Pensions Report

Pension Policy

Sustainable Governance Indicators 2022

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SGI Sustainable Governance Indicators

BertelsmannStiftung

Indicator

Pension Policy

Question

To what extent does pension policy realize goals of poverty prevention, intergenerational equity and fiscal sustainability?

41 OECD and EU countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels.

10-9 = Pension policy achieves the objectives fully.

8-6 = Pension policy achieves the objectives largely.

5-3 = Pension policy achieves the objectives partly.

2-1 = Pension policy does not achieve the objectives at all.

Denmark

Score 9

The Danish pension system is well-structured in accordance with the World Bank's three-pillar conceptual framework. The first pillar is a tax-financed universal base pension with means-tested supplements. This pillar includes Denmark's ATP pension scheme, which is a mandatory-funded defined-benefit scheme. The second pillar comprises occupational pensions agreed as part of collective agreements (and firm specific pension schemes), and they are contribution-based schemes. Contribution rates are in the range 12-18% for most employees. The third pillar involves tax-subsidized pension arrangements (tied until retirement) offered by insurance companies, pension funds and banks as well as other forms of savings (for most households in the form of housing wealth).

The combination of the different pillars of the pension scheme ensures protection against low income for the elderly (distributional objective) as well as a pension which is reasonable in relation to the income earned when the pensioner was active in the labor market (high replacement rates). The Danish pension scheme has for several years ranked in the top of the Melbourne Mercer Global Pension Index. The main challenges involve the complexity of the system, the possible disincentive effects on savings and retirement arising from the means testing of public pensions, and the problem of citizens outside the mandatory labor market pensions (the "residual" pension group).

Statutory ages in the pension system (in public pensions for early retirement and age limits for payment of funds from pension schemes) are established by legislation. Recent reforms – the 2006 welfare reform and the 2011 retirement reform – increased these ages considerably to cope with the aging population.

First, the retirement age (early retirement and pensions) has been gradually increased and the early retirement period reduced from five to three years. Second, the statutory pension/retirement age is linked (indexed) to developments in life expectancy at the age of 60 such that the expected pension period will become 14.5 years (17.5 including early retirement) in the long run (currently the expected pension period is between 18.5 and 23.5 years). The statutory retirement age is increased every fifth year (with a 15 years lead time). The latest increase in 2020 (applying from 2035) implies a statutory pension age of 69.
A particular challenge involves how to allow people to opt out of the labor market if their health or ability to work makes it impossible to postpone retirement in concert with the general upward trend in the pension age. There are three options: the first involves taking early retirement, which is a contribution-based system allowing the eligible to retire in a window of three years prior to the statutory pension age, the second involves receiving a senior pension, which depends on the assessed work capability, and the third involves receiving an early pension, which was recently introduced and allows those with a long career behind them the option of retiring one to three years earlier.

Citation:
Ministry of Employment. Ny ret til tidlig pension (https://bm.dk/arbejdsomraader/aktuelle-fokusomraader/ny-ret-til-tidlig-pension/)

Pensionskommissionen, 2015, The Danish Pension System – Internationally Praised but not without Problems (Det danske pensionssystem – international anerkendt, men ikke problemfrit), Copenhagen.

Finland

Score 9

The Finnish public pension system has two individual programs: a basic residence-based pension consisting of the national pension and the guarantee pension, and a mandatory employment-based, earnings-related pension. Voluntary occupational schemes and private pension savings play a very minor role.

Fairly successfully managed by the social partners as well as the government, the overall pension policy has thus far been able to provide adequate pension provision, and Finland has by and large avoided the classic problem of poverty in old age. However, the oldest cohorts, women and retirees living alone tend to suffer from poverty more often than other retirees. The aging of Finland's population and a rapid decrease in birth rates over recent years have together created problems in terms of labor-force maintenance and the fiscal sustainability of the pension system. Present strategies aim at encouraging later retirement in order to ensure that the state pension provides sufficient funding.

A major reform of the pension system in 2005 aimed at increasing pension-policy flexibility and sought to create more incentives for workers to stay in employment. In 2011, a national guarantee pension was introduced. While these reforms were successful, a further major reform came into effect in 2017, the main goal again

being to lengthen careers and help close the sustainability gap in public finances. Major changes imply a gradual rise in the lowest retirement age, a harmonization of pension accrual, an increase in deferred retirement (to provide an incentive to stay in work life longer), flexible part-time retirement and amendments to the accumulation rate.

A recent evaluation by Torben Andersen (2021) found the Finnish model to be robust and well-functioning. The key challenges included the financial viability of the system, the regulatory framework for pension providers' investment policies, and the widening gap between pensioners and those active in the labor market. The report also found a long-run tendency toward increasing inequality within the group of pensioners.

Citation:
Andersen, Torben (2021). Pension adequacy and sustainability – An evaluation of the Finnish pension system. https://urn.fi/URN:ISBN:978-951-691-336-3
Nicholas Barr (2013) The Pension System in Finland: Adequacy, Sustainability and Systems Design. Finnish Center for Pensions. https://urn.fi/URN:ISBN:978-951-691-175-8
Agreement on the 2017 Earnings-related Pension Reform, http://www.etk.fi/wp-content/uploads/agreement_on_2017_earnings_related_pension_reform_final.pdf;
"The Finnish Pension System," http://www.infopankki.fi/en/living-in-Finland/work_and_enterprise/pension;
Susan Kuivalainen, Juha Rantala, Kati Ahonen, Kati Kuitto and Liisa-Maria Palomäki (eds.) (2017). Eläkkeet ja eläkeläisten toimeentulo 1995–2015 [Pensions and livelihood of retirees 1995-2015]. Helsinki: Finnish Center for Pensions. https://urn.fi/URN:ISBN:978-951-691-261-8
https://www.etk.fi/en/statistics-2/statistics/effective-retirement-age/
Melbourne Mercer Global Pension Index 2019, https://www.mercer.com.au/our-thinking/mmgpi.htm

Norway

Score 9

Aging represents a significant challenge for public finances in Norway, as it does for all European countries. Nevertheless, based on current expectations, Norway's pension system is fairly well-positioned to sustain an aging population over the next few decades. A radical pension reform was introduced in 2011. The reform involved basing one's future benefits more heavily on the wages received during one's economically active years as well as replacing a standardized mandatory pension age with a system of voluntary exit that is supplemented by strong economic incentives to postpone retirement. In addition, new principles to be applied in adjusting pensions to demographic factors implies a significant reduction in the future growth of aggregate pension expenditures. In sum, the new system will provide future generations with the same pension level as that provided for today's retirees, if they extend their working life by one-third of their expected rise in longevity. Even though the new system installed a closer relationship between one's economic career and one's retirement income, a guaranteed minimum pension for all has been retained. Pensions are by international comparison generous and equitable, and are set to remain so. The universal basic minimum pension is large enough to essentially eliminate the risk of poverty in old age. The recent reform has strengthened the link between contributions and benefits for earnings-related pensions, while improving

the system's intergenerational equity. The population has broad confidence in the sustainability of state-funded pensions, and there has been no significant push for private sector pension insurance. However, there are concerns that funding the scheme will prove increasingly costly in the long run.

Switzerland

Score 9

The Swiss pension system is based on three pillars, each with its own logic of financing and redistribution. The underlying concept is that pension income should not fall below the subsistence level and should provide 60% of average pre-retirement income. The first pillar guarantees a basic income. The minimum benefit level for a single person in 2022 was CHF 1,195 per month, while the maximum benefit was CHF 2,390 per month. The sum of the two individual pensions of a married couple may not exceed 150% of the maximum pension (i.e., CHF 3,585 per month). If this maximum amount is exceeded, the two individual pensions are reduced accordingly. Employers and employees finance this through contributions. It is a pay-as-you-go system and highly redistributive, since the maximum benefit level for couples (provided to high-income earners) is just 1.5 times that of the minimum benefit level, while contributions are proportional to income.

The second pillar is a funded system financed through contributions by employers and employees. Contributions and benefits are proportional to income. Employees whose income from the first pillar already covers about 60% of their wage income are not entitled to this system. Many pension programs, particularly in the public sector, are very generous, and provide pension incomes (first and second pillars combined) that exceed 60% of previous income. Historically, this system of occupational pensions is the core of the Swiss pension system and powerful interests (e.g., major political parties and financial institutions) allow for only piecemeal reforms.

The third pillar takes the form of personal tax-deductible savings of up to CHF 6,883 per year (2021). This system benefits high-income groups, since they can afford to put aside these sums and have the highest returns on these savings given the tax advantages.

In international comparison, the Swiss pension system performs extremely well. According to a comparative analysis of 24 countries, this system has one of the smallest pension gaps among developed democracies. A pension gap is the estimated share of income which a worker at age 50 must save privately in addition to contributions to the pension system if she wants to enjoy an adequate lifestyle during retirement. The respective figure for Switzerland is 14%, while in Germany it is 30%, in the United Kingdom 26% and in France 44% (UBS 2021).

Given the solid basis of the pension system overall, Switzerland faces less pressure than many other European countries to adapt to demographic change. However,

Switzerland has tried many times to reform its system. with little to no success so far. In September 2017, an ambitious reform proposal failed in a popular vote – as many other reform efforts in this policy area over the last 20 years. During the past 25 years, all major attempts to reform the pension system have failed. Even when the parliament could agree on a reform, the reform failed in a popular vote. In December 2021, the parliament accepted two proposals, one for the first pillar and one for the second pillar. However, these reforms are opposed by the trade unions and the political left, and therefore – given the experience of previous reform attempts – it is not unlikely that these reforms will also be rejected in a referendum.

Important lessons can be learned from previous referendums on pensions and the ongoing reform debates as recent research has shown. There is no majority for substantial retrenchment, in particular with regard to an increase in the age of retirement. Likewise, there is no majority for increasing the generosity of the system if this endangers its financial sustainability (Häusermann et al. 2019). Hence, the status quo.

With regard to poverty prevention, the pension system is considered comparatively efficient. Citizens, EU citizens and foreigners, who have resided for at least 10 years without a break in Switzerland, can claim additional payments if they are not entitled to the first pillar's minimum pension. The system as a whole has a high degree of intergenerational equity, as it rests on three different pillars and only the first pillar is exclusively based on intergenerational payments. However, the system fails to account properly for different, modern working schemes and people who work part-time or experience work interruptions, mostly women, remain disadvantaged. While in 2020 both men and women received similar pensions on average from the first pillar (CHF 1,899 per month for men, CHF 1,769 for women), much greater differences were observed for the second and third pillars (CHF 2,600 for men, CHF 1,543 for women from the second pillar) (FSO 2022). Although some compensations are foreseen for childcare and other societal contribution, women remain disadvantage by this pension system, which can push women into poverty or a position of financial dependence.

The retirement age for women is also under scrutiny. Right and liberal parties are trying to raise it through a new reform, which was accepted by the Swiss parliament in June 2021. However, the reform will be subject to a referendum, as 100,000 signatures – the threshold to trigger a referendum – were collected in about 50 days, much less than the allowed 100 days.

Financial sustainability will be a potential problem over time, but the pension system remains stronger than in comparable countries such as Germany.

Citation:
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Häusermann, Silja/Kurer, Thomas/Traber, Denise (2019): The Politics of Trade-Offs: Studying the Dynamics of Welfare State Reform With Conjoint Experiments, in: Comparative Political Studies 52, 1059-1095.https://journals.sagepub.com/doi/abs/10.1177/0010414018797943

Leimgruber, Matthieu. 2008. Solidarity without the State? Business and the Shaping of the Swiss Welfare State, 1890-2000. Cambridge, UK; New York: Cambridge University Press.

UBS 2021: UBS International Pension Gap Index, https://www.ubs.com/ch/de/private/pension/pension-gap-index.html

Australia

Score 8

Australia has two explicit pension systems, the public age pension and private employment-related pensions. The public age pension is funded from general taxation revenue, and because it is means-tested, it effectively acts as a social safety net. Pensioners enjoy additional benefits such as access to universal healthcare, concessions on pharmaceutical and other government services, and tax concessions.

