The clear messages emerging are:

I. Financial sustainability challenges of public pension systems in Europe remain present (and mounting), and policy actions taken to address these challenges are justified and their impact well documented.

II. The need is that policymakers raise their awareness to the likely impact of their current policy decisions on the redistributive structure of future pension systems and on pension income adequacy for future retirees.

III. Each country has (or will have) its own strategies moving forward, given the diversity and legacy of past systems, yet the population ageing challenge is common to all of them (albeit of varying extent across countries) and thus mutual learning and cooperation is essential.
A summary

1. Setting the context: the financial sustainability concerns
   a. Population ageing challenge – demographic dependency ratio development/age-related expenditures rising!
   b. Economic crisis, followed by jobs crisis and public debt crisis.
   c. Sustainability gap indicator – contribution of initial budgetary imbalances and long-term challenge of population ageing.

2. Future scenarios in pension income sustainability
   a. Impact using the ‘benefit ratio’ measure (EC’s EPC/AWG results).
   c. Impact on first pension income – stylized full career workers, comparing retirees in 2006 and in 2046 (EC’s SPC/ISG results).

3. Policy challenges for EU countries
   a. Fiscal policy (stimulus followed by budgetary consolidations; social impact to be understood better!)
   b. Labour market policy (active ageing promoted; clear incentives)
   c. Pension policy challenges (PAYG or funded; old age poverty risks to avoid)
1a. Population ageing challenges:
Old-age demographic dependency ratio rise drastically in all EU, especially in CEE countries

number of 65+/number of 15-64, for the period 2008-2060

Source: European Commission (2009), data originally from Eurostat, EUROPOP2008

1a. Population ageing challenges: Age-related government expenditures contained, yet they continue to rise!

Period: 2007-2060, expenditures as % of GDP

Economic growth took a serious plunge: an ‘unreal’ boom, followed by a recession, and now a fragile recovery!....

1b. Jobs crisis: Unprecedented joblessness during 2009,... and worsened during 2010 (and no improvements in 2011)
1b. Public finance crisis: Europe lived beyond its means for long,… budgetary consolidations are indeed required now!

Government deficit (-) / surplus (+) in %age of GDP, 2006, 2009, 2010

What constitutes sustainability?

The definition ‘involves a (public) debt level that does not entail – either now or in the foreseeable future – interest payments so large that they cannot be paid’

‘the ability of a government to service its own obligations (including welfare payments as well as the costs of its current and future debts) through future revenues’

Economic Policy Committee 2009
Most EU governments are now straddled with a substantial public debt (and, w.o. consolidation now, future generations will bear this burden)

Gross debt, general government (as a % of GDP, 2006, 2009, 2010)

Source: European Economic Forecast – Autumn 2010

1c. S2 sustainability gap indicator

‘The S2 indicator approximates the gap (as % of GDP) that must be closed off permanently in order to ensure that the government will be able to finance all future public budget obligations’

‘S2 is derived from the intertemporal budget constraint - current total liabilities of the government, (i.e. the current public debt and the discounted value of all future expenditures), should be covered by the discounted value of all future government revenue over an infinite horizon.’

The Sustainability Report 2009
1c. Sustainability gap
S2 and the contribution of IBP and LTC

![Graph showing sustainability gap with different levels of S2, IBP, and LTC](source: Sustainability Report 2009, p. 35)

2a

Pension reforms and their impact

a. Patterns of reforms and a likely evolution in the public pension benefit ratio?
Pension reforms have happened in many countries: affecting both sustainability and adequacy!

- Strengthening of contributory principles (e.g. PL)
- Greater role for pre-funding (many CEE countries)
- Automatic adjustment mechanisms (e.g. SE, DE)
- Coverage, minimum pensions and indexation (e.g. ES, BE)
- Increasing diversity in pension income portfolio (many)
- Measures to reduce access to early retirement schemes and offer malus / bonus (many)
- Labour market measures to facilitate extension of working careers (many)

Reforms have improved sustainability + fairness between and within generations and men and women

Adequacy has also been addressed but not a priority!

