Sustainable Pension System

Sustainable Governance Indicators 2024

SGI Sustainable Governance Indicators

BertelsmannStiftung

Indicator

Policies Aimed at Old-Age Poverty Prevention

Question

To what extent does the current pension policy approach prevent poverty among senior citizens?

30 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 policies are fully aligned with the goal of preventing old-age poverty.

8-6 = Pension policies are largely aligned with the goal of preventing old-age poverty.

5-3 = Pension policies are only somewhat aligned with the goal of preventing old-age poverty.

2-1 = Pension policies are not at all aligned with the goal of preventing old-age poverty.

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 benefits scheme. The second pillar comprises occupational pensions agreed as part of collective agreements and firm-specific pension schemes. These are contribution-based programs. Contribution rates are in the range of 12% to 18% for most employees. The third pillar involves tax-subsidized pension arrangements (with funds unavailable 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) (OECD 2023). 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) over 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 2021 (applying from 2035) implies a statutory pension age of 70. 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 person to retire within 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:
Andersen, T.M., S.E. Hougaard Jensen, and J. Rangvid, eds. 2022. The Danish Pension System – Design, Performance, and Challenges. Oxford: Oxford University Press.

OECD. 2023. Pensions at a Glance 2023: OECD and G20 Indicators. Paris: OECD Publishing. https://doi.org/10.1787/678055dd-en

Finland

Score 9

The Finnish public pension system comprises two distinct schemes: a basic residence-based, tax-financed pension scheme that includes the national pension and the guarantee pension, and a mandatory contributions-based, earnings-related pension scheme. Voluntary occupational schemes and private pension savings play a very minor role. Additionally, the elderly have access to a specific housing benefit scheme. While the earnings-related pension scheme aims at consumption smoothing, the basic residence-based pension – consisting of the national pension and the guarantee pension – aims at preventing poverty by providing an adequate old-age income for individuals in nonstandard employment or with interrupted employment biographies (e.g., low-skilled, self-employed individuals, long-term unemployed people, single parents, chronically ill individuals and those with a migration background).

With the maturation of the earnings-related pension scheme, its role in pension provision has become dominant. In 2022, 65% of retirees in Finland received only earnings-related pensions, around 29% received both earnings-related and national pensions, and 6% received only national pensions. Managed fairly successfully by the social partners and the government, the overall pension policy has largely provided adequate pension provision. Consequently, Finland has largely 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 level of guaranteed pension is clearly above that of other basic security benefits, such as flat-rate benefits for the unemployed or those on sick leave. Consequently, only a very small fraction of the elderly need to rely on basic social assistance. It is fair to say that the pension system provides an old-age income that enables all citizens to meet their basic needs.

Citation:
Torben M. Andersen. 2021. Pension Adequacy and Sustainability: An Evaluation of the Finnish Pension System. Helsinki: Finnish Center for Pensions.

"The Finnish Pension System: System description." https://www.etk.fi/en/finnish-pension-system/pension-security/overview-of-pensions/system-description

Susan Kuivalainen, Juha Rantala, Kati Ahonen, Kati Kuitto, Liisa-Maria Palomäki, Jyri Liukko, eds. 2022. Eläkkeet ja eläkeläisten toimeentulo: kehitys vuosina 1995-2020 [Pensions and livelihood of retirees: development from 1995-2020]. Helsinki: Eläketurvakeskus. https://urn.fi/URN:ISBN:978-951-691-357-8

"Effective Retirement Age" https://www.etk.fi/en/statistics-2/statistics/effective-retirement-age/

Norway

Score 9

Since 1956, Norway has provided a universal minimum pension to all individuals with little or no additional right to a work-related pension. In 2023 the level of the minimum pension for a one-person household was 60% of the median income of all those in full employment. This is largely sufficient to prevent poverty among many elderly.
However, minimum pensioners are constantly highlighted as a group with demanding financial living conditions, particularly for elderly individuals living alone. In general, if household expenditures on vital goods are extraordinarily high (e.g., heating in the winter, medicines), additional economic assistance can be received through a means-tested scheme.

Citation:
Wright, M.Y. 2022. "Gode pensjonsordninger gir lav fattigdom blant eldre i Norge." Memu Mennesker og Muligheter. https://memu.no/artikler/gode-pensjonsordninger-gir-lav-fattigdom-blant-eldre-i-norge/

Hetland, A. 2023. Minstepensjonister i parforhold. Statistics Norway. https://www.ssb.no/sosiale-forhold-og-kriminalitet/trygd-og-stonad/artikler/minstepensjonister-i-parforhold

Australia

Score 8

Australia's retirement income system consists of a means-tested age pension paid from general government revenue, mandatory employer contributions to private-sector superannuation accounts, and additional voluntary contributions from employers, employees, and the self-employed into these private sector plans. The Age Pension supports the basic living standards of older Australians and is targeted through the means test to those who need it most, with rates indexed to keep pace with price and wage increases. A recent Retirement Income Review found the system effective and broadly sustainable but noted areas for improvement, such as introducing a government superannuation contribution for primary carers of young children (Superguide 2020). The private sector superannuation system is large and complex, with potential benefits from rationalization to reduce costs and simplify the system (Murray 2020).

For retirees reliant on the Age Pension, income is generally adequate for those who own their homes but insufficient for the approximately 20% of retirees renting in the private market. It is argued that Commonwealth Rent Assistance should be increased. The current Labor government increased CRA by 15% in July 2023, but this was widely regarded as insufficient.

