TF Adequacy: the future work around the measures of adequacy

MEETING OF THE SOCIAL SECURITY SUB-COMMITTEE
SOFIA, BULGARIA
WEDNESDAY 10 APRIL 2019

Assessing the topics of interest in relation with the Pension Adequacy Reports

Purpose:

Initiate discussion about the topics which we can contribute to; that is the overlapping sections of the Reports and our actuarial interests

At this stage we are

- identifying potential areas for common initiatives with our EU/EC partners
- not aiming to find the solutions right now, just set directions for future work

In this note:

Text in red indicates topics already covered by previous Taskforce work, or might be of our interest

Topics and titles are quotations from the Commission Reports

The main links are the Reports

Adequacy and Sustainability: Double and complementing (or even competing) objectives ever since 2001

Examined by two areas – social and financial :

	Adequacy	Sustainability
Prepared by the Commission	Directorate-General for Employement, Social Affairs and Inclusion	Directorate-General for Economic and Financial Affairs (ECFIN) in cooperation with the Ageing Working Group of MS Delegate Experts
for the Council	Social Protection Committee (SPC)	the Economic Policy Committee (EPC) of the ECOFIN Council
Purpose: policy advice	Social	Financial, budgetary

Forecasting the effect of ageing has always been done separately, but the key conclusions reports was titled initially:

„ADEQUATE AND SUSTAINABLE PENSIONS – A JOINT REPORT BY THE COMMISSION AND THE COUNCIL”

Reporting on ageing

Budgetary consequences of ageing

Structure of the Ageing Reports:

Starting points: Demographic forecasts and future economic assumptions

Pensions topics:

1.2. Taxonomy of main pension schemes in EU countries – 1.3. Coverage of pension projections

1.4. Features/Characteristics of pension systems in the EU

1.5. Pension expenditure projections

1.6. Drivers of pension expenditure (1.6.4. Minimum pensions and pension Indexation) and 1.7. Disaggregation of new pensions

Macro adequacy measures

Replacement rates, and

Decomposition of the pension expenditure: the dependency ratio, the benefit ratio, the coverage ratio, and the labour market impact

Reporting on Adequacy and Sustainability

ADEQUATE AND SUSTAINABLE PENSIONS – A JOINT REPORT BY THE COMMISSION AND THE COUNCIL

Adequacy

Objective 1 – Preventing social exclusion

Objective 2 – Enabling people to maintain living standards

Objective 3 – Promoting solidarity: Between generations and Among elderly

Sustainability

Objective 4 – Raise employment levels

Objective 5 – Extend working lives

Objective 6 – Making pension systems sustainable in a context of sound public finances

Objective 7 – Adjust benefits and contributions in a balanced way: Future generations

MAINTAINING PENSIONS ADEQUACY: 2nd and 3rd pillar pensions

Objective 8 – Ensure adequate and financially sound private pensions

Adequacy measures: Methodological note – Background statistics for the Synthesis report on pensions 2006

At-risk-of-poverty rates

Inequality of income distribution (or income quintile ratio, Gini index)

Aggregate income replacement

Replacement Ratio at retirement

Theoretical pension replacement rates

[Pension wealth – not included in the original list, but of interest]

Pension expenditure

- Factors determining the evolution of public pensions expenditure: Dependency ratio (1), Coverage ratio (2), Benefit ratio (3), Labour market ratio (4) (plus residual)

2010s: Pension Adequacy Reports and the Ageing Reports

Adequacy and Sustainability: Comparability of measures discussed in some papers in 2009 and 2010

ISG indicators: Theoretical replacement ratio: Aggregate replacement ratio: Median relative income of elderly people At-risk-of-poverty rate for people aged 65+

AWG indicators: The 'Benefit ratio' The 'Gross Average Replacement Rate'

Ever since then two separate reports are developed

Pension Adequacy topics in the 2010s

Defining pensions in multi-dimensional approach

- (i) Poverty alleviation, (ii) Income replacement, and (iii) social/redistributive elements
- Consistent with the welfare economic approach: employment related pension is deferred earning for income smoothing, but there is room for social objectives, too