Changes in public pension expenditures
(relative to trends in number of pensioners and wage per worker)

Benefit ratio % (average public pensions/average economy-wide wage)

Source: The 2009 Ageing Report, pp. 111
Note: EU27 – unweighted average
Pension reforms and their impact

b. Restructuring of future pension systems with respect to their redistributive aspects

Reshaping of future pension systems
(NRR for stylised workers under pre- and post-reform rules)

- strengthened the link between contributions and benefits
- protecting low earners
- across-the-board cuts in benefits

Source: OECD (2009), pp. 80
2c
Changes in public pension generosity

c. What changes in the net replacement rate?

Changes in net replacement rate, 2006-2046
(for a full career male worker on average wages; retire at 65)

Source: Updates of Current and Prospective Theoretical Pension Replacement Rates 2006-2046 (Annex - Country fiches) - Dec 8th 2009
What conclusions?

No single trend across these EU countries; and more information of this sort required for other EU countries, especially in the context of the social impact of crisis, with a focus on CEE countries

✨ "Pension income adequacy concerns": arising for PL, CZ but also for PT, FR and SE....

✨ “More redistributive than before!": BE, IE, UK and ES (also particularly addressing issues of elderly poverty); CY, RO, BG moving in the same direction by offering better NRR.

✨ “Greater linkage between contributions and pensions”: particularly for PL but also for DE..!

✨ Other trends: HU had been moving in the stranger newer directions; policy reversals now but risk losing sight of bigger challenges!

3

Policy challenges going forward
**Fiscal policy challenges....!**

**Stating the obvious...!** => Budgetary consolidations are required in many EU countries

**Not so obvious is** the question “when” and “how”?  
“when”: consensus towards austerity emerging (and as soon as possible) while **not putting economic recovery at risk**....  
“how”: it’s not just about reducing deficit and debt, but also about adjusting budgetary structures and **not missing out on welfare state goals**

**Important to realise:** what risks are faced towards reducing employment growth in the future (and in that event), greater burden for future pension spending?)

Very important to have a good appreciation of how fiscal policy moves compromise social welfare goals!

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**Labour market policies challenges....!**

**Stating the obvious...!** => Improved (re-)integration of groups with typically low employment (particularly women, older workers, disabled persons) – a longer and less disruptive working career will promote both sustainability and adequacy

**Not so obvious** are the ways to **encourage extending working life as an opportunity instead of a constraint!**

What improvements in the **health and safety environment of work place** are absolutely essential?

**Not so obvious** is to determine how to **compensate workers for atypical careers but without affecting incentives for work.**

How best to improve financial education and change behaviours towards **greater work and savings towards retirement?**

What policies to be aimed at improving **employers’ attitudes and employment protection** to hire and retaining older workers?
Pension policy challenges....!

**Stating the obvious?** => avoiding early retirement pathways, and raising pension eligibility age in accordance with development of life expectancy! And, NOT lose sight of adequacy considerations in all pension policy moves!

**Not so obvious** is to know whether a move towards private funded 2nd pillar still remains the right course? Or, in fact, parametric adjustments to strengthen the basic PAYG pillar sufficient?

**Not so obvious** is to determine how to compensate women for care responsibilities but without affecting incentives for them to return to work.

What regulations required, at the national and the European level?

What simpler, more direct, policies to address poverty in ‘old age’ (in periods of welfare retrenchment): is raising social minimum pension levels the way forward?

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**Recommendations:**

- **No single magic potion!** Each country to find its solution fitting to its own economic condition, in alignment with its tradition of social protection for the elderly, appropriate in meeting population ageing challenges while ensuring a sustained recovery from the current economic slowdown.

- Countries to **make a fresh assessment of social objectives** aimed at in their pension policy and re-examine (in particular) how recent policy reversals/reforms aimed towards austerity and for longer-term financial sustainability will compromise the pension income adequacy of future retirees!
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