Citation:
Murray, C. 2020. "Superannuation isn't a retirement income system – we should scrap it." The Conversation. https://theconversation.com/superannuation-isnt-a-retirement-income-system-we-should-scrap-it-130191?gclid=CjwKCAiA1fqrBhA1EiwAMU5m_zZsQvUtaZOZWCDS962r-Ex9jOhDZamEIq9amNcBG-Swm9zZK6IC4BoCou0QAvD_BwE

https://www.mercer.com/assets/global/en/shared-assets/global/attachments/pdf-2023-mercer-cfa-global-pension-index-full-report-11-09-2023.pdf

Superguide. 2020. "Superguide" November 24.
Key observations from the Retirement Income Review. Superguide. https://www.superguide.com.au/how-super-works/key-observations-retirement-income-review

Belgium

Score 8

The Belgian pension system operates on a pay-as-you-go basis, where current workers' social security contributions finance the pensions of current retirees, and this system will finance their future pensions. The incumbent government has increased the minimum pension levels to €1,500 per month starting in 2024 to address the risk of poverty among the elderly.

To enhance the sustainability of the Belgian pension system, the legal pension has been capped at a relatively low level of about €2500 per month (as of 2023 values). By 2030, the retirement age will be 67. Despite these measures, evaluations, including those from the European Commission's European Semester, suggest that existing measures are insufficient, thereby endangering the sustainability of social security in Belgium. According to the Federal Planning Bureau (2020), population aging could burden the government budget by an additional 3% of GDP by 2070.

The EU-SILC database provides detailed data on poverty and social exclusion risks, primarily based on self-assessment questionnaires. Among those aged 65-74, 7.8% of the surveyed population reported experiencing some level of material or social deprivation; this figure drops to 5.2% for those aged 75 and above. Respectively, 5.8% and 3.8% reported financial difficulties in buying clothing, and the figures stand at 3.5% and 2.6% concerning heating, and 2.1% and 1.2% concerning healthcare.

While current pension levels effectively mitigate substantial poverty, the long-term sustainability of the pension system remains fragile.

Citation:
Federal Planning Bureau. 2020. “Economic Policy Committee’s Aging Working Group – Belgium: Country Fiche 2020.”
https://www.plan.be/uploaded/documents/202105171033170.AWG_Country_fiche_Belgium_2020_12255_March2021.pdf
European Commission. 2023. “Commission Staff Working Document. 2023 Country Report – Belgium.” COM(2023)601 Final; SWD(2023)600 final.

Canada

Score 8

Before the creation of Canada’s modern federal public pension programs in the early 1950s and mid-1960s, elderly poverty was very high. However, since the system’s consolidation in the mid-to-late 1960s, the modern Canadian public pension system has been quite effective in reducing 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% (Deaton 1989).

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). Benefits are capped at a percentage of the poverty rate, with the aim of preventing old-age poverty.

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 Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs).

Since 1995, incomes for the elderly at the bottom have been growing, although not as quickly as those for the rest of the population. Using Statistics Canada’s Low-Income Cutoff (LICO) measure of poverty, an absolute definition, the poverty rate for people aged 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, shows senior poverty rates have been on an upward trend in recent years, increasing from a low of 3.9% in 1995 to 14.2% in 2016. Old Age Security (OAS) and the Guaranteed Income Supplement (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%.

Even 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 without an 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 (Weaver 2016).

Citation:
Deaton, R. L. 1989. The Political Economy of Pensions: Power, Politics, and Social Change in Canada, Britain and the United States. Vancouver: UBC Press.

Weaver, R. Kent. 2016. "Privileging Policy Change? Sustaining Automatic Stabilizing Mechanisms in Public Pensions." Social Policy & Administration 50 (2): 148-64. https://doi.org/10.1111/spol.12208

Germany

Score 8

Every employee in Germany is automatically part of the statutory pension insurance. The amount of payments that pensioners receive is based on the income they earned over the span of their working years. The statutory pension insurance can be combined with private or company plans. The use of private insurance is partially aided by the government ("Riester-Rente") (Bundesministerium für Arbeit und Soziales, 2017).

Pensions are lower for individuals with shorter or non-continuous employment histories due to the strong link between contributions and pension payments. However, the pension system offers several measures to prevent poverty in old age for those who experience interruptions in their work histories. For instance, periods of unemployment due to illness, caring for family members, and child-rearing are, under certain conditions, treated similarly to regular employment. These periods then count toward the pension system, thereby increasing pension incomes (Bundesregierung, 2023: 4).

For child-rearing, each child is granted an additional pension amount equivalent to the average contribution payment over three years (two and a half years if the child was born before 1992) (Deutsche Rentenversicherung, n.d.A). Parents can also earn extra pension claims beyond the three years covered if they have low incomes during the first ten years of a child's life, such as by working part-time to have more time for child-rearing. In this case, the income used for pension calculation is 50% higher than the actual income, without requiring higher contributions (Deutsche Rentenversicherung Oldenburg-Bremen, 2018).

When an individual cares for a family member, friend, or neighbor requiring high-maintenance care and, as a result, works less than full-time, the compulsory long-term care insurance, under specific circumstances, pays additional pension contributions (Deutsche Rentenversicherung, n.d.B).

Self-employed individuals are not automatically part of the statutory pension system, although they may apply for membership. There are plans to make the statutory pension system compulsory for the self-employed as well (Bundesregierung 2023: 4).

The average net income of a single pensioner per month is approximately €1,700 in West Germany and approximately €1,550 in the eastern part of the country. This is more than three times higher than the Bürgergeld, the German long-term unemployment benefit (Bundesministerium für Arbeit und Soziales, 2023a, p. 22). In 2020, expenditures on pensions amounted to 12.6% of Germany's gross domestic product, which is slightly lower than the EU average of 13.6% (Eurostat, 2023).