Other objectives:

- demographic ageing and structural changes, longer working lives,
- financial sustainability of public and private pension schemes,
- balancing contributions and benefits: generational fairness issues,
- gender equality: women and men treated according to the requirements of modern societies,
- developing supplementary private pension systems, and
- providing information needed to plan retirement: tracking services, pension dashboard

Pension Adequacy topics in the 2010s – Analytical part

CURRENT and FUTURE ADEQUACY OF PENSION SYSTEMS

Poverty alleviation

- Population 65+ at risk of poverty or social exclusion (AROP)
- Minimum income guarantees (social assistance) - Maybe a we could circulate a questionnaire about country experiences? We could use info we have at our hand, and just ask verification and minimal additional fields to be filled out

Pensions as income replacement

- Risks linked to reductions in the relative value of pension benefits: Valorisation and indexation of pensions
- Minimum pension provision – Maybe a we could circulate a questionnaire about country experiences?
- Redistributive elements of public pension schemes
- Pension credits and pension accrual during career breaks + Vulnerable groups (fragmented and minimum wage)
- (Spouses') Derived pension rights

Other elements in the living standards of older people

- Housing
- Financial wealth

Pension Adequacy topics in the 2010s – Analytical part

Measures and methods

- Aggregate income replacement by pension systems RR
- Prospective theoretical replacement rates TRR
- Microsimulation and other measures (Gini, AROP)
- [Other measures and pension system ranking indexes]
- Comparison of TRR calculations with adequacy projections from the Ageing Report: See also the Eurostat/ESA 2010 (T29) exercise

Pension Adequacy topics in the 2010s – Pension reforms

Links to increased life expectancy, Automatic Adjustments

Links to labour market: early/late retirement, combining work and pensions – Effective retirement age

Adequacy risks inherent to different pension systems/reforms

Reform reversals: Sustainability risks, minimum guarantees

Links to supplementary pensions:

- Funded pensions mitigating the risk of decrease in adequacy, and
- Making informed decisions (tracking services, pension dashboard)

Taskforce Adequacy: steps forward

Topics for common interest, projects continued, new projects:
Adequacy measures topics – by definition
Focus on vulnerable groups
Minimum Pension Guarantees in the social security scheme or as separate social insurance system
Comparability issues of adequacy and sustainability measures:

- adequacy: micro vs macro concept, measures
- forecasting results from different sourced; mapping differences in timing, demographic sources, economic assumptions, methodology, etc.
- …

Tracking services/Pension dashboards
…
Collection of background and reference papers, academic articles follow

Members od the SSSC are invited to add, edit, comment, express interest!

Annexes

References, academic and other papers, useful documents

[Our library: To be populated, feel free to propose!]

Schedule of the 2021 Ageing Report
Credit: Per Eckefeldt, EC DG Economic and Financial Affairs

Underlying assumptions

April 2020
- Baseline scenario: Eurostat population projection

February-May 2020
- Labour force and GDP projections
- *Spring 2020 forecast May 2020*

May 2020
- Population projection - sensitivity scenarios

May-August 2020
- 2021 Ageing Report on underlying assumptions and projection methodologies (release in October 2020)

Age-related expenditure projections

June-September 2020
- Member States: pension block, baseline and sensitivity scenario projections

June-September 2020
- Commission: other age-related expenditure items

September - November 2020
- Peer reviews – pension

Preparation of the final report

October 2020 - February 2021
- AWG: Drafting of the chapters of the 2021 Ageing report

January 2021
- AWG: Finalisation of the 2021 Ageing Report projection results

January 2021
- EPC: endorsement of the main projection results of the 2021 Ageing Report

March 2021
- AWG: Finalisation of the 2021 Ageing Report
- EPC: Endorsement of the 2021 Ageing Report

April 2021
- ECOFIN: Council conclusions on the 2021 Ageing Report