Currently, the public age pension is still the dominant source of income for retirees. Approximately 70% of people aged 65 and over receive a means-tested pension from the government. About 40% of pensioners receive a reduced government pension due to their own assets. The result is that Australian pensioners' income is the second lowest in the OECD compared to the income of the working population. Measured income poverty of pensioners replying on public age pensions is therefore relatively high. However, over 80% of pensioners own their home. This, combined with the large expenditure subsidies they receive, means that broader poverty measures that take wealth and expenditure subsidies into account show low rates of deprivation among this group.

Over time the balance will shift toward the private pension system, which was only introduced on a large scale in 1992, and reached a minimum contribution rate of 9% of earnings only in 2002. The minimum contribution rate increased to 9.5% on 1 July 2014 and to 10% on 1 July 2021, and is scheduled to increase by 0.5 percentage points per year until it reaches 12% on 1 July 2025. Contributions to private pensions are concessionally taxed at a flat rate of 15%, and private pension income in retirement is largely tax exempt.

Population aging has increased anticipated pressures on the pension system. In response, over the period from July 2017 to July 2023, the age of eligibility for the public age pension is being progressively increased from 65 to 67 years.

In terms of intergenerational inequity, the gradual nature of the shift since 1992 from a pay-as-you-go public pension toward a private pension system supplemented by a

public pension has meant that relatively little inequity has resulted between generations.

Lastly, concerning the fiscal sustainability of the pension system, while reliance on the public age pension will continue to be high for many years, in broad terms the pension system is relatively sustainable, with private pensions increasingly taking on more of the financial burden. Concerns have been raised, however, about the sustainability and equity of maintaining the largely tax-exempt status of private retirement income. More broadly, the government is concerned about the extent to which the retirement-income system is working, and will work into the future, as it should. Consequently, the Treasurer launched an independent review of the retirement income system in 2019, with the report released in November 2020. Among the findings of the review, tax concessions for superannuation were deemed to be very high for high-income individuals, both in the pre-retirement and post-retirement phases. As yet, no policy changes flowing from the review have been introduced.

Citation:
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Retirement income review report: https://treasury.gov.au/publication/p2020-100554

Canada

Score 8

The basic components of Canada’s public pension retirement-income system are the Old Age Security (OAS) demogrant, the income-tested Guaranteed Income Supplement (GIS) and the contribution-fed, earnings-based Canada/Quebec Pension Plan (CPP/QPP). Other tiers of the pension system include employer pension plans (both defined-benefit and defined-contribution plans) and government incentive programs for individual saving such as Registered Retirement Saving Plan (RRSPs) and Tax-Free Saving Accounts (TFSAs).

The Canadian pension system seems to be relatively effective as a tool to reduce poverty among the elderly. For individuals over 70 years of age in the lowest quintile of the earnings distribution, the proportion of working income “replaced” by retirement income is nearly 100%. Since 1995, elderly incomes at the bottom have been growing, but not as quickly as the incomes of the rest of the population. Using Statistics Canada’s Low-Income Cutoff (LICO) measure of poverty, an absolute definition, the poverty rate for people 65 and over was 4.7% in 2016, one of the lowest rates ever recorded in the history of the series. In contrast, Statistics Canada’s Low-Income Measure (LIM), a relative poverty definition, senior poverty rates have been on an upward trend over recent years, increasing from a low of 3.9% in 1995 to 14.2% in 2016. OAS and GIS were temporarily boosted during the pandemic. The 2021 federal budget announced a 10% increase in old-age security benefits once

recipients turn 75, which is estimated to reduce poverty in this age group by 14.5%.

Intergenerational equity is not a major concern for the Canadian pension system as there is a close relationship between contributions and benefits on an individual basis. With the recent benefits and contribution expansion, the CPP/QPP is projected to replace only a third of the average wage up to a ceiling that will reach CAD 82,700 in 2025. Thus, middle- and upper-income workers with no employer pension plan or private savings may not be able to replace a sufficient proportion of their pre-retirement earnings. In the private sector, this issue affects three in four workers.

The CPP is considered to be actuarially sound and fiscally sustainable at its current rate and benefit structure, due to large increases in contribution rates implemented in the late 1990s and late 2010s and early 2020s. The fiscal sustainability of the OAS/GIS is tied to the sustainability of the federal government's overall fiscal balance, and is fostered by the indexation of benefits to the CPI rather than to nominal wage increases.

Citation:
Milligan, K. and T. Schirle, Simulated Replacements Rates for CPP Reform Options, School of Public Policy Research Paper, Volume 7(7), University of Calgary, 2014.

Income Security Advocacy Center, "Eligible seniors set to receive increases in Old Age Security and Guaranteed Income Supplement," 14 July 2021, http://incomesecurity.org/public-education/eligible-seniors-set-to-receive-increases-in-old-age-security-and-guaranteed-income-supplement/

Netherlands

Score 8

The Dutch work fewer hours and retire later than people in other EU member states. The average pension age has increased from 61 years in 2007 to 64 years and 10 months in 2017. The proportion of people aged between 60 and 65 still active in the labor market has almost doubled since 2005. In 2020, 94,000 people retired, 30% more than in the previous two years. Also 6.8% of employees over 55 retired, as opposed to 5.5% in 2019. It is not clear whether these trends were influenced by the coronavirus crisis. The retirement age is still gradually increasing, but slower than before. In 2020, the average statutory pension retirement age of employees was 65 years and six months, in 2021 it increased to 66 years and four months, in 2022 it will increase another three months, and will reach 67 years in 2024. Afterward, the increase will be eight months for each year of longer life expectancy.

The Dutch pension system is based on three pillars. The first pillar is the basic, state-run old-age pension (AOW) that provides benefits for people 66 years old and older. Everyone under 66 who pays Dutch wage tax and/or income tax pays into the AOW system. The system may be considered a "pay-as-you-go" system. This pillar makes up only a limited part of the total old-age pension system. Because the current number of pensioners will double over the next few decades, the system is subject to considerable and increasing pressure. The second pillar consists of obligatory

occupational pension schemes that supplement the AOW scheme. Both employees and employers are obliged to contribute. In this way, the pension scheme covers all employees of a given company and industry/sector. The third pillar comprises supplementary personal pension schemes that anyone can buy from insurance companies.

Many self-employed people (who number more than 1.2 million in the Netherlands) do not opt for a pension package, as this is not yet compulsory. Previously, self-employed people often had a short history in the conventional labor market that gave them some pension; however, most newly self-employed or freelance people today do not have any pension scheme whatsoever.

Although the system is considered the world's best after those in Denmark and Australia, it – like most European systems – is vulnerable to demographic changes related to an aging population, as well as to disturbances in international financial markets. This is because pension funds, driven by the need to meet their growing financial obligations, are large players in stock markets. As of 2013, the government gradually increased the age of AOW pension eligibility to 66 by 2018, with a further increase to 67 by 2021. For supplementary pension schemes, the retirement age rose to 67 in 2014. During the review period, further increases in the retirement age were capped, and concessions were made for people engaged in physically demanding jobs. Due to the fact that the actual average retirement age is significantly lower that the legal level of 65, the average retirement age is continuing to rise.

Due to the very low interest-rate levels, pension-fund assets, although still enormous (totaling €660 billion or 193% of GDP), have not grown in proportion to the number of pensioners. The liquidity ratio of pension funds must be maintained at a minimum threshold of 105%. The time period given for recovery after failing to meet this threshold was increased by the Dutch central bank from three to a maximum of five years. Nevertheless, quite a few pension-insurance companies are at risk of having to lower their benefits. Interim framework bills for strengthening the governance of pension funds (e.g., requirements for the indexation of pension benefits, the inclusion of pensioners on governing boards, and the use of oversight commissions and comparative monitoring practices) were adopted by parliament in the summer of 2014. In 2022, some funds that have met the minimum threshold of 105% will be allowed to index pensions for the first time in 13 years.

A more definitive reform of the Dutch pension system was approved after a long "poldering" or stakeholder consultation process. Debate focused on the redistributive impacts (on the poor and rich, young and older, high and low education) and on the creation of more flexible pension schemes that give individuals more choice opportunities versus retaining collectively managed pension schemes. In 2019, the long-due retirement-plan agreement was finally signed, but was immediately called into question by the trade unions due to extremely low interest rates. Eventually, the new pension law was passed, and implementation is to begin after a delay in 2023. It involves simpler, more uniform rules, including for survivors' pensions. A

mandatory pension plan for freelance workers will contribute to diminishing the gap between contracted and flexible workers.

Citation:
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https://www.rijksoverheid.nl/onderwerpen/pensioen/toekomst-pensioenstelsel

Centrale banken bederven het pensioensprookje, NRC Next, 21 June, 2019

SER, Naar een nieuw pensioenstelsel, Juni 2019

Sweden

Score 8

Sweden's pension system succeeds in preventing poverty among senior citizens, but those living only on the very basic pension have problems making ends meet. The average income of people over 65 is currently 14% lower than for the total population, which is close to the OECD average of 12%. Although old-age income inequality and poverty rates among people over the age of 65 have increased, they are still below the OECD average (OECD, 2021). Inequalities are alleviated partly by eligibility for additional support from social welfare programs for pensioners living on a baseline pension with limited savings and no private pension.

The stability of the pensions system was a problem for a long time but appears to have improved, due to major reforms of the whole pension system in Sweden. One result of the pension reforms is a new public-private mix, strengthening capital funded occupational and private pension schemes. The distributional principles appear to be sound but the volatility of the stock market during the most recent past has meant a major source of uncertainty about how stable and sustainable the system will be in the future. The strengths of the system that emerged after the reforms of 1998 include its consensual character, the fact that the national system is unified, adequacy (the fact that it works well for most people), fiscal sustainability, high coverage, and flexibility on whether to draw the entire amount at the time of retirement. One aspect that contributes to income inequalities is the insufficient degree to which family structure is accounted for, thus resulting in a higher incidence of poverty among single retirees than pensioner couples (Barr, 2013).

Regarding equity in the system, the results are mixed. Ideally, a pension system ensures equity among pensioners, the active work force and the adolescent

generation. If equity refers to basically similar living conditions, Sweden's system fails in this respect. If equity however refers to a provision of baseline material goods related to needs, the performance of the system looks better. Some studies state that the new Swedish pension system does not undermine intergenerational equity, as long as the entry into the labor market for the adolescent generation is not blocked.

Even though the pandemic affected the health of the older populations disproportionately, pensions and the income of current pensioners were protected, as shortfalls in pension contributions were largely covered by transfers from the national budget (OECD, 2021). The 2021 budget included provisions for tax reductions for people receiving pensions, as well as an increase in housing subsidies (Finanspolitiska rådet, 2021). Finally, a 2019 agreement between most political parties resulted in a plan to increase the retirement age from the current 65 years to 66 in 2023 and 67 in 2026 (OECD, 2021).

In summary, the Swedish pension system is sound and sustainable, though increasing income inequalities are a point of concern.

Citation:
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OECD. 2021. "Pensions at a Glance: How does Sweden Compare?" https://www.oecd.org/sweden/PAG2021-SWE.pdf

United Kingdom

Score 8

The United Kingdom has a three-pillar pension system in which the second (employer-based) is the mainstay. Private pension funds were adversely affected by the financial crisis as investment yields fell, and some needed capital injections from employers. However, this has not had a significant effect on the incomes of those already retired. New entrants into private pension schemes are being offered less attractive terms than their predecessors. Successive pensions acts since 2016 have increased the state pension age to 66 for both men and women, as of April 2021. Certain reforms have shifted pressure from pension funds to individual pensioners. These reforms will change the pensioners' living conditions substantially in the years to come. However, compared with many other countries, the UK public pension system is fiscally sustainable and guarantees the maintenance of a minimum income for pensioners through a "triple lock" of raising the basic state pension by the highest rate of inflation, average wages or 2% per annum. Successive governments, perhaps fearing a backlash from "gray" voters, have pledged to maintain this policy, despite some criticism about the growing burden on the "millennial" generation. However, faced with an exceptional increase in average earnings in 2021, explained by the

statistical quirk of a bounce-back from a fall in 2020, the government suspended the triple lock for one year, resulting in a much lower nominal increase of 3.1%. Unsurprisingly, this decision provoked an outcry, not least from government supporters who deplored the breaking of a manifesto commitment.