However, employees in non-standard employment, low-paying jobs, or with interrupted employment histories may face much lower pensions than the average. If the pension is insufficient to ensure a dignified life, there are several additional aids available for senior citizens. The base pension (Grundrente) provides supplemental income on top of the normal pension for seniors who have worked for a long time in underpaid jobs and are therefore not eligible for a higher pension. Seniors with low incomes may also benefit from "Wohngeld," a government-funded aid for low-income households struggling to pay their rent (Bundesregierung, 2023, p. 4).

The guaranteed minimum pension for seniors (Grundsicherung im Alter) is a safety net for people above the statutory retirement age whose pension incomes are too low to cover basic subsistence needs. It is designed to ensure that every senior can live in dignity, much like the Bürgergeld, the German long-term unemployment benefit, does for working-age individuals. The guaranteed minimum pension for seniors is thus a social welfare benefit and is not linked to statutory pension insurance (Bundesministerium für Arbeit und Soziales, 2023b).

Citation:
Bundesministerium für Arbeit und Soziales. 2017. "Gesetzliche Rentenversicherung." https://www.bmas.de/DE/Soziales/Rente-und-Altersvorsorge/Gesetzliche-Rentenversicherung/gesetzliche-rentenversicherung-art.html
Bundesministerium für Arbeit und Soziales. 2023. "Rentenversicherungsbericht 2023." https://www.bmas.de/DE/Service/Presse/Pressemitteilungen/2023/bundeskabinett-beschliesst-rentenversicherungsbericht-2023.html
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Deutsche Rentenversicherung Oldenburg-Bremen. 2018. "Kinderberücksichtigungszeiten." https://www.deutsche-rentenversicherung.de/OldenburgBremen/DE/Presse/Pressemitteilungen/Rententipps/rententipp_monat_2018_11.html
Eurostat. 2023. "Social protection statistics – pension expenditure and pension beneficiaries." https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Social_protection_statistics_-_pension_expenditure_and_pension_beneficiaries

Sweden

Score 8

The Swedish pension system consists of three components: a national public pension provided by the state, an occupational pension, and private savings or assets. The national public pension is based on a person's total income from their working life in Sweden. For those with low or no pension, a Guarantee Pension is available, designed to provide basic protection. Financial support for the elderly is also available to individuals with very low income in retirement. This support depends on the individual's income and housing costs to ensure a fair standard of living (Pensionsmyndigheten, 2024).

The pension system has been a focal point in political debates in recent years, and the Swedish Pensions Agency has published several evaluations. The gender gap in the national public pension system is 20%, generally a consequence of women's lower earnings in the labor market. The difference in disposable income between genders is nearly 30%, a gap that has persisted since the 1990s. With the current pension system, it would take 40 to 50 years before pensions are fully equalized, even if incomes were equal. Policy efforts aim to narrow the pension gap; however, there are debates on whether gender gaps should be prioritized ahead of the gap between other income groups. This raises the question of whether the pension system needs reform and whether life income should be the basis for calculating pensions (Kirs & Johannisson, 2022).

In 2023, the earliest retirement age increased from 62 to 63 years. As life expectancy rises, there are further official plans to raise pension ages. Policy efforts to strengthen the pension system were implemented, and the targeted pension benefit increased by 12% in 2022. In 2023, the Guarantee Pension was removed for those residing outside Sweden (OECD, 2024), pointing to a trend of cost-cutting measures by the Swedish Pensions Agency.

Citation:
Kirs, K. and Johannisson, I. 2022. Kan pensionerna bli mer jämställda? Faktaserie om pensionerna. Rapport 4. Stockholm: Pensionsmyndigheten.

OECD. 2023. Pensions at a Glance 2023: OECD and G20 Indicators. Paris: OECD Publishing. https://doi.org/10.1787/678055dd-en

Pensionsmyndigheten. 2024. "Äldreförsörjningsstöd." https://www.pensionsmyndigheten.se/for-pensionarer/ekonomiskt-stod/ansok-om-aldreforsorjningsstod

Austria

Score 7

Austria has long been considered "a haven for retirees," especially among seniors from neighboring Germany, with average pensions about 80% higher in Austria than in Germany. A closer look, however, reveals that the whole system relies significantly on additional contributions by employed individuals and on additional tax money diverted to this sector.

As of 2023, one-fourth of the Austrian public budget is allocated to the old-age pension system. Of the €14 billion, €1.2 billion is dedicated to raising low pensions to a minimum level, while the rest goes to other pensioners. In 2021, the average retirement age was 60.9 years. According to public planning, the retirement age should be raised to 62 years by 2030 (Austrian Parliament 2022). A larger adaptation to rising lifetimes should be planned (Heer et al. 2023).

To combat the effects of recent high inflation on income, Austria – like several other countries, such as Germany, Portugal, and Poland – has implemented significant ad hoc payments for pensioners.

Given these figures, it is not surprising that Austria ranked conspicuously low in the 2023 Mercer report on the overall quality of its pension system, receiving an overall score of "C" on a scale from A to D (ranked 40 out of 47 countries). While Austrian pensions generally aim to prevent old-age poverty, the report suggested measures such as increasing the minimum level of support for the poorest elderly individuals and introducing arrangements to protect the pension interests of both parties in a divorce. As in most countries, women tend to receive significantly lower pensions. However, the key problem with the Austrian pension system has been identified as its tremendous costs and effective unsustainability (see also P14.2).

