Pension Adequacy Report 2012,
A summary… and a critical reading

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The Pension Adequacy Report, a Summary

• Definition of adequacy and its challenges
• Current adequacy
• Future adequacy
• Knowledge gaps
1. The context, the state of pensions in Europe

- Public pension expenditures make up a big part of public expenditure (EU-27: 11.3% of GDP in 2010, variance 6% - 15%)

- Over 120 million or around 24% of Europeans are pensioners. Almost 2/3 of these are women.

- The EU-27 at-risk of-poverty-rate for people 65+ is 15.9% (below the 16.5% for people below 65)

- In economic crisis the incomes of older people have been relatively better protected than those of the working age population
1. The context, demographic trends

- old-age dependency ratio (persons aged 65+ as % of the number of persons aged between 20 and 64);
- economic dependency ratio (inactive population 65+ as % of employed 20-64),
  - Doadr, from 28.4% in 2010 to 57.7% in 2060
  - Eoadr, from 39.8% in 2010 to 73% in 2060
- key issue: to address ageing it is crucial to increase employment at all ages
2. Pensions Adequacy and its challenges

• Adequacy
  • poverty protection
  • income replacement
  • pensions also need to be sustainable, safe and adapted to changing circumstances (adequacy, sustainability and modernisation)

• Main challenges
  • Demographic trends
  • Recent economic trends
  • Recent reforms and the trade-off between sustainability and adequacy
3. Current adequacy

- **Pensions and income replacement**
  - TRR, 53% in 2010 in EU-27 (decline between 2005 and 2007; increase between 2007 and 2010)
  - Female pensioners suffer lower protection compared to men
  - Earnings-profile (for workers with low earnings, statutory public schemes tend to have a more significant role)
  - Affects of work longer and career breaks
  - Role of supplementary schemes
3. Current adequacy

- Pensions and poverty prevention

- The EU-27 at-risk of-poverty-rate for people 65+ (15.9%) is below the rate for those below age 65 (16.5%) and are less affected by material deprivation than the rest of the population (8.5%). Inequality among people 65+ is also lower.

- At-risk-of poverty-rates and severe material deprivation of people aged 65+ on a downward trend in many Member States.

- In the economic crisis older people have been relatively better protected.
3. Current adequacy

- Pensions and poverty prevention
  - single women more at risk
  - older pensioners more at risk
  - positive trends (but problems related to economic crisis)
  - income distribution is more equal
4. Future adequacy

- **Pensions and income replacement**
  - lower future replacement rates for a given retirement age
  - net replacement rates can decrease by at least 5 percentage points (p.p.) in 17 Member States between 2010 and 2050
  - Reinforcement of the link between contributions and benefits may translate into relatively larger declines of replacement rates for low income earners and increased inequality in old age
4. Future adequacy

• **Pensions and income replacement**
  
  • decreasing replacement rates have to be seen in the context of the transition to multi-tier pension arrangements.
  
  • While in some countries replacement rates will be dropping, care-crediting will improve and crediting for up till three years of unemployment will be similar to what it is today.
4. Future adequacy

- Pensions and income replacement
  
  - people will have to work longer and/or take advantage of improved opportunities to build supplementary entitlements
  
  - delaying retirement by two years (retirement in 2052 at 67 after a 42-year career) will result in higher future net replacement rates
  
  - Longer working (and reducing early retirement) is thus one option, but the challenge is to a large extent with the labour market to provide enough job opportunities for the older workers
4. Future adequacy

- **Pensions and poverty prevention**

  - Increasing the relative equivalised income of older people who are at-risk-of-poverty by 20% could help to lift around 7 million persons.

  - A relative drop in incomes of elderly people by 1/7th could add another 8.7 million people to the group at-risk-of-poverty.
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Pros

• A more holistic approach;
• More articulated understanding of ageing (old age vs economic dependency ratio);
• The focus shifts towards activation (rather than cuts);
  • All age groups/main focus on effective retirement age;
• Stress on inequalities (gender dimension);
  • Problems of career breaks.
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*Cons*

- Limited focus on taxation (revenue side);
- Inequalities have to be better addressed (e.g. type of contracts: typical/atypical);
- Limited reference to the need for flexibility;
- ‘Rosy’ picture of the crisis and its impact on pensions
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**Cons**

• Future adequacy (only income replacement);

• Still partial review of the pension mix (few information on pension funds);

• Limited reference to regulation of pension funds (investment risks)
Points to Be Debated

• The right mix between pension and labour market policies needs to look at job quantity and quality

• Referring to pension funds as the solution to adequacy problems is risky

• Still limited understanding of inequalities
  • In some countries the coverage of specific groups is limited (SME; services sector; atypical workers; migrants)