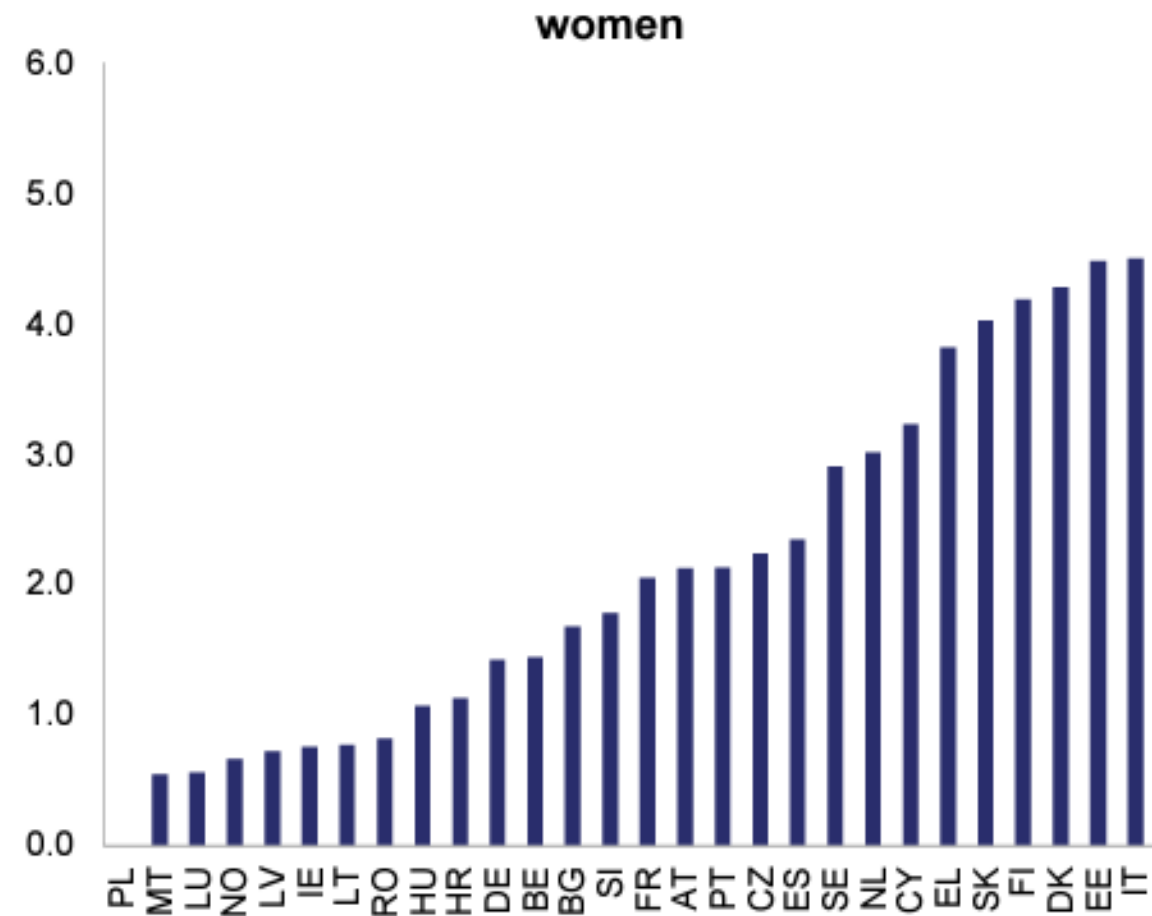
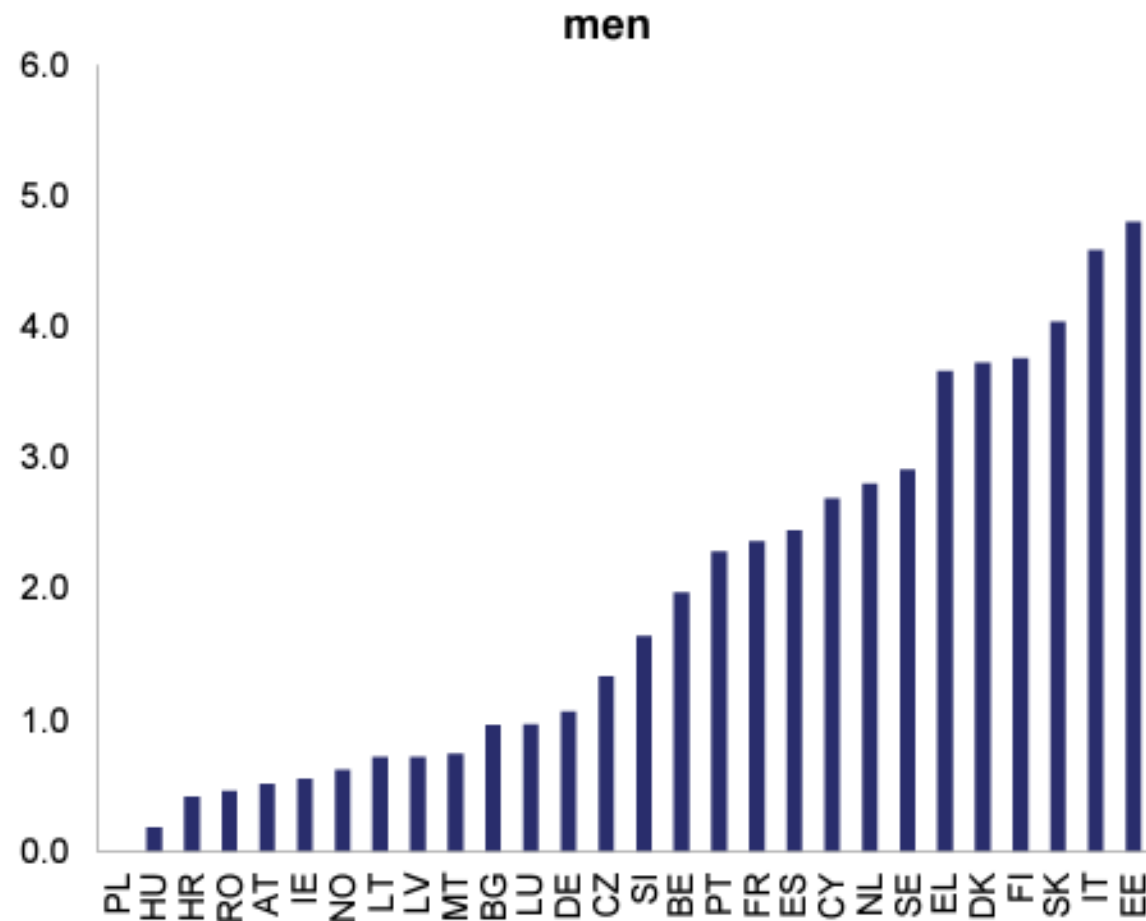
Legal retirement age: sticky at 65 vs. rising with life expectancy