Citation:
https://www.mercer.com/assets/global/en/shared-assets/global/attachments/pdf-2023-mercer-cfa-global-pension-index-full-report-11-09-2023.pdf

https://www.merkur.de/wirtschaft/rentensystem-vorteile-nachteile-faktencheck-rente-deutschland-oesterreich-vergleich-zr-92647602.html

https://www.merkur.de/wirtschaft/alter-altersarmut-wirtschaft-rente-deutschland-oesterreich-rentensystem-rentenbezuege-zr-92281223.html

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Austrian Parliament. 2022. "Parliamentary Correspondence No. 1262 Dating 11.10.2022." parlament.gv.at

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). Income and spending have been roughly in balance over the years, sometimes with a small surplus and sometimes – as in 2022 – with a small deficit. In addition, there are supplementary pension savings schemes supported by the state in the form of contributions and tax relief.

The official minimum retirement age, which has gradually increased since 1996, differs for men and women. For women, this age depends on the number of children reared. In 2017, the maximum retirement age for both sexes was set at 65 years. Since the late 1990s, there have been efforts to prepare and adopt significant pension reforms, including a division into a basic pension plus a voluntary additional pension that could be administered by private funds. These changes have never won the political consensus necessary to ensure permanence.

The main change in practice has been the periodic increase in the pension age, which has lagged slightly behind the increase in life expectancy. From 1993 to 2022, male life expectancy increased by 6.4 years while the pension age increased by 5 years. Meanwhile, the level of state pension fell from the equivalent of 49% of average earnings to 42% (45% for men and 37% for women), with 31% reported as facing foreclosure proceedings to reclaim unpaid debts. This does not indicate an imminent threat to the system's sustainability, assuming gradual increases in the pension age continue in the future.

Price increases in 2022 and 2023 significantly impacted pensioners in Czechia. The government responded with an extraordinary indexation of pensions. However, in early 2023, it proposed – and in July implemented – a change to the indexation system. This adjustment meant the average pension would increase by only 4% instead of 9% in response to inflation, a move that was highly controversial.

The argument was that old-age pensioners were generally not living in poverty (the relative income poverty rate among people aged 66+ was below 6% in 2023), and pensions could reach nearly 50% of the average wage (presumably calculated with the assumption that average wages would not rise in 2023). Pensions were seen as becoming an immediate threat to the state's financial stability. As a result, the measure was pushed through parliament as a special measure requiring only limited discussion.

A complaint regarding this and other procedural aspects was rejected by the Constitutional Court in January 2024, but more complaints could follow. Further changes to pensions included tightening eligibility for early retirement from five to three years before the statutory retirement age, effective October 2023. The length of pension insurance required to obtain an early retirement pension also increased to 40 years. While this may help increase the labor force, it will negatively impact those with shorter tenures in the labor market and those whose poor health hampers working into old age.

Proposals for a more substantial pension reform are promised for early 2024. A proposal has been put forward for discussion to introduce a more formal link between retirement ages and life expectancy.

Citation:
Pensions at a Glance 2023. OECD and G20 Indicators, p. 37, https://www.oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm
https://www.cssz.cz/documents/20143/99593/2022_zoc.pdf/26a54954-34ac-1ef6-5324-dcc2dc1edb9a
.cz/v-otazce-valorizace-penzi-zvolil-pavel-pristup-chytreho-horaka-je-adekvatni-8952381.
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https://www.usoud.cz/fileadmin/user_upload/Tiskova_mluvci/Publikovane_nalezy/2024/Pl-30-23-valorizace_duchodu.pdf

France

Score 7

The French pension system is relatively generous and largely prevents poverty among 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 – but is expected to decrease and stabilize at a level of 13.7% by 2030. The 2023 pensions reform ended four special schemes outside the general regime (reserved for specific professions) with the aim of enhancing pension system equality, although this will apply only to future beneficiaries. Another highly contested part of the reform affected the pension age for virtually everyone. To prevent future financial deficits, the minimum age of pension eligibility was increased from 62 to 64. In line with this, the number of contributing years necessary to benefit from a full pension was increased. The reform also – very slightly – increased small pensions as a means of reducing old-age poverty, but the effects of this portion of the reform are disputed.

The heated debate about the benefits of the recent pension system reform has focused particularly on the necessity of the reform. There is now consensus that the persistent deficit will not be resolved by the reform, but that this deficit is viable in the medium term (Bozio 2022).

Individuals in nonstandard employment or with interrupted employment biographies sometimes face significant disadvantages regarding their pension income. For instance, the pension of independent (self-employed) workers is on average more than 30% lower than that of conventionally employed workers (OECD 2022). A study by the national statistics institute INSEE found that 16% of individuals between the ages of 55 and 69 did not have either a pension or work income in 2021 (INSEE 2023). There are specific compensation mechanisms for individuals who have had a full employment career but with low wages, for example, to guarantee a minimum pension of €961 (Paribas 2024).

For people with interrupted employment biographies, the situation differs according to the specific cases (for instance, due to the reasons for and duration of unemployment). However, the state does offer solidarity mechanisms compensating for the loss of pension rights, for instance for people who have experienced a period of unemployment lasting at least five years (COR 2023: 221ff, 235 ff).

One major challenge associated with the reform bill is the need to increase the employment rate among older workers. The employment rate among those 55 years and older is about 10 percentage points lower than the OECD average. The reform has thus created a major source of economic uncertainty for older workers. Part of the problem is that change has to come from the workfare policies relating to older workers at companies. To facilitate a solution, the government initiated a round of negotiations between employers' organizations and trade unions at the end of 2023. Results are not expected before mid-2024.