The United Kingdom used to have a comparatively high degree of poverty among the elderly compared to other European countries. Older people lacking earnings-related pensions are at a comparatively high risk of poverty. This has improved as pension provision has expanded, an increase in the proportion of pensioners owning mortgage-free properties and through specific additional payments, such as winter heating. The overall figures disguise some inequalities among groups of pensioners. For example, lifelong housewives fare much worse than those who have the benefit of adding occupational or private pensions to their income from the state pension system. Most pensioners are, however, on reasonably comfortable incomes. If anything, recent debate has been about cutting some of the fringe benefits of better-off pensioners, such as free bus travel, because of fears about an undue burden on younger generations.

Citation:
Ebbinghaus, Bernhard (2019): Pension reforms and old age inequalities in Europe: From old to new social risks?, Conference Paper, European Sociological Association Conference, Manchester 2019

Belgium

Score 7

Pension policy has long been a touchy issue in Belgium. Previous attempts at reforming the system had been either delayed or watered down until the arrival of the financial crisis. Then, despite considerable political opposition, the Michel government steadfastly pursued an effort – based on a firm plan passed by parliament in July 2015 – to gradually raise the legal pension-eligibility age from 65 to 66 years (by 2025) and ultimately to 67 years (by 2030). It is also seeking stronger limits on access to early retirement (especially before 60 years of age). These were major steps forward, which may explain the jump in employment rates among those aged 55-64, from 35.3% in 2009 to 52% in 2019 (still eight percentage points below the euro area average, according to Eurostat data).

However, these improvements are falling short of reining in pension expenditures by 2050: the estimated budgetary cost of population aging is still estimated to reach 30% of GDP (Federal Planning Bureau, July 2021), with variability of about +3 percentage points possible in case of slower-than-expected migration or productivity growth, and of about -1.4 points in case of unexpectedly high mortality rates among the elderly or higher migration rates.

Citation:
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https://www.sfpd.fgov.be/fr/reforme-des-pensions-de-croo-1#changement2021

https://www.levif.be/actualite/belgique/reforme-des-pensions- le-conseil-d-etat-tacle-le-projet-penibilite/article-normal-1047441.html

https://www.levif.be/actualite/belgique/la-pension-a-mi-temps-possible-des-juillet-2019/article-normal-1036193.html

http://www.oecd.org/belgium/Better-Life-Initiative-country-note-Belgium.pdf

https://www.rtbf.be/info/article/detail_ce-que-la-suedoise-a-change-pour-moi-la-reforme-des-pensions?id=10223077

https://plus.lesoir.be/224006/article/2019-05-13/va-t-ramener-lage-de-la-retraite-65-ans

https://plus.lesoir.be/212077/article/2019-03-13/la-pension-65-ans-recalee

Czechia

Score 7

The Czech pension system has developed through gradual and partial reform of the pay-as-you-go system that existed before 1989. Its centerpiece is a mandatory public pension insurance scheme, administered by the Czech Social Security Administration (Česká správa sociálního zabezpečení, ČSSZ). Despite the aging population, the scheme was in surplus in 2018 and 2019, but posted small deficits in 2020 and 2021, which were largely caused by the decline in incomes stemming from the COVID-19 pandemic. Despite a 5.5% increase in pension spending in 2021 (from the first nine months), revenues from social insurance contributions grew even more rapidly with renewed economic growth and the pension fund was again in surplus. The average pension provided by this system was equivalent to only 45.2% of average wages in 2020, and there is roughly a 20% difference between the average pension for women and men. The official retirement age, which has been gradually increasing since 1996, is different for men and women. In the case of women, this age also depends on the number of children reared. In 2017, the ceiling for the maximum retirement age was set at 65 years.

Although the current system will remain sustainable for some time, reform has been on the agenda of governments since the mid-1990s and various adaptations have been made, although without ever achieving full political consensus. The Babiš government set pension reform as the first of its six main priorities in its government manifesto, emphasizing the need for a more precise separation between the public pension scheme and the regular state budget. In February 2019, led by the Ministry of Labor and Social Affairs, a new pension commission was established, bringing together representatives from the parliamentary political parties, the social partners, the academic community and other relevant interest groups and pro-retiree organizations. In October 2019, the commission reached an agreement on a model that would separate the current public pension pillar into two components. One should be a solidarity pillar, paid from the budget. The second should be paid through contributions. However, it was impossible to propose a pension reform that would lead to a broad agreement (Jahoda 2021). Petr Fiala's new coalition government also set pension reform as a priority in its manifesto.

Citation:
Jahoda, R. (2021): Czech Republic: Parliament may not approve the pension reform proposed by the Ministry of Labour and Social Affairs. European Social Policy Network, ESPN Flash Report 2021/44, Brussels: European Commission.

Iceland

Score 7

Iceland's pension system is a fully funded one rather than pay-as-you-go. Pension policy is based on a tax-financed, means-tested social security program supported by tax incentives to encourage participation in occupational pension funds and voluntary savings schemes. The pension funds, which are based on employee contributions of 4% of total wages and employer contributions of 8%, are designed to provide a pension equivalent to 56% of an individual's average working-life wage. In addition, employees can opt to pay a further 4%, with a further employer contribution of 2%, into a voluntary savings program. There is a large number of pension funds, currently 27, down from 50 in 1997. Pension funds' average annual returns on investments range from 1.2% to 6.2% in real terms (i.e., adjusted for inflation). Under the period of post-crash capital controls 2009 – 2017, pension funds, which before the 2008 crash had gradually increased their foreign holdings, were confined to domestic placements.

In the past, Iceland's pension policy appeared both conducive to poverty prevention and fiscally sustainable. However, Iceland's pension funds experienced heavy losses as their investments in, among others, equities in Iceland's banks depreciated substantially following the collapse of the banking system in 2008. These losses, which totaled about a third of GDP, caused most pension funds to reduce their payments to members and further reduced the living standards of pensioners. The pension funds have recovered since 2008 and once more have an overall assets-to-GDP ratio that is among the highest in the OECD region. In 2020, total assets in retirement savings plans in Iceland amounted to 207% of GDP, up from 125% in 2010. At 52% of pre-retirement earnings, in 2020, the gross pension replacement rate for men in Iceland was equal to the OECD average.

Two main issues confront the pension system. First, the Pension Fund of State Employees, the largest pension fund, has a huge funding gap that will have to be financed through future tax revenue. Second, given that pension funds have previously been used to fund social programs, as if supporting the government is more important than safeguarding the interests of retirees, there is a persistent danger that the government will seek to claim access to the funds to support its aims in a time of need.

In 2017, two major changes were made to the system. In March 2017, as part of the relaxation of capital controls, the central bank swept away restrictions on pension funds' investments in foreign markets, which had been imposed following the 2008

financial collapse. The 2016 – 2017 government reached an agreement with the trade unions of state employees on their pension rights. The rights of those employees in the A-section of the Pension Fund of State Employees were changed from equal to age-related. At the same time, the state pension age was increased from 65 to 67 years.

Citation:
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OECD: Global Pension Statistics (2022), https://www.oecd.org/finance/private-pensions/globalpensionstatistics.htm. Accessed 2 February 2022.

Ireland

Score 7

The Irish system of pension provision rests on three pillars: a state old-age pension, occupational pensions and individual pension plans. The substantial proportion of the population that is employed in the public sector enjoys relatively generous occupational pension entitlements.

In May 2011, an annual levy of 0.6% was imposed on the value of pension assets. In the 2014 budget, this levy was increased to 0.75%. The levy applied only to private sector pension funds. In the 2016 budget, the minister announced that this levy was being terminated.

The total asset value of the Irish pension fund sector grew by 0.4% in the third quarter of 2021 (most recently available statistics) to €129.8 billion. This rise was offset by a fall in holdings of pension fund reserves (€576 million), which nevertheless remain the largest asset holding in the country, standing at €51.5 billion (CBI, 2021). It is important that pension funds register such gains due to the effects of an aging population.

Poverty prevention:

The State Pension (Non-Contributory) is paid to people aged 66 and over who do not qualify for a State Pension (Contributory) (SPC). The State Pension is means tested and taxable, although if it is your only income you are unlikely to pay tax on it. The basic rate is €242 per week, with increases paid for adult and child dependents (CI, 2022a).

The State Pension (Contributory) is paid to people from the age of 66 who have made sufficient social security (PRSI) contributions and is sometimes called the old-age pension. The State Pension (Contributory) is not means tested. The Pensions

Commission was set up under the Programme for Government 2020 to examine sustainability and eligibility issues with state pensions. The highest rate is €253.30 per week with increases for adult and child dependents (CSO, 2022b).

Pension payments amount to about one-third of average earnings among the employed population. The nominal value of this pension was held constant after the onset of the crisis in 2009, despite the general fall in incomes, and a period of falling prices between 2010 and 2011, and again in 2014. In the 2022 budget, the maximum weekly rate for all state pensions was increased by €5 with proportionate increases for people in receipt of a reduced rate (DSP, 2021).

Ireland ranks among Europe's best – alongside the United Kingdom and the Netherlands – with regard to the size of existing private pension funds relative to GDP. About 55% of the workforce has made some pension provision for their retirement outside the main state scheme. However, these schemes came under very severe pressure following the stock market crash of 2008 and the increase in their liabilities due to a sharp decline in annuity rates. The trend of a shift from defined-benefit to defined-contribution schemes is continuing.

Fiscal sustainability:

The state pension scheme is a pay-as-you-go system. Its sustainability depends on the ability of the state to raise the funds required to meet ongoing commitments through taxes and social insurance levies. Although Ireland's population structure is relatively young by European standards, it is aging rapidly. This has led to repeated predictions of a pension-system crisis unless the retirement age is raised significantly and the amount earmarked for pensions from income taxes and social insurance levies is steadily increased. The issue of raising the pension age has proven politically intractable. The state retirement age was scheduled to increase to 67 in 2021, but this decision was reversed by government, amid political controversy, and moved back to 66 years.

Pensions for those employed in the public sector were, until 2009, almost entirely funded from general tax revenue. Significant changes to the funding of public sector pensions were made in 2009 and in the Public Service Pensions Act, 2012. These changes will, over time, help to make the system more sustainable, but a great deal of further adjustment will be required.

Intergenerational equity:

The pension reforms introduced over recent years will eventually increase the equity of the Irish pensions system across generations. At present, inequities arise because those in the current generation of pensioners who enjoy the state pension or public sector pensions did not contribute sufficiently through taxation and direct pension contributions to fund the level of pensions they receive. Those now in the workforce are unlikely to enjoy comparable pension levels when they reach retirement age.

Furthermore, the adjustments that have been made to pensions since the crisis of 2008 have been smaller than the adjustments to the after-tax income of those who are in employment.

A package of changes to the rules governing defined benefits schemes was announced toward the end of 2013 and implemented in 2014. This change sought to address the situation of underfunded defined-benefit pension schemes that wind up in deficit or elect to restructure. In the past, pensioners could have received all or most of the pension fund, whereas contributing members who had not yet retired received considerably less than expected. The new rules were designed to ensure a more equal distribution of assets under a limited set of circumstances.

Citation:
CBI (2021) Pension Fund Statistics – Q4 2021, Central Bank of Ireland, 30 March, available at: https://www.centralbank.ie/statistics/data-and-analysis/pension-fund-statistics

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CI (2022b) State Pension (Contributory), Citizens Information, available at: https://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/older_and_retired_people/state_pension_contributory.html#:~:text=The%20State%20Pension%20(Contributory)%20is,income%20and%20still%20get%20it.