Statutory retirement age, men (2070)



Impact on effective exit ages

Change in projected labour market exit age by 2070 (years)



Automatic adjustment mechanisms

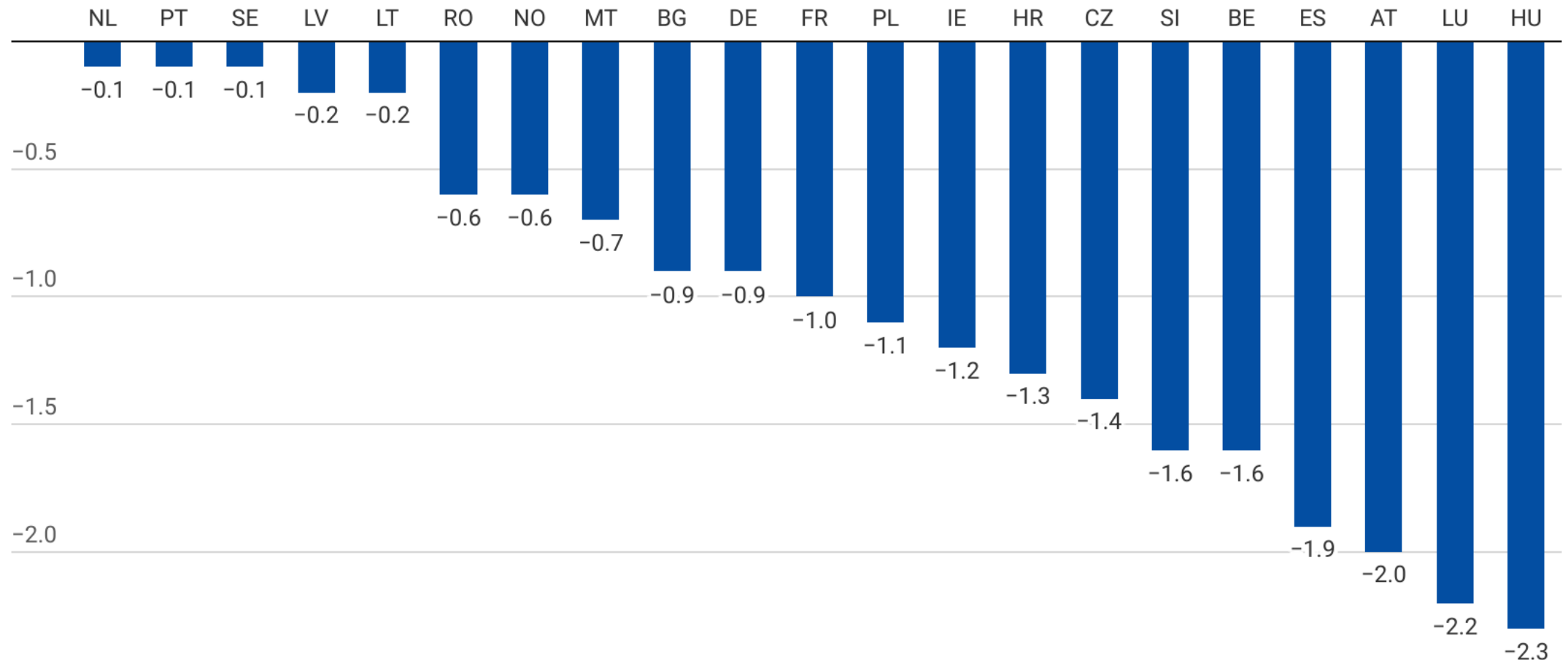
	Automatic balancing mechanism	Sustainability factor (benefit linked to life expectancy)*	Retirement age linked to life expectancy	<i>legislated</i>
IT		X	X	1995 & 2010
LV		X		1996
SE	X	X	X	1998, 2001 & 2022
PL		X		1999
FR		X		2003
DE	X			2004
FI		X	X	2005 & 2015
PT		X	X	2007 & 2013
NO		X		2009
EL			X	2010
DK			X	2011
CY			X	2012
LU	X			2012
NL			X	2012
LT	X			2016
EE			X	2018
SK			X	2023

*NDC systems link benefits to changes in life expectancy through the annuity factor (IT, LV, PL & SE)

What if... retirement ages were linked to longevity?

