

Challenges Facing the European Pension Systems

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European Economic and Social Committee

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Dramatic Demographic Changes

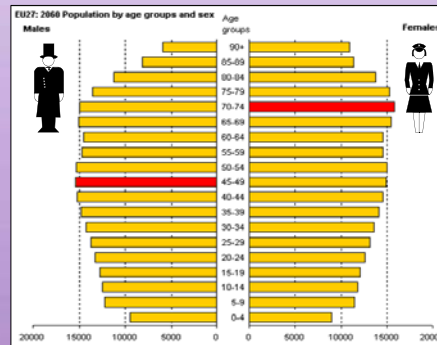
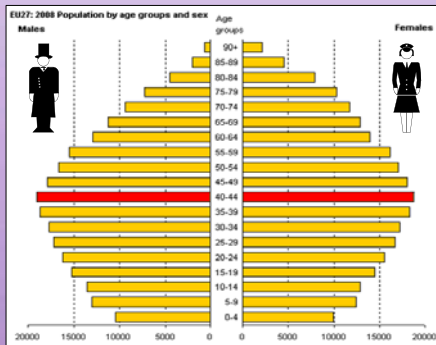
- low fertility rates
- increases in life expectancy
- retirement of the baby-boom generation



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European Population in 2008 and 2060



Source: Commission services



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Pension Reforms are Challenging

- citizens don't accept or fully understand changes
- tendency to postpone reforms, to leave problems for the next government(s) and generations



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Need for Pension Reforms

- more years in retirement
- decreasing ratio of people of working age to people of retirement age
- increase in pension schemes duration



Key Questions

How to ...

... divide increases in longevity into work and leisure?

... share the costs of longer lives between and within generations?

... achieve balance between the number of working and retirement years?



Objectives for EU Pension Systems

adequate retirement incomes

financial sustainability

reforms on the basis of consensus

transparency



Major Trends in Reforms



- hybrid designs
- self-balancing mechanisms between liabilities and revenues



Most Popular Changes in the Pension Systems

- contribution period: change from „best years” to average life-time earnings
- extended qualifying period for a minimum pension
- equal pension age for women and men
- increased pensionable age
- strengthened bonus-malus system



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Pre-funding as Policy Response to the Demographic Challenge

- new defined-contribution (DC) schemes
- expansion of existing occupational schemes
- reserve funds
- paying down of national debt

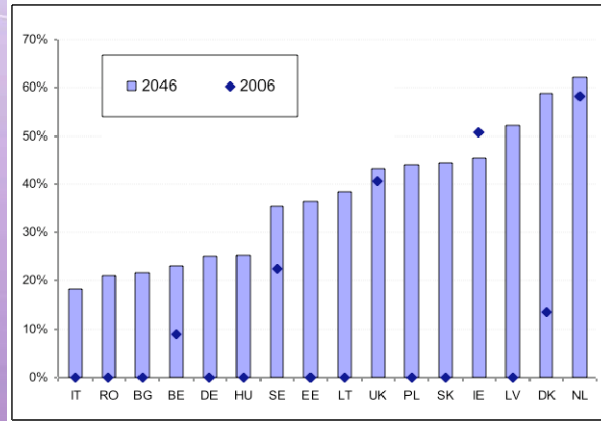


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Increasing Role of Funded Schemes

Share of occupational and statutory funded pensions in total gross replacement rates in 2006 and 2046 in selected Member States



Valorisation and Indexation

Variable	valorisation	indexation
Wages	√	√
Prices and wages	√	√
Prices	√	√
Discretionary		√
Progressive		√