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Data on poverty levels among the retired are from the Survey on Income and Living Conditions,2011 Results: http://www.cso.ie/en/media/csoie/releasespublications/documents/silc/2011/silc_2011.pdf

Israel

Score 7

The Israeli pension system is mainly based nowadays on defined-benefits pension plans, with most contributions invested in the capital market and some 30% in government bonds. The main risk under that system is carried by individuals. Since 2008, every salaried employee has to have a pension plan, of which two-thirds is financed by the employer. Meanwhile, every self-employed worker has had to have a pension plan since 2017. This is meant to secure the future of Israel’s moderately aging population. However, mandatory pension saving reduces available income for poor households and does not supply the supplementary income that is critical for the extremely poor.

Israel’s pension system is based on competition between pension funds, which is supposed to lower management fees. In addition, the Ministry of Finance defined “default” pension funds committed to charging lower management.

In 2021, the Israeli parliament approved a bill to raise the retirement age for women in Israel. The retirement age for women will rise from 62 to 65, over a period of 11 years. The retirement age for men is currently 67.

Citation:
Avitan Cohen, Shirit, “Finance Committee approves bill to raise women’s retirement age,” 21.10.2021 https://en.globes.co.il/en/article-finance-cttee-approves-bill-to-raise-womens-retirement-age-1001388263

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Lithuania

Score 7

Lithuania’s pension system does not adequately protect recipients against old-age poverty. The share of the population over 65 years of age who are poor or suffer from social exclusion is well above the EU average; in the 2011 – 2017 period, pension growth lagged behind average wage growth. During the financial crisis, the Lithuanian authorities were forced to cut social expenditures (including pensions), thus increasing the risk of poverty for some retired people. However, pensions were restored to their pre-crisis levels as of 1 January 2012 and policymakers later decided to compensate pensioners for pension cuts made during the crisis. The Skvernelis government decided to allocate an additional €371.8 million for old-age pensions in 2018 and to reform the pension system by shifting responsibility for contributions to the state social security fund from employers to employees and by increasing contributions to private-savings pillars.

In terms of intergenerational equity, Lithuania’s three-pillar pension system, which mixes public and private pension programs, should ensure equity among pensioners, the active labor force and the adolescent generation. The 2004 pension reform added two privately funded pillars (a statutory pillar that receives a portion of mandatory state social-insurance contributions, and a voluntary pillar that is funded through private contributions) to the pay-as-you-go (PAYG) state insurance fund. However, this system as a whole suffered from instability and uncertainty; for instance, during the financial crisis, the government cut the share of social security contributions going to the second-pillar private pension funds from 5.5% to 1.5%. Beginning in 2013, this contribution was increased to 2.5%. Also in 2013, another change to the private-savings system was introduced that reduced the contribution level to 2%. Furthermore, it allowed individuals either to stop their private contributions or to gradually top up 2% from the social security contributions to the state insurance fund.

In 2016, the Lithuanian parliament approved a new "social model," which includes three major changes to the state social-insurance pillar. First, the basic pension is state financed, with an individual share dependent on social security contributions and financed from the Social Security Fund. The Skvernelis government proposed going beyond consolidating the state budget and social security fund to reforming both the pay-as-you-go and private-savings pillars. On the basis of these proposals, the parliament adopted changes to the legislation governing the second pillar of the pension system in 2018. The reform abandoned the system whereby the State Social Insurance Fund Board transferred 2% of social-insurance contributions into the second-pillar pension funds. Instead, a new formula (4% + 2%) for pension accumulation was established. This means that pension-fund contributions comprise 4% of the participant's personal income and 2% of the national average salary as a supplementary contribution paid out of the state budget. Second, clear pension indexation rules link pension increases to average increases in the wage fund. Third, the mandatory period a person must work before qualifying for a pension is gradually being increased from 30 to 35 years by 2027. These changes took effect in 2018.

The Šimonytė government has also increased pensions substantially – they are set to grow by 11% on average in 2022. The new government has also introduced changes to the pension system – in particular, even persons who have not accumulated the necessary work years will also receive a base pension rate. This should help with poverty rates among the elderly, although some analysts have expressed concerns over increasing politicization of the issue and potential disincentive effects. The average pension, which amounted to €255 in 2016, increased to €413 in 2021, and is set to go up to €534 in 2024.

In terms of fiscal stability, Lithuania's pension system faces unfavorable demographic change ahead. The old-age dependency ratio is projected to more than double by 2060 as the working-age population shrinks by a projected 35.8%. The parliament approved a gradual increase in the age of pension eligibility to 65 years in 2011, and in 2012 changed the pension system's second pillar to provide for a possible gradual increase in the share of social contributions received by private funds (however, only 33% of those who participated in the previous pension scheme decided to join a new scheme). The unsustainable pay-as-you-go pillar continues to pose a risk to the sustainability of public finances overall.

Citation:
COMMISSION STAFF WORKING DOCUMENT, country report Lithuania 2019: https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-lithuania_en.pdf

Luxembourg

Score 7

In Luxembourg there are three types of pension – a public state pension, a company pension and a personal pension. The statutory pension scheme also includes public health insurance and long-term care insurance. Other state pension entitlements

include the survivors' pension (which applies in the event of the death of a spouse or legal partner), the child-raising pension and the disability pension (for people under the age of 65 who are unable to work). Cross-border workers are eligible for all aspects of the pension system.

A full pension is possible only if you have contributed for 480 months (meaning 40 years). The retirement age is 65 (both for men and women), but an early retirement system also exists, for those between 57 and 60 (in such cases, payment into the compulsory insurance system of at least 120 months is required). For beneficiaries of an old-age pension affiliated with the National Health Fund (Caisse Nationale de Santé) (CNS), contributions are borne equally by the insured and the National Pension and Insurance Fund (Caisse Nationale d'Assurance Pension) (CNAP).

Luxembourg's pension plans offer one of the highest replacement rates within the OECD, and provide a high living standard for the elderly (maximum monthly pension cannot exceed €8,525.50 in 2020).
One-third of retirees received a full pension (on average of €3,900), and two-thirds received a partial pension (on average of €1,250), in most cases combined with other amounts (deriving from another provision or from working in another country). Due to the annual indexation, pensions were adjusted upward by 1.3% on 1 January 2021 (following a +1.5% increase in 2020). However, pensioners must contribute financially to the healthcare insurance system, and pension benefits are fully taxed.

The coronavirus crisis made it clear that Luxembourg's social security system has long-term sustainability problems, given that it is facing growing pressure due to an aging population. The OECD and the European Commission have urged the Grand Duchy to reform its pension system by taking steps to increase the retirement age in line with increasing life expectancy, and/or diminish the generosity of pensions. Furthermore, neither the economy's overall strength nor the rate of increase in the number of contributors to the system over the decades to come can be predicted with certainty. As previously indicated, several international authorities are warning the country against possible slippage in the pension system. However, the social partners and the state have shown little interest in addressing this problem.

Citation:
"Luxembourg's tax reform encourages private pensions." ING Luxembourg. https://www.ing.lu/content/siteing/en/Individuals/my-money/categories/savings/luxembourg-s-tax-reform-encourages-private-pensions.html. Accessed 14 January 2022.

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New Zealand

Score 7

New Zealand's pension system is tax-based. There is no retirement age, but 65 is the current age of eligibility for New Zealand Superannuation. The level of NZ Super payments is reviewed annually, taking into account inflation and average wages. Any eligible New Zealander receives NZ Super regardless of how much they earn through paid work or what assets they own. While universally accessible, NZ Super is one of the least generous pensions relative to the working wage in the industrialized world: New Zealand pension recipients get just 40% of the average working wage, which is considerably lower than the OECD average (OECD 2021). However, the system operates as a form of universal basic income and is relatively efficient: just 7.7% of those between 65 and 75 in New Zealand are considered to be living in poverty, compared to the OECD average of 11.6% – even though the figure rises to 15.2% for those 76 and over (16.2% across the OECD) (OECD 2019).

Due to demographic changes, the cost of NZ Super is projected to rise from $13 billion in 2016 to $76 billion by 2050. The percentage of GDP that goes toward paying for NZ Super would increase from about 4% in 2001 to 7.1% in 2049 and 7.9% by 2059 (Stuff 2017). Nevertheless, the recent review of retirement income policy recommends retaining the government's scheme and has resisted recommending the introduction of a raised age of retirement or a means test (Retirement Commission 2019). There remains pressure on the government to raise the age of eligibility for NZ Super to 67, and the 2022 Retirement Commission's Review of Retirement Income Policy is likely to make some recommendations on this issue.

To encourage private savings as a means to relieve the pressure on the state pension system, New Zealand introduced KiwiSaver in 2007 – a publicly subsidized private pension plan offered on a voluntary basis. However, limited attention has been paid to the penalties faced by women workers who are more likely to take breaks from the labor market to care for children and older family members. While Care Credits have been discussed as a way to offset this disadvantage, there has been little movement by the government on this issue (Huang and Curtin, 2019; RNZ, 2021).

Citation:
Huang, Y. and Curtin, J. (2019). A review of gender differences in retirement income. Auckland, New Zealand: Public Policy Institute. DOI:10.17608/k6.auckland.9699443

OECD (2019) Old-age income poverty. https://www.oecd-ilibrary.org/sites/fb958d50-en/index.html?itemId=/content/component/fb958d50-en

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Slovenia

Score 7

Slovenia has a traditional pay-as-you-go (PAYG) pension system with modest pensions, whose intergenerational fairness and financial sustainability in the face of a rapidly aging society has suffered from a low employment rate for the elderly. A substantial pension reform was adopted in December 2012. This instituted a gradual increase in the full-retirement age to 65 for men and woman, or 60 for workers with at least 40 years of pensionable service. In addition, it introduced incentives for people to continue working after qualifying for official retirement and implemented changes to the pension formula that have slowed pension growth. The Cerar government emphasized the need for further change and eventually agreed with the social partners upon the broad outline of a pension reform to be adopted by 2020 that includes a 70% net replacement rate, raising the actual retirement age and an indexation rule that links the growth of pensions to wage growth and changes in consumer prices. The Šarec government has prepared amendments to the Pension and Disability Insurance Act that have aimed at improving pension adequacy and at fostering the employment of pensioners, but have raised concerns about the financial sustainability of the pension scheme. Proposed by the Janša government, the National Assembly adopted minor changes to the Pension and Disability Insurance Act in September 2020. However, further changes, which would enable employers to dismiss employees who have met the conditions for retirement, were met with resistance by trade unions and subsequently blocked by the Constitutional Court. The Janša government adopted several additional financial assistance packages for pensioners during the COVID-19 pandemic.

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Spain

Score 7

Spanish pension policy achieves the goal of poverty prevention, but meets intergenerational-equity and fiscal-sustainability standards to only a moderate degree. Whereas the poverty rate among Spain's general population is 26%, the rate among the elderly is only 12%. Thus, the elderly are less economically vulnerable

than active but unemployed workers, which demonstrates that the current system does not ensure equity across different generations – that is, pensioners, the active labor force and youth.

The pension system represents the largest single piece of public spending (more than €120 billion per year), with nearly €30 billion in annual losses in 2020. Pension expenditure will rise from 12% of total government expenditure in 2021 to more than 16% in 2050.

Over the past years, there has been no shortage of warnings from within or outside Spain (e.g., the Bank of Spain, the EC, IMF and OECD) that the country's pension system is heading toward a crisis. As part of the RRP, the EC requested that a pension reform proposal be presented in 2021. In fact, during 2020 and 2021 the government tried to strike a pact with the opposition and social partners to ring-fence the public pension system. In December 2021, the government and social partners reached an agreement according to which pensions will be indexed to prices, and bonuses and penalties modified to encourage working longer. The agreement includes the reevaluation of pensions in conjunction with changes in the consumer price index so as to maintain purchasing power. Finally, a new instrument called the Intergenerational Equity Mechanism has been introduced. The mechanism consists of an increase in the contribution rate of 0.6 percentage points (0.5 for employers and 0.1 for employees) up to 2032. This will help mitigate the financial impact of the baby-boom generation reaching retirement.