Public pension expenditure - link to life expectancy

pps of GDP deviation from baseline

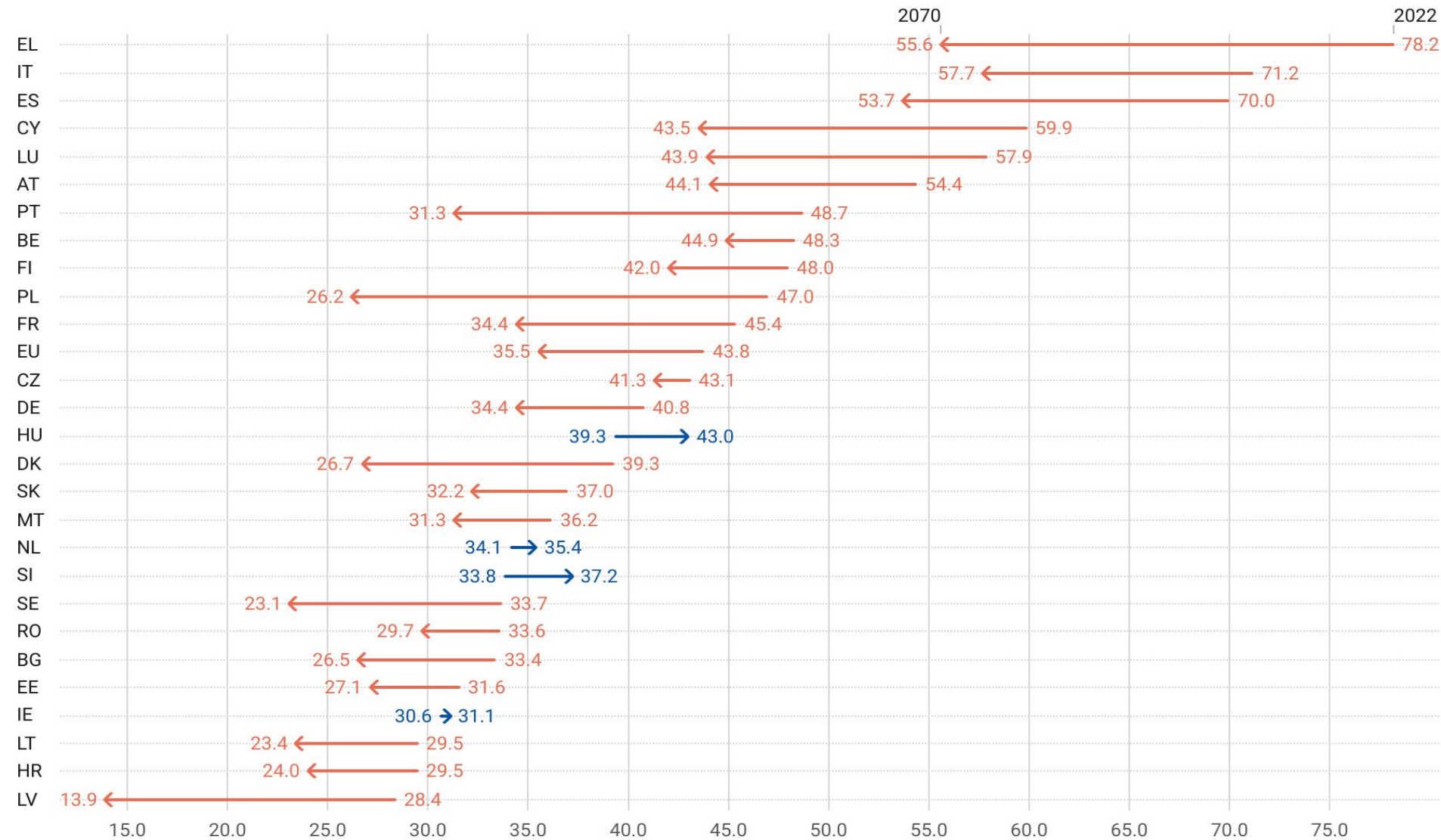


Scenario assumes 3/4th of gains in longevity is passed through in the effective exit age. The scenario is only run for countries that currently do not have a link; NL, PT and SE apply a partial link.