Citation:
Antonio Bozio. 2022. "Le système de retraite français est-il en péril?" Blog IPP. https://blog.ipp.eu/2022/12/07/le-systeme-de-retraite-francais-est-il-en-peril/

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COR. 2023. "Comité d'orientation des retraites, Évolutions et perspectives des retraites en France. Rapport annuel, Juin 2023." Retrieved 12 March 2024 from https://www.cor-retraites.fr/sites/default/files/2023-06/RA_2023.pdf

INSEE. 2023. "En 2021, une personne de 55 à 69 ans sur six ni en emploi ni en retraite, une situation le plus souvent subie." https://www.insee.fr/fr/statistiques/7617420

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Netherlands

Score 7

In 2022 and 2023, after more than 100 hours of technical debates and an unusual roll-call vote, the Dutch parliament approved a historic transition in the national pension system. The shift moves from a collectivist system of defined, guaranteed benefits to a more individualized system of well-defined arrangements for pension contributions with less certain but potentially higher personal benefits. This change requires the government and pension funds to undertake the unprecedented task of converting the collective pension pot of €1.4 trillion into millions of individual pots. The law has three goals: creating a supplementary pension that increases more quickly, securing a clearer and more personalized pension accrual function, and creating a system that better reflects a modern employment landscape in which people no longer work for the same employer for 40 years. The pension reform aims to make the system more sustainable for the future.

Will the new system prevent more old-age poverty? In the long run, perhaps; in the short run, this is not likely. For individuals in nonstandard employment and those with interrupted employment histories, the new system is an improvement, but its impacts will become evident only over the long term (more than 20 years).

Currently, and under the new system, the self-employed are not mandatorily covered by the earnings-related scheme. According to a 2017 CBS survey, many self-employed individuals cannot afford private compensatory arrangements.

In the Netherlands, among adults aged 65 to 80, 2% to 3% live below the poverty line. This figure rises to 4% to 6% among the elderly aged 80 to 89, and more than one in 10 (11%) of those over 90 are poor. Although the income position of those over 65 is good on average, poverty is common among older people who have not accrued full state pension entitlements. This situation can arise if they were abroad for a period or came to the country later in life as migrants. Additionally, older people with high healthcare costs that leave them without enough money for basic needs experience poverty. They can apply for a means-tested social municipal arrangement to bring their income to the legally guaranteed minimum level. However, for various reasons, not everyone eligible for this arrangement utilizes it.

The most disadvantaged group remains older people with a migrant background. Among pensioners with a migration background, 6% live below the poverty line, compared to only 2.5% among retired native Dutch people. Pensioners with a migration background lag behind on several fronts: they have lower accrual of state pension rights, less supplementary pension provision and lower rates of homeownership. Frequently, they are reluctant to use the supplementary income provision because it does not allow them to own property in their countries of origin, or to freely travel between the Netherlands and their home countries.

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New Zealand

Score 7

The state pension system, New Zealand Superannuation (NZ Super), plays a significant role in preventing poverty among senior citizens. Unlike some contribution-based pension systems, NZ Super is universal, providing the same pension amount regardless of an individual’s employment history. This benefits those with interrupted employment or nonstandard work, as they can still receive the pension without meeting specific contribution criteria. NZ Super is linked to the average wage, ensuring that it keeps pace with changes in the cost of living.

The government also provides tax credits to incentivize individuals to contribute portions of their salary or wages to KiwiSaver – a voluntary scheme designed to build long-term savings. KiwiSaver funds are invested in various types of assets, depending on the member’s chosen fund or scheme, and can generally be accessed upon retirement, purchasing a first home, or under certain financial hardship conditions.

For seniors who may require additional financial assistance, supplementary income support programs are available, such as the Accommodation Supplement. Seniors also have access to initiatives like the SuperGold Card, which provides discounts on healthcare services, public transport and other essentials.

New Zealand’s pension regime is relatively efficient: Just 7.7% of those between 65 and 75 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 older (16.2% across the OECD) (OECD 2021). Nevertheless, potential areas for improvement exist. In particular, the recent cost of living and rent spikes are eating into seniors’ incomes – a situation that is especially difficult for pensioners who have no other incomes besides Super NZ (Hendry-Tennent 2023).

Moreover, evidence suggests that women tend to have lower long-term savings available at retirement due to labor market breaks, unpaid care work and a tendency to be more conservative with investments. This phenomenon has become known as the gender pension gap (RNZ 2023).

Citation:
Hendry-Tennent, I. 2023. “Cost of living: Pensioners living in pain, skipping meals as inflation pushes essentials out of reach.” Newshub, April 8. https://www.newshub.co.nz/home/money/2023/04/cost-of-living-pensioners-living-in-pain-skipping-meals-as-inflation-pushes-essentials-out-of-reach.html

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Portugal

Score 7

To address poverty among senior citizens, recent pension reforms in Portugal have introduced measures to ensure a basic level of financial security for new retirees. Eligible pensioners who have contributed to the mandatory social insurance scheme are guaranteed a minimum pension correlated with their career duration. This serves as a crucial safety net. Additionally, the Portuguese pension system aims to provide adequate income in old age for individuals with non-standard or interrupted employment histories through means-tested benefits. These benefits are a key component of the social security system's solidarity subsystem. They represent the non-contributory segment designed to combat poverty and social exclusion, including among pensioners. These benefits cater to situations of verified need and aim to offset insufficiencies in contributions or other social security benefits.