The pension reform came into force on 1 January 2022. Each year, pensions will be increased in line with the average annual inflation rate recorded in the previous year. In 2022, the increase will be 2.5%. However, the increase will be 3% for recipients of minimum pensions, noncontributory pensions and the minimum vital income.

Citation:
EC (2021), Actualización Programa de Estabilidad 2021-2024 – https://ec.europa.eu/info/sites/default/files/2021-spain-stability-programme_es.pdf

OECD (2021) Pensions at a Glance 2021 – https://www.oecd.org/spain/PAG2021-ESP.pdf

Ley 21/2021, de 28 de diciembre, de garantía del poder adquisitivo de las pensiones y de otras medidas de refuerzo de la sostenibilidad financiera y social del _istema público de pensiones. https://www.boe.es/diario_boe/txt.php?id=BOE-A-2021-21652#:~:text=A%2D2021%2D21652-,Ley%2021%2F2021%2C%20de%2028%20de%20diciembre%2C%20de%20garant%C3%ADa,a%20165113%20(30%20p%C3%A1gs.%20)

United States

Score 7

The Social Security retirement program is the United States' main public pension system that complements various employer-based pension plans, tax-subsidized retirement saving plans (401k plans) and private retirement accounts. Social Security is funded by mandatory employee and employer contributions, totaling 12.4% of

wages, on wages up to approximately $120,000 per year. The wage-replacement rate of the public system is on average 45%, which is below the OECD average, though the rate is higher for people with lower incomes. Benefits from company-based and private accounts raise the wage-replacement rate to 80%. However, 78 million Americans have no access to company-based retirement plans. In addition, the financial crisis of 2008 hit the asset base of pension funds, which has resulted in many private employers proving unable to make full payments. A long-term Social Security funding shortfall has been politically intractable, with Democrats blocking benefit cuts (or reductions of scheduled benefit increases) and Republicans blocking increases in the payroll tax.

With respect to the three goals of pension systems (i.e., poverty prevention, intergenerational equity and fiscal sustainability), the U.S. pension system is partially successful in reducing poverty among the elderly. Historically, each succeeding retirement cohort has received generous subsidies from current workers, but the growth of the elderly population threatens coming retirement cohorts with potential losses of expected benefits. The system is currently at risk with respect to financial sustainability.

So far, Democrats and Republicans alike have proved unwilling to raise taxes and/or cut benefits in order to address the long-term funding deficiencies of the Social Security program. These funding deficiencies are increasingly problematic and will require larger, more painful adjustments with every year in which the government fails to act. The economic downturn created by the COVID-19 pandemic had a negative impact on the Social Security trust fund. Finally, during the pandemic, Social Security and Supplemental Security Income beneficiaries became eligible to emergency Economic Impact Payments.

Austria

Score 6

Austria has long been considered “a heaven for retirees.” Indeed, poverty among senior citizens is low by comparative standards. The retirement age also continues to be low by comparative standards, particularly if the focus is on the actual retirement age (in contrast to the formally set retirement age of 65 for men and 60 for women). The formal retirement age for women was raised several years ago and will continue to increase incrementally to 65 by 2033.

One marked bias within the system concerns the advantageous situation of retired public sector employees (Beamte) compared to retired private sector employees. The representatives of public sector employees argue that top incomes cannot be earned in the public sector. In contrast, the representatives of private sector employees argue that the higher degree of job security in the public sector does not justify the current differences in pensions.

Another bias concerns the average pension entitlements of women and men. In Austria, female retirees currently receive about 40% less than their male counterparts, which means a significantly larger gender gap than in most other countries. (The reported average for OECD countries in 2020 was about 26% less).

Overall, the current system can be characterized as generous, but rather expensive. The pension insurance contributions of employees is currently set at 22.8% of gross income, which is high by international standards. Nevertheless, nearly one-third of overall pension costs are paid for by the taxpayer. Population aging will force the Austrian government to adopt reforms. The already high contribution rate cannot be further increased, so adjustments to the pension level and retirement age are the only instruments at hand.

Similar to previous governments, the ÖVP-Green government has not withstood the temptation to keep a large proportion of retirees happy by increasing their entitlements and particularly those with smaller pensions in 2021. Continuing a practice common to previous (often SPÖ-led) governments, pensions of less than €1,300 per month were not increased by 1.8%, but by up to 3%. As a consequence, the chair of the pensions commission, Walter Pöltner, stepped down in protest, arguing that the practice not only violated the "insurance principle" but also incurred unacceptably high costs for the next generation.

Citation:
https://www.wienerzeitung.at/nachrichten/wirtschaft/oesterreich/2116391-Was-das-Pensionssystem-ins-Wanken-bringt.html

https://kontrast.at/pension-frauen-weniger/

https://www.sn.at/politik/innenpolitik/walter-poeltner-tritt-als-chef-der-pensionskommission-zurueck-109736758

Estonia

Score 6

Estonia has had a three-pillar pension system since 2002. In 2019, a reform of the mandatory second pillar was provoked by the poor performance of pension funds, high administrative costs and minimal choice for citizens. Despite legal amendments that relaxed investment restrictions and imposed reduced rates for administration costs, the conservative Pro Patria party's plan to make the second pillar voluntary and allow people to withdraw their funds before retirement was implemented in 2021. By the end of 2021, 24% of all second pillar assets that were owned by the 23% of insured people aged under 60 were withdrawn. Nearly half (48%) of leavers composed people aged 35–49, which is seen as one of the major sustainability risks.
Making the second pillar voluntary puts additional pressure on the first, PAYG pillar. The public pension fund is already running an annual deficit close to 2% of GDP and political promises to increase pensions extraordinary, beyond indexation could further undermine sustainability. Regardless of annual indexation, the average level of a public old-age pension is modest (€591 per month) and poverty among the elderly remains a concern.

Citation:
ERR (2021). https://www.err.ee/1608162478/teisest-sambast-lahkujad-votavad-valja-1-29-miljardit-eurot (accessed 02.01.2022)

France

Score 6

The French pension system is relatively generous, and largely prevents poverty of the elderly. Public expenditure on pensions as a share of GDP is high. It reached 14.7% in 2020, a peak due to the pandemic; this is expected to decrease again and stabilize at a level of 13.7% by 2030. However, the pension system is also complex, which is a problem with respect to equity. First, the so-called general regime to all private employees and is complemented by additional voluntary systems, in particular in large companies. Second, some professions are affiliated to "special regimes" which are characterized by shorter periods of contribution and higher generosity in pension payments. These systems usually cover employees working in public companies or groups highly subsidized by the public budget (coal mines, public transport, sailors and fishermen, for example). Finally, public servants usually benefit from higher payments as their pension payments are based on their final salary (last six months), and not on an average (e.g., best 25 years). Early retirement remains a common practice. However, the raising of the retirement age to 62 has led to a constant increase in the effective average age of entry into a pension since 2010. For 2018, it was calculated as 60.4 years (men) and 60.9 years (women), compared to 63.8 years (men) and 62.4 years (women) for the OECD average. The OECD estimates that the age of retirement will further increase following the gradual implementation of the pension reform. An international survey shows that in France, the age of exit from the labor market is the second-lowest of all OECD countries. Additionally, the survey notes that France offers the most generous pensions worldwide, and that given the high life expectancies (the second-highest within the OECD), these pensions are paid for a longer period than in most other nations.

In order to assure the sustainability of the pension system, French governments continuously introduced reform measures over the last decade: pension contributions have been increased, the number of years of contribution needed to receive a full pension has been increased to 43 years, and the peculiarities or privileges granted to some professional groups ("special regimes") have been reduced. President Macron has deliberately chosen to reduce the advantages enjoyed by the pensioners in order to increase the income of people in work. This has been done by increasing a universal social tax raised on a broad range of income (Cotisation sociale généralisée, CSG), and by eliminating a social contribution paid only by salaried people. The government had also decided that in 2019, pensions would be increased by only 0.3%, but after the eruption of the Yellow Vest protests, it accepted a higher increase that reflected the inflation rate for the most modest pensions.

In the meantime, the first positive effects of the Sarkozy reforms of 2010 have been felt. In 2015, for the first time, the pension branch of the social security system

showed a positive balance, although this lasted only two years. An agreement between three trade unions and the employers' association added further adaptations concerning the supplementary pension. The payment of supplementary pensions (which are run jointly by the social partners) will be postponed until the age of 64 for most beneficiaries. The main novelty of this rather complex agreement is that it introduces flexibility in fixing the pension age and actually allows its postponement for most employees in the private sector to the age of 64. Macron had indicated that he would not introduce new reforms concerning the retirement age and the number of years of contribution during his term. Instead, he suggested changing the method of calculation for pensions by creating a system of credit points accumulated by employees, which would be monetarized at the moment of their retirement. He further declared that he would drastically simplify the current system, merging the current 42 different social regimes into one. This frontal attack on the privileges accumulated over time by a number of groups and professions triggered fierce resistance, and as yet, only Article 1 of the new legislation has been put to a vote. The outbreak of the pandemic forced the government to postpone the reform indefinitely. In its latest recommendations, the OECD insisted that the reform should be resumed and suggested a more incremental but automatic system of adjustment in the future. Given the state of the public finances, there is little doubt that the issue of pension reform will return to the public agenda immediately after the presidential election.

Citation:
OECD: Pensions at a Glance 2021. OECD and G20 Indicators, Paris, December 8, 2021
https://www.oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm
OCDE: Vieillissement et politique de l'emploi – statistiques sur l'age effectif moyen de la retraite (http://www.oecd.org/fr/els/emp/age-effectif-moyen-de-retraite.htm)
Conseil d'orientation des retraites (COR): Rapport annuel, June 2021
https://www.cor-retraites.fr/node/562

Germany

Score 6

The last comprehensive pension reform dates back to 2007. It aimed to make the pension system more sustainable by phasing in a higher retirement age of 67 years and by establishing a link between pension increases and demographic change.

In recent years, reforms had a different intention and have gradually increased the generosity of the system. Critics have argued that these measures would undermine the system's long-term sustainability. First, the government reduced the retirement age by two years for workers who have contributed to the pension system for at least 45 years. Second, it provided a "catch up" payment for housewives with children born before 1992. The calculation now includes two additional years of (fictive) contributions, allowing this group greater parity with counterparts whose children were born after 1992. Pensions for people with disabilities have been increased. Germany instituted in 2021 a "basic pension" ("Grundrente") that aims at reducing poverty in old age (BMAS 2021). For insured workers with 35 contribution years,

the pension of low-income earners will be increased. The costs will be financed from the federal budget from general tax revenues and are projected to benefit 1.3 million recipients. In addition, the government took some measures to improve private and occupational pension provisions.

Public subsidies from the federal budget for the pension fund have increased strongly over time. In 2017, subsidies totaled €67.8 billion. In the 2022 budget, they already reach €108 billion, which is 24% of the total budget (BMF 2021, p. 88).

Pensions have been increasing quickly in recent years due to the high levels of employment growth and the rising average wage of the active population. Today's pensioners have a lower risk of poverty compared to the rest of the population, but old-age poverty is projected to increase in future. Measures like the aforementioned basic pension aim to counteract this development. The last government also introduced a "double stop line," which means that contribution rates should not exceed more than 20% of income by 2025, and that pension levels should not fall below 48% of income by the same year. A raising of the statutory retirement age was explicitly excluded in the coalition agreement of the new government (Koalitionsvertrag 2021: 73). As a consequence, these levels will be financially possible only if federal subsidies are substantially increased, which raises questions regarding the fiscal sustainability of the policy. In sum, the new government has provided no strategy for ensuring the financial sustainability of the pension system as the number of pensioners is destined to increase dramatically with the wave of babyboomer retirement. Critics point to political myopia and a loss of a sense of reality (Börsch-Supan, 2021, see also "Budgetary Policy"). One positive aspect, however, is that the new government announced its intent to introduce additional capital funding for the statutory pension scheme (ibd.).