General decline in adequacy at unchanged policy

Benefit ratio (% , gross)

average earnings-related public benefit / average gross wage



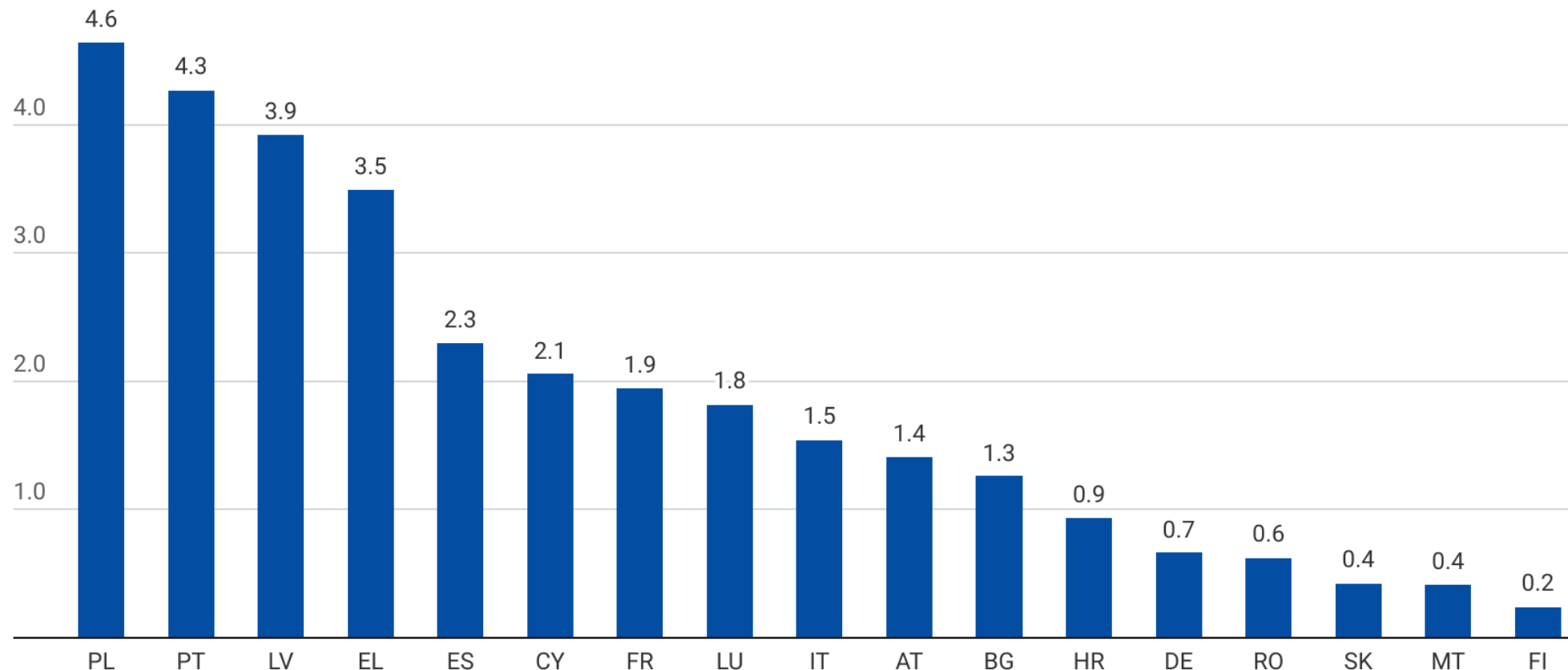
Valorisation and indexation often lower than wage growth

	<i>Valorisation variable</i>	<i>Indexation variable</i>
BE	Prices	Prices and living standard
BG	Wages	Prices and wages
CZ	Wages	Prices and wages
DK	Not applicable	Wages
DE	Wages	Wages
EE	Prices and social taxes	Prices and social taxes
IE	Not applicable	No fixed rule
EL	Prices and wages	Prices and GDP (max 100% prices)
ES	Prices	Prices
FR	Prices	Prices
HR	Prices and wages	Prices and wages
IT	GDP	Prices
CY	Wages	Prices and wages
LV	Contribution wage sum index	Prices and wage sum
LT	Wage sum	Wage sum
LU	Prices and wages	Prices and wages
HU	Wages	Prices
MT	Cost of living	Prices and wages
NL	Not applicable	Wages
AT	Wages	Prices
PL	NDC 1st: Wages, NDC 2nd: GDP	Prices and wages
PT	Prices and wages	Prices and GDP
RO	Prices and wages	Prices and wages
SI	Wages	Prices and wages
SK	Wages	Prices
FI	Prices and wages	Prices and wages
SE	Wages	Wages

What if... measures were taken to prevent pension adequacy from falling?