Key examples of provisions for old-age income in Portugal include the old-age social pension and the solidarity supplement for the elderly. The old-age social pension is a non-contributory, means-tested pension designated for lower-income elderly individuals. It is available to those who reach the legal age for the old-age pension, are not eligible for the main benefit, and are in a state of economic need. However, the actual amount provided is small: €245.79 per month (Segurança Social, 2024). The solidarity supplement for the elderly is another non-contributory, means-tested benefit aimed at assisting pensioners with low incomes who have attained the legal retirement age. The value is €21.39 for pensioners aged below 70 and €42.78 for pensioners aged 70 or above (Segurança Social, 2024). Recipients of this supplement may also qualify for additional health benefits and extraordinary social support for energy consumers, such as subsidized electricity and natural gas tariffs. These measures collectively demonstrate Portugal's commitment to supporting its elderly population, particularly those who are most vulnerable.

The social security pension system also aims to help all citizens meet their basic needs through the social integration income – a cash benefit ensuring individuals and their family members have adequate resources for basic needs, facilitating their gradual social and professional integration, if applicable.

While pension benefits have increased in recent years, particularly for lower-income pensioners, they still fall short in effectively preventing a high rate of poverty among senior citizens. The poverty rate among individuals aged over 65 was 17% in 2022 (PORDATA, 2023).

Citation:
PORDATA. 2023. "Taxa de risco de pobreza por grupo etário: antes e após transferências sociais." https://www.pordata.pt/portugal/taxa+de+risco+de+pobreza+por+grupo+etario+antes+e+apos+transferencias+sociais-3009

Segurança Social, I.P. 2024. "Pensão Social de Velhice." https://www.seg-social.pt/pensao-social-de-velhice1

Slovenia

Score 7

Certain population groups in Slovenia are still more at risk of poverty than the EU average, particularly single-person households, pensioners (including those aged 65 and over), and people with a low level of education. Besides adults with a low level of education, the unemployed, single-person households, people with various forms of disability, tenants, immigrants, and other vulnerable groups face heightened risks.

Among these, pensioners, especially older women, have seen their living conditions deteriorate the most in recent years, and their situation remains worse than the EU average.

Due to rising inflation, pension organizations called for an extraordinary adjustment to pensions starting in early 2023. The government agreed to increase part of the benefits by 1.8% for the last two months of 2023, with a further 8.2% increase scheduled for January 2024. A regular pension adjustment will follow in February 2024, based on the increase in the average monthly gross wage (60%) and the average increase in consumer goods prices (40%). Additionally, in 2023, pensioners received a Christmas bonus for the first time. The bonus amount depends on the pensioner's annual allowance, which is based on their pension.

Citation:
V. L. 2023. "Za koliko bodo višje pokojnine: objavljamo izračun." N1 26 November. https://n1info.si/novice/slovenija/pokojnine-2024-uskladitev-povecanje-bozicnica/

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Spain

Score 7

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 a pension reform. In 2023 the government reached a pact with the opposition and social partners to safeguard the public pension system. The pension reform substantially increased basic pensions, minimum pensions and targeted benefits, as well as income protection for workers with irregular careers, including mothers. The reform particularly benefits retirees with low pensions.

Spanish pension policy successfully prevents poverty but only moderately meets standards of intergenerational equity and fiscal sustainability. Older people are less likely to be poor than the general population, with the old-age poverty rate (5% for men; 2% for women) being lower than that of the total population. Nonetheless, Spain ranks as the sixth OECD country in terms of income poverty among those aged over 65.

Spain removed automatic adjustment mechanisms, leading to a decline in pensions in real terms for several consecutive years. To address financial sustainability, including the low indexation of pensions in payment, Spain reintroduced price indexation, effective in 2022. Consequently, the recent pension reform will increase the net replacement rates for full-career workers. In 2023, the gender gap in pensions was reduced to 21.1%.

Citation:
OECD. 2023. “Pensions at a Glance 2023.” https://www.oecd.org/els/public-pensions/PAG2023-country-profile-Spain.pdf

United Kingdom

Score 7

The United Kingdom has a three-pillar pension system, with the second pillar (employer-based pensions) being the mainstay. Private pension funds were adversely affected by the financial crisis as investment yields fell, leading some to require capital injections from employers. However, this has not significantly affected the incomes of those already retired. New entrants into second-pillar pension schemes are often 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. Previously, the age was 60 for women and 65 for men, and the rapid increase for women led to complaints about inequities for those on certain age-cohort boundaries. The age will rise again in 2026 to 67.

The “new state pension,” introduced in 2016, offers a higher rate than the “basic pension” for men born after April 6, 1951, and women born after April 6, 1953, with different requirements for national insurance contributions. For the basic pension, eligibility was based on one year of contributions for those born between 1945 and 1951, but 11 years for men and 10 for women if born earlier. Those on the basic pension are eligible for the “additional state pension” and certain other financial supports.

Compared to many other countries, the UK state pension system is fiscally sustainable and guarantees a minimum income for pensioners through a “triple lock,” which raises the basic state pension by the highest of inflation, average wages, or 2% per annum. Successive governments have pledged to maintain this policy, despite criticism about the growing burden on younger generations. However, faced with an exceptional increase in average earnings in 2021 due to a statistical quirk, the government suspended the triple lock for one year, resulting in a lower nominal increase of 3.1%. This decision provoked an outcry, especially from government supporters who saw it as breaking a manifesto commitment.

The UK used to have a relatively high degree of poverty among the elderly compared to other European countries. Older people without earnings-related pensions still face a higher risk of poverty. This situation has improved as pension provision has expanded, more pensioners own mortgage-free properties, and specific additional payments, such as winter heating allowances, have been introduced.