Citation:
BMAS (2021): Antworten auf die wichtigsten Fragen zu Grundrente, 2. Juli 2021.

BMF (2021): Finanzbericht 2022, Bundesministerium der Finanzen, August.

Börsch-Supan, Axel (2021): Die Verdrängung des demographischen Wandels, Frankfurter Allgemeine Zeitung, 24 December 2021, p. 22.

Koalitionsvertrag (2021): Mehr Fortschritt wagen, Bündnis für Freiheit, Gerechtigkeit und Nachhaltigkeit, Koalitionsvertrag zwischen SPD, Bündnis 90/Die Grünen und FDP.

Japan

Score 6

Given the rapid aging of the population, Japan's pension system faces critical challenges. Already, more than 28% of the population is older than 65. The last major overhaul of the pension system occurred in 2006. Under its provisions, the value of future pension disbursements would rise less than inflation, payments would eventually commence at age 65 instead of 60, contributions would top out at 18.3% of income, and a payout ratio of 50% was promised. The program's assumed relationship between future payment levels, contributions and the starting age for

receiving benefits was based on optimistic macroeconomic forecasts, but so far only minor revisions have taken place.

In March 2020, the government passed a pension reform bill that is designed to make it easier for part-time workers to join public corporate pension schemes (kosei nenkin). Starting in October 2022, part-time and contract workers in workplaces with more than 100 employees will be eligible to join kosei nenkin. This will be extended to workplaces with more than 50 workers in 2024. The planned reform also includes benefit reductions for workers aged 60 to 64, and options for workers to continue paying into the pension system until they reach 70, and to start receiving pensions as late as age 75.

Another pressing issue is Japan’s high old-age poverty rate of 19.6% (OECD average: 13.5%), with the poverty rate among men standing at 16.2% and women at 22.3%.

The Government Pension Investment Fund has shifted its asset portfolio somewhat away from bonds (and away from Japanese government bonds/JGBs in particular), toward other assets such as domestic and international stocks. Japanese corporate pension funds are following this trend, with their exposure to domestic government bonds dropping to 18.3% by March 2019. Many observers are concerned about the higher levels of risk associated with stocks. However, JGBs are also risky due to the Japanese state’s extraordinary level of indebtedness.

Citation:
OECD, Pensions at a Glance 2019. https://www.oecd-ilibrary.org/sites/fb958d50-en/index.html?itemId=/content/component/fb958d50-en

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Thisanka Siripala, Report: Japan’s Public Pension Fund Not Enough to Cover Post-Retirement Needs, The Diplomat, 27 June 2019, https://thediplomat.com/2019/06/report-japans-public-pension-fund-not-enough-to-cover-post-retirement-needs/

Japan adopts pension system reform plan, Japan Times, March 3, 2020, https://www.japantimes.co.jp/news/2020/03/03/business/pension-system-reform-plan/

Malta

Score 6

Government expenditure on social security benefits amounted to €693.6 million up to September 2021, with an increase of €32.9 million for retirement pensions alone. Indeed, pensions represent a substantial public expenditure with projections indicating that pension-related expenditure will increase by 3.4% of GDP by 2060. This has been a major concern at the EU level and the sustainability of pensions has been a recurring point of concern in the European Commission’s Country Specific Recommendations over the last few years.

The Maltese pension system is based on a pay-as-you-go model as well as a means-tested noncontributory system. Until recently, pensions were not linked to inflation and considerable erosion in real value occurred. Although this has been partially rectified, the real value of pensions today cannot make up for decades of decline. Low tax ceilings have also meant that pensioners have been required to pay income tax on their pensions. As it stands, Malta's pension system protects against absolute poverty, but does not constitute an adequate income replacement. Indeed, nearly 30% of pensioners are at risk of poverty and women, who receive 42% less than men in pensions, face the second highest gender pension gap in Europe.

In 2014, the parliament voted to introduce a third pillar to the pension system. However, it will be some time before this reform can reduce the stress of pension costs on public finances. Second-pillar pensions have not yet been introduced, though this is increasingly regarded as an important addition to the pension system. The government has introduced tax incentives for private individuals opting to invest in a private pension plan in Malta. These tax incentives are also applicable to corporations and employers. However, labor unions have called for greater government support for work-based pensions. A government scheme aims to encourage increased voluntary saving through a system of occupational pensions.
The Pension Strategy Group public consultation document published at the end of 2020 highlighted the importance of creating a multi-source, socially equitable pension system.

A number of measures have been taken since 2013 to address core shortcomings. The 2022 budget continues to build on previous years. The budget foresees raising tax exemption ceilings, and increases in retirement pensions, widows' pensions, invalidity pensions and noncontributory age pensions. These increases will be coupled with other measures that target more specific issues for this cohort. These include adjustments for widows' pensions, benefits for service pensions, an increase for pensioners (mainly women who have stayed home to look after children) who do not qualify for a contributory pension. The government is also considering proposals that address instances where older married individuals experience pension-related difficulties upon separation. This is a scenario that largely affects women that would have been out of the workforce for a long time to take care of the family home.

Citation:
National Statistics Office (NSO) News Release 196/2021
Long-Term Pension Projection For Malta: 2016-2070 p. viii
COUNCIL RECOMMENDATION delivering a Council opinion on the 2021 Stability Programme of Malta COM(2021) 518 final
https://socialsecurity.gov.mt/en/information-and-applications-for-benefits-and-services/contributory-pensions/retirement-pension/pensions-information/
Malta Today 05/02/2021 The Gender Pension Gap Puts Women at a Greater Risk of Poverty
Times of Malta 04/12/2014 Third pillar pensions: a first step?
The Malta Independent 07/09/2017 Government launches scheme to incentivize voluntary occupational pension
The Pensions Strategy Group (2020) Strategic Review on the Adequacy, Sustainability, and Solidarity of the Pension System as Mandated by Article 64B of the Social Security Act p. 5
The Malta Independent 15/10/2015 Toward a sustainable pension system
The Budget Speech 2022 (English) p. 5, p. 6, p. 14

Mexico

Score 6

Mexico is slowly shifting from a pensions system based on contributions and corporate identity to one that is more universalistic in character, operated by government-approved financial agencies called AFORE (Admistradoras de Fondos para el Retiro). Some Mexican states have in recent years introduced noncontributory old-age pensions based on universal eligibility. Mexico is in a relatively advantageous position to introduce reform in that its birth rate peaked in the 1970s, which has led to a reduction in children's demands on the public sector. At the other end of the demographic balance, Mexico still has a relatively low proportion of old people. As this comparatively privileged position will eventually change for the worse, there has been substantial pressure to reform the pension system. In 2020 –2021, the Mexican government fundamentally reformed the pension system for the first time since 1997. The reform provides for pensions that up to 40% higher for the average worker, and was supported by large sections of employee and employer groups. At the same time, it calls for substantial increases in pension contributions, by employees as well as by employers and the government.

One of the key problems with the old pension system in Mexico was its low coverage: In 2016, only 27% of the working age population had a pension account. It remains to be seen how the new pension system will perform in this regard, but the incentive structure in the new system should work in the right direction regarding the expansion of coverage.

Citation:
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https://globalnews.lockton.com/mexico-to-reform-social-security-pension-system/

Portugal

Score 6

Pension values were again increased in 2020 and 2021, particularly for low-income pensioners.

The official retirement age is linked to life expectancy. In 2021, it was raised to 66 years and six months, one month later than in 2020 and 2019.

Despite this adjustment factor, the system faces medium- and long-term financial imbalances. Expenditure on pensions is high and has risen since the turn of the new millennium. Between 2000 and 2013, expenditure on pensions increased by over 50%, from 10% to 15.7% of GDP. This is the third largest increase in the European Union, exceeded only by Cyprus and Greece. Since 2013, it has fallen, standing at 13.7% in 2019, the most recent year for which data is available, a reduction from

14.6% in 2016. However, that still remains the fourth-highest level in the European Union. This contrasts with 2000, when it was only the 14th highest in the European Union.

A recent study of the pension system, which looked ahead to 2070, forecasts an increase in the absolute number of pensioners from 26.3% of the population in 2020 to 35.9% in 2050. While this is not expected to raise the weight of pensions as a share of GDP, the study does forecast that, if the social security system remains unchanged, it will run deficits between 2027 and 2070, peaking at a deficit of 2.8% of GDP in 2050.

Citation:
Aníbal, S. (2020), "Aumento das pensões semelhante ao de 2019, mas mais tardio," Público online, available at: https://www.publico.pt/2020/01/16/economia/noticia/governo-confirma-aumento-extraordinario-10-euros-pensoes-baixas-1900551

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South Korea

Score 6

Old-age poverty is a major problem in South Korea, which still has the OECD's highest poverty rate among retirement-age individuals, even though this rate has fallen from a high of 45% in 2016 to 43% 2018. Pensions are small, and most older adults today lack coverage under a national pension system that excluded a large share of the workforce until its expansion in 1999. The government has also failed to enforce mandatory participation in the system, and many employers do not register their employees for participation. National pension benefit levels are still very low (with an average monthly pension of KRW 520,000, equivalent to $440), and employees in private companies are often pressured to retire long before the legal retirement age of 60 (which will gradually increase to 65 by 2033). Thus, pension reform has been one of the Moon administration's top priorities, although changes have been slow. The basic pension will gradually increase from its current maximum of KRW 206,050 to KRW 300,000 a month by 2021, with benefit eligibility coming at the age of 65. This pension will be provided to the 70% of elderly classified as low-income. Currently, the South Korean government is expending only 3.0% of its GDP for pensions, a very low share compared to the OECD average of 7.7%. Individual contributions to the National Pension have been kept at 9% of income since 1998, which is low compared to the OECD average of 20%. In comparison, National Health Insurance premiums have increased by about 3% per year since

2008. The combination of increasing pension benefit amounts, an increasing old-age dependency ratio and low individual contributions have led experts to predict a depletion of the pension fund by 2056. Various pension reform proposals have been considered since 2018 – including a proposal to raise just the individual contribution, a proposal to raise both contributions and benefits, and a proposal to increase the contribution period / retirement age. However, the process has stalled and is likely to be rolled over to the next administration.

Citation:
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Chile

Score 5

Chile's pension system combines a redistributive means-tested pillar financed by general taxation with a self-financed pillar based on individual contributions and individual pension accounts, which are administrated by private pension fund managers and invested both domestically and abroad. The redistributive pillar was extended and broadened very substantially in the context of a pension reform in 2008 that implemented means-tested pension subsidies, guaranteeing a pension floor to all older citizens that is very high relative to the country's minimum and average wages. The reform also provided pension-benefit entitlements to women based on the number of children they have, with no ceiling. It is a matter of some debate whether the Chilean pension system guarantees intergenerational equity and prevents old-age poverty. It can be argued that both public and private pension systems are fiscally sustainable (like those of Norway, the best-funded system among all OECD countries), and thus provide both intergenerational and intragenerational equity across income groups. Nevertheless, the Chilean system largely fails to guarantee poverty prevention among large parts of the socioeconomically weaker and elderly population who depend on the support of their families or have no pensions at all if they worked under unstable and/or informal conditions. Thus, because of the capitalization logic, the pension system has a negligible redistributional effect. The current scenario indicates that poverty among the elderly will rise in the medium and long term if reforms are not introduced soon.

In 2015 and 2016, massive demonstrations throughout the country revealed widespread dissatisfaction with the pension system, a generalized discontent that also contributed to the social crisis of 2019. Thus, it is no surprise that surveys indicate that the topic of pensions ranks as one of the population's most pressing concerns.