Public pension expenditure - constant benefit ratio scenario

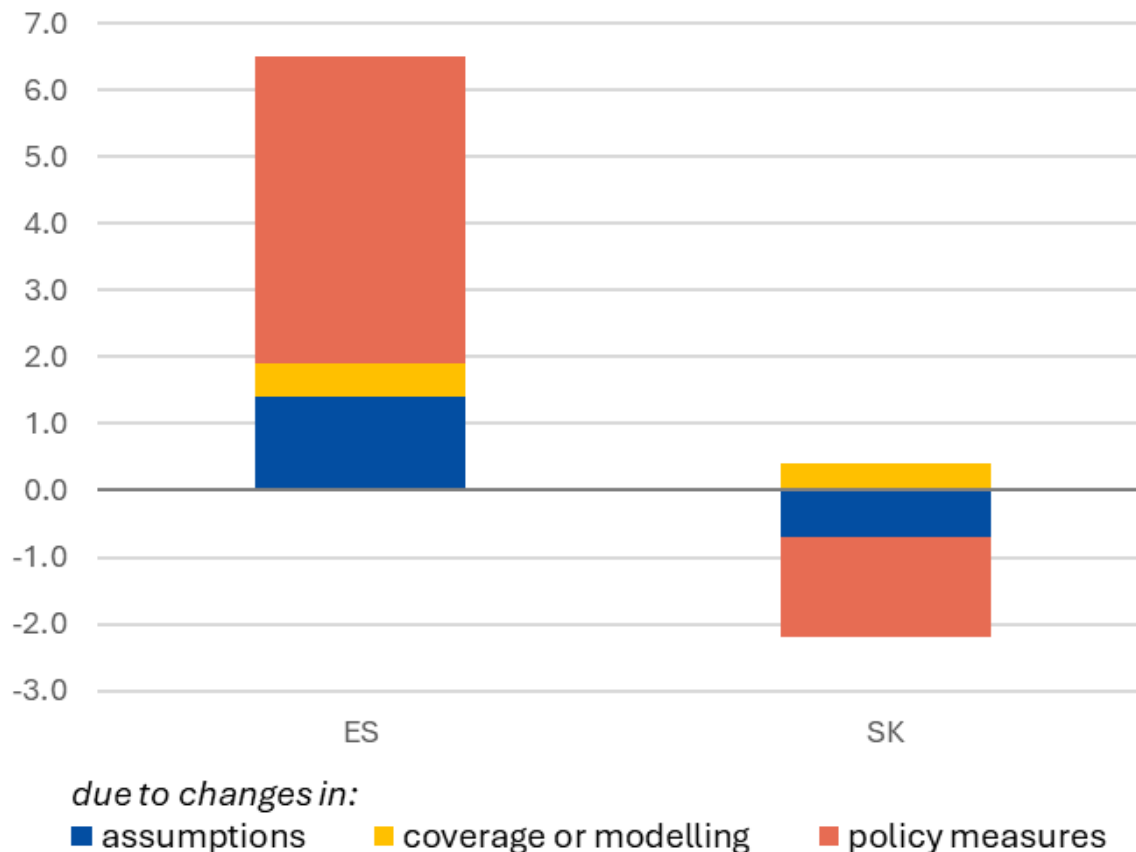
pps of GDP deviation from baseline



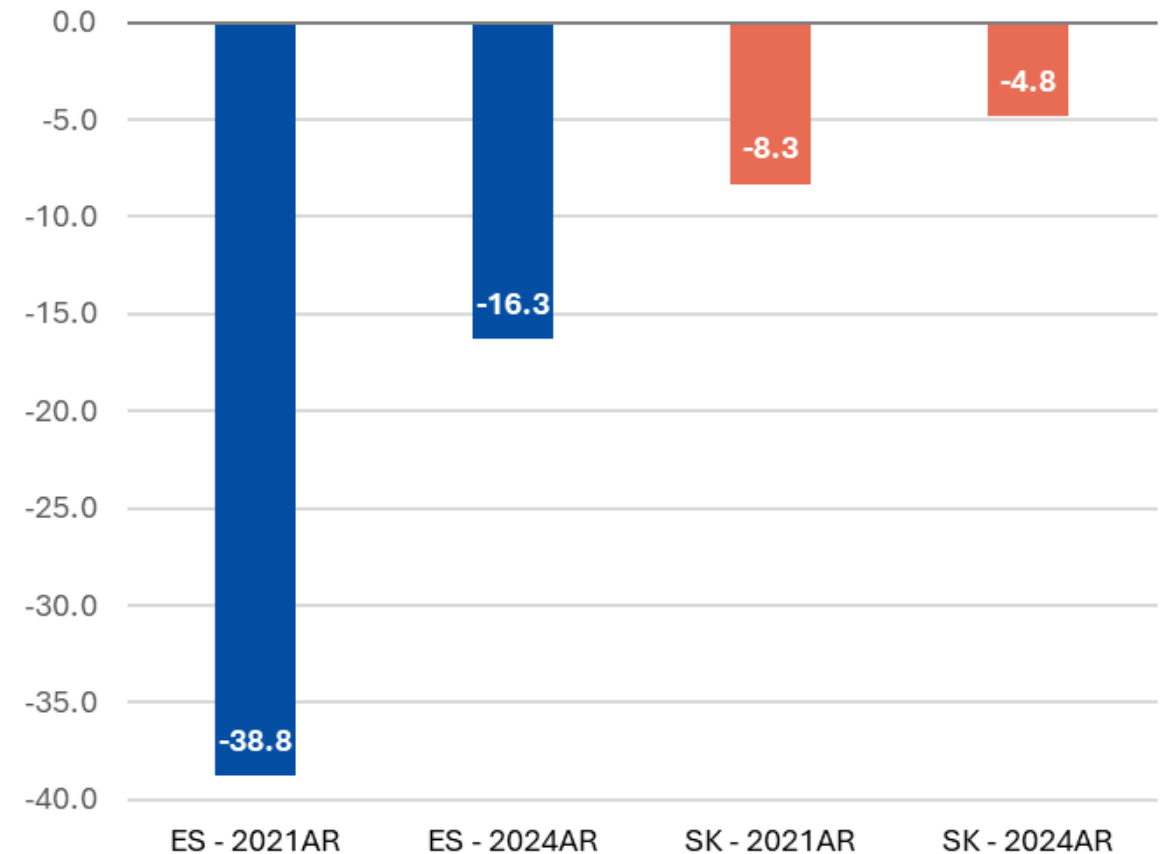
This scenario prevents the earnings-related public benefit ratio from falling below 90% of the 2022 level. Countries not shown in the graph have benefit ratios staying above the 90% mark.

Policy-driven revisions & sustainability-adequacy interplay

Revision in projected change in public pension expenditure 2022-2070:
2024 versus 2021 Ageing Report



Change in benefit ratio 2022-2070:
2024 versus 2021 Ageing Report



Concluding remarks

Three dimensions: sustainability, adequacy & fairness

- Tackle all dimensions simultaneously, also to make changes more acceptable
- Guiding principles:
 - working more or longer should lead to higher pension rights
 - deviations from the general rule must be justifiable (review special pension arrangements)
 - higher focus on career length
 - gradual, widely-supported and predictable changes (automatic adjustment mechanisms)
- Flanking policies: labour market, preventive care, productivity, migration, supplementary pensions
- Scope for financing-side solutions?

2024 Ageing Report

Economic & Budgetary
Projections for the EU
Member States (2022-2070)

INSTITUTIONAL PAPER 279 | APRIL 2024

EUROPEAN ECONOMY



Economic and
Financial Affairs

Thank you!