Despite overall improvements, there are inequalities among groups of pensioners. Lifelong housewives, for example, fare worse than those who can add occupational or private pensions to their state pension income. Inadequacies in publicly funded care home provision for the elderly can also cause difficulties due to the high cost of private care homes, sometimes obliging families to draw down assets. Most pensioners, however, are on reasonably comfortable incomes. Recent debates have focused on cutting some fringe benefits for better-off pensioners, such as free bus travel, due to concerns about the burden on younger generations.

Greece

Score 6

Greece ranks at the bottom of EU countries for employment among older people, particularly those aged 55–64 (Eurostat 2022a). However, the country is average among EU nations regarding the poverty rate of senior citizens (Eurostat 2022b) and their likelihood of experiencing social exclusion (Eurostat 2022c).

This relative stability is primarily due to Greece's provision of a minimum pension to all pensioners, regardless of their employment history. This minimum pension is supplemented by a pension linked to their lifetime insurance contributions, ensuring a basic level of income security. For some categories of pensioners, such as former civil servants and banking employees, pensions – including both main and supplementary pensions – can be quite substantial, depending on their past contributions.

Greece's pension expenditure is 16% of GDP, the highest among OECD countries (OECD 2021). This raises concerns about the sustainability of the system, as the government may struggle to maintain pension programs at their current levels and scope in the long term.

Citation:
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Ireland

Score 6

The family means-testing system in Ireland is onerous. Many families fail to pass the full test, and the rules do not promote shared responsibility within households, leaving care primarily a gendered phenomenon and locking many women out of paid employment, which leads to pension gaps.

The central statistics office found that cost-of-living increases marginally disproportionately negatively impact older households. The number of people aged 65 and older living below the poverty line in 2022 increased by 55,000 compared to the previous year, with evidence of increased vulnerability, including more older people using emergency homeless accommodation. Social welfare payments require uplifts of €25 per week to lift people out of poverty. The 2022 Pensions Commission examined sustainability and eligibility issues in state pensions (one-third of average earnings), recommending further examination of adequacy and benchmarking.

The state pension system does not necessarily ensure an adequate old-age income for individuals in non-standard employment or with interrupted employment biographies (e.g., low-skilled, self-employed individuals, long-term unemployed, single parents, chronically ill individuals, or those with a migration background). Means-tested state payments force people to deplete their assets, leaving them vulnerable in old age. Positively, the Commission recommended a 20-year care credit, now operational from January 2024, which is valuable to women seeking access to fuller contributory pensions.

Health and housing needs are particularly lacking, with an urgent need for a home care policy to reduce reliance on expensive institutional care in usually private nursing homes. Housing is also a basic need that is inadequately addressed. Eurostat finds that 13.1% of Ireland's population aged 65 and older live in inadequate, inappropriate dwellings, with 3,000 older adults lacking their own indoor flushing toilets for the sole use of their household. There have been severe cuts in Housing Aid for Older People and for People with a Disability. Twenty-five percent of older people expect to continue renting into older age, causing high stress.

Citation:
Department of Social Protection (DSP). 2021. "Report of the Commission on Pensions." https://www.gov.ie/en/publication/6cb6d-report-of-the-commission-on-pensions/

Latvia

Score 6

The average pension payment increased consistently each year from 2018 to 2022. Starting at 313.75 euros in 2018, it rose steadily to 449.88 euros by 2022. Pensioners accounted for the most significant portion of social protection spending at 41%, with 88.3% allocated to old-age pensions, amounting to €2.46 billion. In 2022, total social protection outlays for "old age" rose by 10.5% compared to 2021, primarily due to pension indexation (Centrālā Statistikas Pārvalde, 2023).

Among residents aged 65 and older, 19.1% were susceptible to material and social deprivation, an increase of 5.8 percentage points since 2021, and 10.5% were subject to severe material and social deprivation, rising by 4.8 percentage points. In 2022, men in Latvia were expected to live an average of 14 years after retirement, and women 19 years (Centrālā Statistikas Pārvalde, 2023b).

Equal pay for work ensures the potential for equal pensions upon retirement. However, due to gender pay disparities, pension amounts differ for women and men. In 2022, men's average old-age pension payments were 11.3% higher than women's; men received €481.96, while women received €433.22.

Pension supplements will be restored. This decision was made in conjunction with the 2024 budget. To boost income and enhance state financial support for one of the more vulnerable groups – older people – an additional payment for insurance periods accrued until December 31, 1995, will be progressively restored to age and disability pensions granted from 2012 to 2028, starting from 2024 to 2029. Beginning in 2029, this supplement will be paid to all recipients of age and disability pensions. This change will impact 38,000 people in 2024, 87,000 in 2025, and 144,000 by 2026 (LV Portāls, 2023).

Citation:
Centrālā statistikas pārvalde. 2024. "Pensiju statistika." https://data.stat.gov.lv:443/api/v1/lv/OSP_PUB/START/VES/PP/PPP/PPP020
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Lithuania

Score 6

Pension policies are largely aligned with the goal of preventing old-age poverty. According to the OECD, Lithuania's senior citizen poverty rate has been among the OECD countries' highest. Both previous and current governments have increased funding for old-age pensions and made some modifications to the three-pillar pension system, which mixes public and private programs.

The 2020 – 2024 coalition government increased pensions substantially – they grew by 17% on average in 2022 (an increase of 12% in January and another 5% in June). The average old-age pension, which stood at €255 in 2016, rose to €413 in 2021, to €482 in June 2022 and to €542 in 2023.