In October 2018, President Piñera announced a reform to the pension system. However, due to the massive protests and strikes, the original reform initiative had to be modified. Among the first measures announced by the government in an effort to calm the situation was an increase of 20% of the minimum social pension (from approximately $147 to $175), which was upgraded to a Guaranteed Universal Pension (Pensión Garantizada Universal) of about $220 (CLP 185,000) in January 2022. However, its permanent financial mechanism has not yet been finalized and was still under discussion at that moment. Furthermore, additional reform initiatives seek to foster the current pension system, including an increased contribution by four percentage points at the employer's expense, the implementation of a tax-paid supplement for women who have contributed for more than 16 years as well as a general tax-paid supplement for those who have contributed for more than 20 years. By the end of the period under review, these latter initiatives were still under review by the parliament. Furthermore, public pressure for an anticipated access to pension funds in order to substitute the loss of income due to the pandemic was approved. Contributors could withdraw 10% of their individually capitalized pension funds (with a ceiling of 150 inflation-indexed units (UF), corresponding to approx. $5,500). A total of three withdrawals with similar conditions were authorized. The fourth withdrawal was rejected by the parliament.

The political and social crisis that started in October 2019, the early withdrawals of pension funds and the fact that a radical change of the pension system has been a central topic of focus for President-Elect Gabriel Boric have together breathed new life into political and academic debates regarding the possibility of more profound change, and finally made it impossible to ignore the need for far-reaching reform.

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Cyprus

Score 5

Improvements achieved by policies that benefited elderly people in recent years were disrupted by the COVID-19 crisis. AROPE rates show that the impact of the pandemic was high on persons over 65, who have always faced a higher risk of poverty and social exclusion. The gradual reversal of cuts to pensions has continued in 2022, which will further improve the expenditure-to-GDP ratio.

With a focus on providing support and assistance to face the COVID-19 crisis, no pension developments occurred in 2020 and 2021. Public service employees remain in a better position than private sector workers. Retirement ages vary according to employment sector. Public employees receive state and social insurance pensions, and a retirement bonus. However, the government and trade unions agreed on the creation of a new social insurance scheme and fund for those employed after 2011. Private sector employees have access to social insurance benefits and some have access to provident fund schemes.

A new policy framework was adopted in 2019, which is expected to improve the currently inadequate system. The new framework should strengthen the currently weak supervision of the insurance and pension schemes. However, this has not been translated into law, yet.

Reforms introduced in 2010 have, among other things, benefited pensioners. Despite improvements to their financial situation, pensioners and especially women remain vulnerable, with a high AROPE rate.

The European Commission noted in 2017 that the gender gap in pensions is the highest in the European Union.

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2. At-risk-of-poverty indicators 2008-2020, Cyprus Statistics Service, 2021, https://library.cystat.gov.cy/NEW/EUSILC-POVERTY-A2008_2020-EN-300821.xls

Italy

Score 5

With the 2011 Fornero reform of Italy's pension policy, which increased the retirement age to 67 years, reduced benefit levels for higher income groups and linked the age of retirement to rising life expectancies, the pension system achieved a satisfactory level of sustainability. Thanks to this reform, no further major reforms of the retirement system would have been needed, at least in the next few years, to ensure its sustainability – despite the demographic imbalance between the aged and the young.

The current situation, however, is less positive from the point of view of intergenerational fairness, as the younger generations will receive significantly smaller amounts upon retirement. This problem is exacerbated by the late or uncertain entry into the labor force of younger cohorts, which is a structural problem of the Italian labor market and was aggravated by the economic effects of the COVID-19 pandemic. In addition, the large number of permanently unemployed people (particularly, women) also face receiving little to nothing in terms of a pension.

The problem of poverty prevention, which exists today for an already significant share of the population, will be even more relevant for today's younger cohorts when they reach retirement age.

Supplementary pension schemes have to date played only a limited role in the pension system and fiscal policies adopted to encourage them have not been sufficiently bold. Recent data suggests, however, that the importance of supplementary pension schemes is gradually increasing.

The Draghi government has limited the effects of the so-called Quota 100 (changed in quota "102") reform introduced by the first Conte government in 2019, which allowed some exceptions to the Fornero reform and enabled some people to retire early. It has also promised to deepen the overhaul of the existing system and introduce greater flexibility provided it would not damage the sustainability of the system.

Slovakia

Score 5

Slovakia introduced a three-pillar pension system along World Bank lines in 2004. From 2012 to 2015, the Fico government adopted a number of measures aimed at strengthening the first (public, pay-as-you-go) system to the detriment of the originally relatively strong second (private, fully funded) pillar. These changes have, as has happened in the past, increased the role of the state in providing for the elderly

and have given the pension system a more redistributive nature. In order to limit the pressure on the first pillar associated with a rapidly aging Slovak population, the indexation of pensions was gradually changed between 2013 and 2017. Instead of being indexed to the growth of the average wage and the consumer price index (i.e., inflation), the annual adjustment of pensions became dependent on the development of the cost of living of pensioners. In 2017, however, the government reneged on the change in indexation. An ad hoc increase of pensions by 2% in 2017 was followed by the guarantee of a pension increase of at least 2% of an average pension for the period 2018 – 2021. These changes have improved the situation of pensioners, but have reduced the financial sustainability of the first pension pillar. Sustainability has further suffered due to the parliament's decision in March 2019 to stop automatic increases in the retirement age in line with life expectancy levels and to set the retirement age at 64 years old. Put on the agenda by Smer-SD leader and former Prime Minister Robert Fico, the change in the retirement age was supported by the trade unions, which organized a petition that was signed by more than 230,000 people. The Ministry of Finance and Ministry of the Economy as well as opposition parties and several think tanks opposed the proposal, forecasting that the changes would undermine the long-term sustainability of the pensions system and estimating that the proposal would cost €900 million per year.

The new center-right government has made the restoration of the sustainability of the pension system one of the priorities identified in its government manifesto and in Slovakia's Recovery and Resilience Plan (Gerbery 2021). It plans to make the three-pillar pension scheme sustainable again by scrapping the 64-year pension age cap and returning to a system in which the retirement age is dependent on average life expectancy. It also wants to increase pension entitlements that derive from providing care for children. A third planned provision is the parental bonus. The idea is that each working person may direct their social security provider to shift a portion of their old-age insurance benefits to their parents' pensions (2.5% for each parent). At the end of 2020, a general framework for a pension reform along these lines was incorporated into the Slovak constitution. The hammering out of the details and the amendment of the Act on social insurance have been complicated by controversies within the governing coalition. The parental bonus has been criticized by trade unions as undermining solidarity.

Citation:
Gerbery, D. (2021): In Need of Change: Reforming the Old-Age Pension System in Slovaka. European Social Policy Network, ESPN Flash Report 2021/54, Brussels: European Commission.

Turkey

Score 5

In 2001, Turkey's pension system was reformed with the enactment of Law No. 4632, offering individual retirement plans within a three-component system that includes one compulsory component, one occupational component and one optional component. In 2012, Law No. 6327 was enacted, stipulating that the state would match 25% of all annual contributions paid by individuals to funded pension

schemes starting in January 2013. An upper bound was assigned to the contribution by the state. In 2016, Law No. 6740 automatically assigned all publicly and privately employed wage and salary earners who were less than 45 years of age to an individual pension plan, in which they would begin contributing at a minimum rate of 3% of their taxable earnings unless they opted out within two months of their automatic enrollment in the plan. After the plan went into effect, 60% of the 12 million workers included in the system opted out of the plan, which created pressure for the government to take further action.

Under the Economic Program of 2019 – 2021, employees are obliged to stay in the individual pension plan for three years before being able to opt out. Thus, for three years the pension plan would be compulsory. In addition, the New Economic Program 2020 – 2022 emphasized that a Complementary Pension System will be established, with the backing of the government's social partners. Moreover, a comprehensive reform package is to be introduced. The government has stated it would implement policies balancing the social security system while also safeguarding social justice.

Currently, the age of pension eligibility is 60 years for men and 58 years for women, with at least 7,200 days of contributions needed for eligibility. The pension age will gradually rise to 65 for both men and women, between 2036 and 2044. But these adjustments will be too slow to counter the effects of expanding coverage and an aging population. For this reason, pension-system deficits are expected to constitute around 3% of GDP until the middle of the century.

Because of soaring inflation, pension payments remain under the poverty threshold. Some research shows that about 8 million retirees live under the poverty line, while 1.5 million retirees live under the hunger threshold.

The population of people who will be forced to wait longer for pension eligibility than they had expected (emeklilikte yaşa takılanlar), whose number is estimated to be around 1 million, are putting increasing pressure on policymakers. Although the government has not yet passed a bill that recognizes their rights, it will likely use this as a trump card on the eve of the 2023 elections. According to some credible estimates, the cost of such legislation could reach TRY 750 billion, making it less popular among many policymakers.

Peksevim, S. and V. Akgiray (2019) 'Reforming the Pension System in Turkey: Comparison of Mandatory and Auto-Enrollment Pension Systems in Selected OECD Countries, Paris: OECD

Cumhuriyet. "Çözüm." February 10, 2019. https://www.cumhuriyet.com.tr/haber/cozum-mumkun-1241326

Bulgaria

Score 4

Bulgaria has a mixed pension system consisting of three pillars: a public pay-as-you-go pillar financed by social insurance contributions, an obligatory fully funded

private-pension-fund pillar and a voluntary pillar. The second pillar includes people born after 1959 and is not yet paying out many pensions. However, the second pillar is currently underfunded due to the parliament's refusal to increase its share in the general contributions as originally envisaged.

In 2020, the second pillar assets were BGN 14 billion, of the total private segment of the pension system – 16.4 billion, or respectively 11.7 and 13.7% of 2021 GDP. This is savings 4.7 million, at 44 average age. The 2021 central budget transfer to SPF (to cover losses and pensions of 1.6 million) was 6% of GDP. This is an indication that toleration of the pay-as-you-go system is unsustainable.

Around 1/3 of those who fall below the national poverty line (currently BGN 413 a month) are pensioners. Their individual situation depends on education (approximately 63% of pensioners with lowest degree of education are poor, 6% of those with university degrees), place of residence (42% in low-populated parts of the country, 26% in highly populated areas) and on ethnic affiliation (60% of Roma, 52% of Turks and 31 of Bulgarian pensioners are poor).

The above mentioned within family intergenerational income redistribution does not improve the condition of pensioners without children and single pensioners. They are eligible beneficiaries of the social aid policies financed by the state budget. If the 2021 planned increase of the GMI materializes, about 140,000 pensioners will be lifted above the national poverty line.

Citation:
Financial Supervision Commission, Statistics and Analysis, 2021 (https://www.fsc.bg/en/markets/social-insurance-market/statistics/statistics-and-analysis/2021/)

NSI, Material Deprivation by Age and Sex (https://infostat.nsi.bg/infostat/pages/reports/result.jsf?x_2=260)

Croatia

Score 4

Like other East-Central European countries, Croatia introduced a three-pillar pension system with a mandatory fully funded second pillar in the late 1990s. The average gross replacement rate for pensions (gross pension divided by pre-retirement gross wage) stood at 32.5% in 2020, while the EU average is significantly higher at 46.2%. Unfortunately, this figure has been on a steady downward trajectory. Only about 15% of pensioners have worked for 40 or more years. As a result, pensioner poverty is high in Croatia, with more than one-third of pensioners at risk of poverty or social exclusion. Approximately 170,000 retirees enjoy privileged pensions, among them the more than 70,000 war veterans and former politicians. As a consequence of the country's demographic aging, low employment rate and decline in the effective retirement age, the system is neither fiscally sustainable nor intergenerationally fair.

The National Recovery and Resilience Plan approved by the EU contains several important reforms. First, the government wants to redefine the survivor's pension model. As a part of planned amendments to the Pension Insurance Act, the goal is to

increase pension rights for the surviving partners of a deceased spouse. The surviving partner could opt either for 80% of the deceased spouse's pension or their own pension plus 50% of the deceased spouse's pension. Second, the goal is to increase the gross replacement rate via changes to the existing laws such as creation an obligation for employers to pay the full costs of sick leave for workers who have reached retirement age. The document also contains a rather vague statement that contributions to the second pension pillar will be raised in the future.