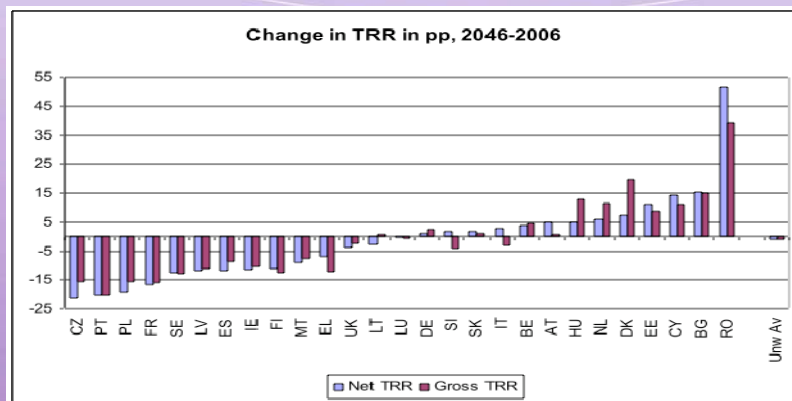


Labour Market Participation Rates

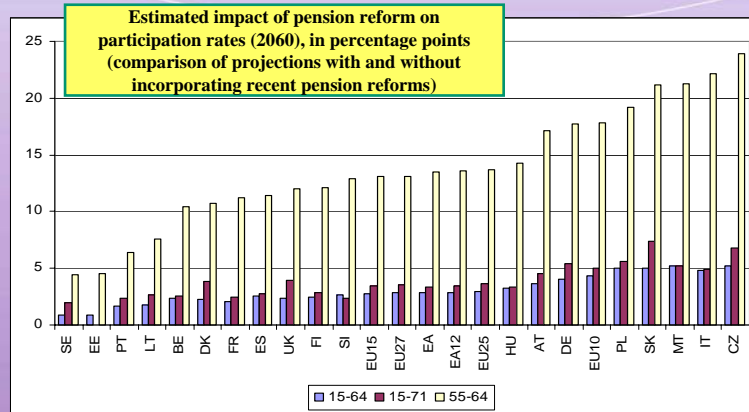
- male workers (aged 25 to 54 years) - at around 90%
- men aged 55 to 64 years – declined in the past decades, now there are signs of reversal
- women - increased over the past 25 years
- young people (aged 15 to 24 years) - declined



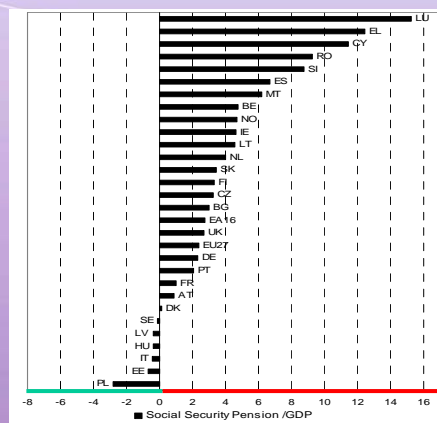
Changes in Theoretical Replacement Rates



Pension Reforms Impact on Labour Market Performance

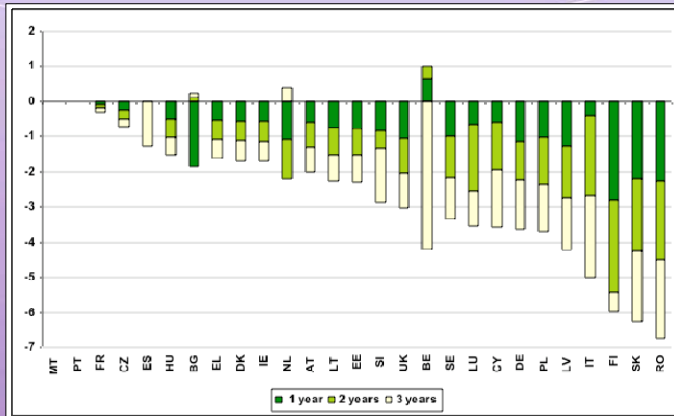


Changes in Public Pensions / GDP Ratio

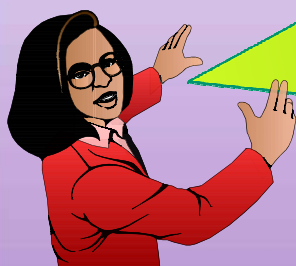


Impact of Career Breaks on Pension Benefits

Accumulated difference in net theoretical replacement rates for an average earner entering the labour market at 25 and retiring at the statutory retirement age with a 1, 2 or 3 year career break due to unemployment compared with no break



Conclusions



- 1) Pension reforms are still needed.
- 2) The crisis lesson must be taken into account.
- 3) Pension systems must be based on synergies between various policies.



Thank You for Your Attention



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