Nevertheless, the proposed reforms do not go far enough in tackling the problem, since they omit many important steps. Early retirement cannot be prevented simply by marginal tweaks, but instead requires improvements to work conditions, especially for the less educated and workers prone to sickness. Furthermore, mandatory pension funds predominantly invest in government securities and securities issues by state-owned enterprises. The latter are rather poorly managed and carry low yields. Privatization and/or the professionalization of management in those enterprises is also part of the solution to the low gross replacement rate. In the long run, the pension system is clearly unsustainable in the current form.

Greece

Score 4

Greece has one of the worst age dependency ratios among OECD countries, but – even though it does not have a well-resourced welfare state – it has managed to keep most senior citizens out of poverty. And that despite the fact that a minority of older citizens are employed, while early retirement was practiced for a long time. This paradoxical situation is the result of the long-term preference of successive governments to prioritize pensions over other fields of social protection (e.g., to protect against health, family, poverty, housing and unemployment risks).

The pension age is currently at 67 for both men and women with at least 4,500 days of contributions (equivalent to 15 years). Insured persons with a contribution record of 12,000 working days (40 years) can retire with a full pension benefit at the age of 62. Pension benefits are subject to general taxation rules. Pensioners also pay 6% contributions on their pension for healthcare.

In 2019, just after exiting the last Economic Adjustment Program, which was meant to consolidate public finances, Greece spent 16% of GDP on pensions – the highest percentage share in the European Union, on a par with Italy (EU-27 average: 12.7%). Pensions have become a major policy issue, because Greece – along with Italy and Germany – has the largest share of the total population over 65 in the whole of the European Union (21.8% of the total population).

Yet, Greece's pay-as-you-go system, according to which the working population contributes to pension funds so that old-age pensioners can obtain their pensions, is unsustainable with regard to both main and auxiliary pensions.

The Greek pension system, which comprises a main plus one or more auxiliary pensions for every beneficiary, was based on a multitude of occupational pension funds until 2017. Thereafter, a nationwide integrated social insurance agency (the EFKA) supplanted the occupational funds, but did not become operational until the end of the previous decade. It still suffers from administrative inefficiencies, evident in the long backlogs in issuing pension awards.

In 2016, a major pension reform law instituted the EFKA, established a system of defined-benefit pension plans and introduced a basic pension financed by general tax revenue. According to the law, the main pension is now made up of a national basic pension, financed by the state budget, and a "redistributive" pension calculated on the basis of the average reference wage over a whole working life, the length of contributions and the replacement rate. After the change in government in 2019, the new government kept the same system of main pensions (with some amendments), but sought to reform the chaotic system of auxiliary pensions, which had been struggling financially for a very long time, even before the economic crisis.

In 2021, the government introduced a major change to auxiliary pensions. For all those who join the labor market from 2022 onward, a new system based on individual accounts has been established. Those who are under 35 years old may voluntarily join the new system, while older workers will remain with the old system. The new one is a fully funded defined contributions system. Individual contributions will be made to the newly established, state-run Hellenic Auxiliary Pensions Defined Contribution Fund (TEKA). Contributors to the new fund may choose among low, medium and high-risk-rated investment funds. It is too early to assess the TEKA system.

However, recent IMF research points out that, despite improvements in 2017–2020, Greece's pension system falls short of convincing beneficiaries to build long contribution histories. In other words, to stop evading social security contributions, it has not helped improve the fiscal policy mix and foster higher economic growth, and it has not made burden-sharing across generations more equitable and fair.

Indeed, pension policy does not meet intergenerational equity requirements. Existing arrangements primarily serve the interests of middle- and old-age groups at the expense of younger generations of workers. This is a constant pattern running parallel to the periodic trimming of pensions.

The pension system is periodically challenged not only by fiscal constraints, but also by rear battles of vested interest groups, which in the pre-reform period used to enjoy higher than average pensions. For instance, the country's supreme administrative court has struck down several aspects of the reform pertaining to low replacement rates and to pension cuts. The government periodically has to reimburse occupational groups, which have won such legal battles. All in all, Greece's pension system remains unsustainable.

Citation:
Data on share of old people who work, old-age dependency ratio and senior citizen poverty is drawn on the SGI data set, available on this platform.

Data on pension expenditure is drawn on Eurostat, available at https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=tps00103&lang=en

The pension reform law was Law 4387/2016. It has been amended many times since 2016.
The new law on auxiliary pensions is Law 4826/2021.

IMF research on the Greek pension system: Alvar Kangur, Niki Kalavrezou, and Daehaeng Kim (2021), "Reforming the Greek Pension System," IMF Working Paper, WP/21/188, July 2021.

OECD, Pensions at a Glance 2021 – Country Profiles 2021

Hungary

Score 4

Hungary introduced a three-pillar pension system along World Bank guidelines in 1997 that featured a strong mandatory, fully funded second pillar. Upon coming to office, the second Orbán government abolished this second pillar and confiscated its assets. It also shifted disability pensions to the social assistance scheme, eliminated some early-retirement options and did not reverse the shift from Swiss indexation (which adjusts outstanding pensions by the average of the price and wage indices) to price indexation, as it had been introduced by the previous government in the context of the great recession. While limiting pension growth and undermining trust in the reliability of pension policy, these measures have improved the financial situation of the public pension scheme. Public spending on pensions has fallen from 11% of GDP in 2010 to 8% in 2020.

The growing gap between the growth in wages and pensions has made pensioners one of the most disadvantaged groups under the Orbán governments. The Fidesz government has sought to limit the electoral fallout by introducing discretionary increases in pensions before elections. In 2020, it adopted a gradual re-introduction of the 13th month pension, which was widely perceived as a campaign goody in preparation of the 2022 parliamentary elections (Gál 2020). At the end of 2021, it announced a greater than planned boost in pensions for 2022.

Citation:
Gál, R.I. (2020): Hungary re-introduces the 13th month pension as part of its response to COVID-19. European Social Policy Network, ESPN Flash Report 2020/37, Brussels: European Commission.

Latvia

Score 4

The state pension system guarantees a monthly minimum pension. In 2020, this amount was increased from €64 to €80. However, Latvia's Ombudsman approached the Constitutional Court later the same year with a claim that such an amount cannot meet the basic needs of the pensioner and ensure a dignified life, and was thus unconstitutional. The Court ruled that the minimum amount of €80 did not comply with the constitution, and it was consequently raised to €109 in 2021.

The average monthly pension in 2020 was €367.05. According to the Central Statistics Bureau, the at-risk-of-poverty rate among citizens aged 65 and over grew rapidly from 2012 (17.6%) to 2018 (47.9%). While the situation improved slightly in 2019, with 40.9% of the elderly being at risk, it still remains the most vulnerable age group in Latvia.

Two types of mandatory pension schemes exist in Latvia: a non-financial (notional) contribution (pay-as-you-go) and a funded contribution. There are also voluntary private pension funds that are complementary to the mandatory schemes. Jointly, these constitute a three-pillar pension system, which has increased the system's fiscal sustainability and intergenerational equity.

The second pillar mandatory funded pension scheme has come under criticism for excessive fees. An independent private startup fund has emerged, offering substantially lower commissions and favorable terms. Legislators have taken interest and draft legislation is under consideration as of 2018 to limit bank commissions and fees levied for managing the mandatory funded pension scheme.

In a 2018 report, the OECD criticized Latvia's three-pillar system and specifically the NDC schemes, because they automatically adjust to changes in the size of the labor force and life expectancy. Consequently, if these are not matched with an adjustment in retirement age, the future replacement rates will remain below the OECD average.

However, the recent tax reforms and court rulings signal a willingness to address some of the problems in the system, and further improvements could potentially occur in the next few years. Nevertheless, the pension indexing system still remains complex and many of the issues identified by the European Union and OECD remain. Thus, further reforms are needed, especially with regard to poverty reduction.

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3. Constitutional Court of Latvia (2020) The norms that determine the minimum amount of the old-age pension do not comply with Articles 1 and 109 of the Constitution, Available at: https://www.satv.tiesa.gov.lv/press-release/normas-kas-noteic-vecuma-pensijas-minimalo-apmeru-neatbilst-satversmes-1-un-109-pantam/, Last accessed: 07.01.2022.

4. OECD (2018) Review of the Pension System in Latvia, Available at: https://read.oecd-ilibrary.org/social-issues-migration-health/oecd-reviews-of-pe nsion-systems-latvia_9789264289390-en#page13, Last assessed: 02.01.2022

Poland

Score 4

The three-pillar pension system, which Poland introduced in 1999 following World Bank recommendations, has since been radically transformed. While the first pillar was supposed to become more sustainable through the adoption of a gradual increase in statutory retirement ages, the PiS government lowered the retirement ages for men to 65 and for women to 60 in November 2017, thereby reducing the sustainability of the Polish pension system. The PiS government has also replaced the second pillar with a new occupational pension savings scheme, which started for employees of companies with more than 250 staff in July 2019 and has been extended to cover employees of smaller firms in the second half of 2020. While employees have the right to withdraw from the scheme, the government hopes to integrate up to 75% of the country’s employed population through automatic enrollment. Experts are divided. Some argue that it is a good idea to force Poles to save money and that the government should create incentives to do so, while others argue that these programs are inefficient.

Other pension measures focused on addressing the growing level of poverty among pensioners. Again, this step follows political intentions since pensioners are one of the main groups that vote for PiS. The government adopted the “500+” scheme, which provides an extra annual payment to poor pensioners, with all pensioners receiving a one-time 13th pension of PLN 1,200 prior to the 2019 European Parliament elections, and promised that it would become a regular payment during the parliamentary elections campaign of October 2019. Since November 2021, a 14th pension is paid to everyone except the 10% who receive the highest pensions, amounting to PLN 2,900 (around €640) per month. In February 2021, President Duda signed a bill on a general increase of 4.24% for old-age pensions. The lowest pension since then amounts to PLN 1,250.88 (around €280) per month. However, the financing of these costly actions is unclear. Some PiS members of parliament have suggested that the government could utilize the Solidarity Fund, which was meant to finance improvements for people with special needs. Under the new Polish Deal (Polski Ład), valid from January 2022, pensioners will pay hardly any income tax, except for people who receive a pension above PLN 5,000 per month. PiS also cut pensions for former employees of the secret service.

Romania

Score 4

The national pension system of Romania consists of three pillars. Pillar I, the mandatory public pension, is a pay-as-you-earn scheme administered by the state and includes old-age, early retirement, partial early retirement, disability, and survivor pensions. Pillar II, the mandatory private pension scheme was introduced in 2007, is a defined contribution scheme, with a minimum investment guarantee, based on individual accounts. Pillar III, the voluntary private pension scheme was introduced

in 2007, is a defined contribution scheme with voluntary participation, based on individual accounts.

A pension reform law, adopted in 2019, aimed to improve pension adequacy, replacement rates and the ratio of average pensions to average wages. The law included a recalculation of existing pensions and changes to the indexation formula. Starting in 2018, participants who have contributed for at least five years to the pillar II pension scheme can opt to transfer to pillar I. However, very few participants have opted-in to the public pension plan. As it pertains to the effects of the COVID-19 pandemic, no effect is more apparent than the loss of pension participants in pillar II. From August 2019 to 2020, the number of active pensioners in pillar II dropped by 400,000. In 2021, however, pillar II funds continued a nine-month growth rate, reaching €15.7 billion.

The PNL government approved an emergency ordinance reducing the size of September's legislated pension increase alongside a second 2020 budget revision in August 2020. It had previously hinted at this approach to address deteriorating public finances due to Romania's weak starting position, the coronavirus shock and the elections that were held in December 2020. Nevertheless, the PNL government passed a 14% pension hike, as opposed to the 40% promised by the PSD opposition, which was nevertheless the largest in the country's history. Global ratings agencies and international organizations (e.g., the European Union and the IMF) repeatedly warned against the 40% increase projected by the former PSD government, which was ousted in a no-confidence vote in October 2019, and welcomed the PNL-led government's decision to cap the pensions' hike.

Citation:
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