The government indexed old-age pensions in both 2022 and 2023. In Lithuania, pension indexation rules link pension increases to average increases in the wage fund. However, according to the OECD, these increases were not enough to compensate for high inflation rates, and in real terms, pensions were around 4%

lower in January 2023 than in January 2022 (except for targeted benefits, which increased by almost 4% due to the importance of food prices in indexing targeted benefits). According to projections offered by the Ministry of Social Security and Labor, old-age average pensions are expected to increase faster than prices in 2024, and will reach €605.

The new government has introduced changes to the pension system. In particular, persons who have not accumulated the necessary work years will now receive a base pension rate. This change aims to prevent old-age poverty among individuals who have been in nonstandard employment or had interrupted employment histories. However, some analysts have expressed concerns about the increasing politicization of the issue and potential disincentive effects.

Citation:
OECD. 2023. Pensions at a Glance 2023: OECD and G20 Indicators. Paris: OECD Publishing. https://doi.org/10.1787/678055dd-en
Lithuanian Ministry of Social Security and Labor. "How shall we live in 2024." https://socmin.lrv.lt/lt/naujienos/2024-metais-dides-dirbanciuju-pajamos-senjorai-sulauks-didesniu-pensiju-ugtels-ir-kitos-ismokos

Switzerland

Score 6

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 2023 was CHF 1,225 per month, while the maximum benefit was CHF 2,450 per month. The sum of the two individual pensions of a married couple may not exceed 150% of the maximum pension (i.e., CHF 3,675 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 is 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. Every resident has to contribute to this first pillar.

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 – especially major political parties and financial institutions – have allowed for only piecemeal reforms (Armingeon 2018; Leimgruber 2008).

The third pillar takes the form of personal tax-deductible savings of up to CHF 7,056 per year (2023). 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).

Typically, low-income groups are neither covered by the second pillar nor can they afford to use the third pillar (FSO 2023). If their pension income does not meet the minimal costs of living, they can apply for additional payments (Ergänzungsleistungen). For example, a pensioner (single, with usual rent and health insurance costs) who receives the minimum pension is entitled to another CHF 6,000 per annum as supplementary benefits, resulting in an annual income of about CHF 20,000 (https://www.ahv-iv.ch/en/Social-insurances/Supplementary-benefits-EL). Given the Swiss cost of living, it is extremely hard to survive with this income. In addition, these additional payments are means-tested – that is, they are stigmatizing, and many individuals who are entitled to additional payments either do not know about it, are discouraged by the complexity of the system or are embarrassed to ask for this social assistance (Leyvraz et al. 2022).

Statistics from the OECD (2022) and a recent survey on old-age poverty (Pro Senecute 2022) show that Switzerland's old-age poverty rate is above the OECD average. Old-age poverty affects about 15% of the population aged 65 or above, which is striking given the overall wealth of the country. This rate could be halved if all eligible pensioners claimed social assistance (Pro Senecute 2023). Poverty is measured as having an income below half the national median equivalized household disposable income. If a measure of material deprivation is applied, Switzerland has one of the lowest shares of the population aged 65 or above being in a state of deprivation (i.e., not possessing items considered basic, such as a washing machine, telephone or television; not living in a neighborhood without excessive criminality or noise; and not being able to afford expenditures such as eating meat twice a week, heating the apartment or paying an unforeseen expenditure of around CHF 2,000) (Bonoli and Fossati 2022; 2023: 708 – 709).

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

United States

Score 6

The Social Security Act of 1935 established a federal public pension scheme for American workers. Before this legislation, many states had their own pension schemes, and workplace pension schemes were becoming more common. The original act had many gaps, particularly its exclusion of workers in agriculture and domestic service, which disproportionately affected African Americans.

Today, the U.S. public pension, known by Americans as “Social Security,” is a bedrock welfare benefit that enjoys widespread public support. When President George W. Bush attempted to privatize the scheme following his reelection in 2004, he faced significant backlash and had to abandon his plans.

Social Security is a protected part of the federal government’s spending regime. It is a non-discretionary program, meaning it is not subject to annual budget wrangling. The benefit is automatically adjusted for cost-of-living to account for inflation. However, there are criticisms that these adjustments are not always sufficient to meet the rising needs of American pensioners.

The federal Social Security pension is insufficient for a comfortable retirement in most parts of the United States, especially for those with low earnings during their working years. As a result, many Americans rely on private pension schemes, typically provided by their employers, which offer more generous benefits. However, not all workers or Americans have access to such schemes, leading to significant variability in retirement economics. Consequently, many elderly Americans continue working to supplement their income. Additionally, old-age poverty is comparatively high in the United States.

In 2022, the Biden administration awarded $36 billion to prevent cuts to the pensions of union workers and retirees. The funding comes from the American Rescue Plan.

Estonia

Score 5

Estonia has had a three-pillar pension system since 2002. In 2019, the poor performance of pension funds, high administrative costs and limited choices for citizens triggered a reform of the mandatory second pillar. Despite legal amendments that relaxed investment restrictions and reduced administrative costs, the 2019 pension reform introduced an opt-out option from the statutory pillar II funded pension scheme. By the end of 2021, 24% of all second-pillar assets owned by 23% of insured people under 60 were withdrawn (EV 2022). Nearly half (48%) of those who opted out were aged 35 – 49, posing a significant sustainability risk (OECD 2023). Making the second pillar voluntary puts additional pressure on the first, pay-as-you-go pillar, reducing the future adequacy of pensions and increasing the long-term risk of poverty.

As of 2023, despite annual indexation and an increase in the minimum pension, the average public old-age pension in Estonia remains among the lowest relative to work income, and poverty among the elderly is the highest in the EU. This is primarily because the average old-age pension falls below the at-risk-of-poverty threshold. Currently, approximately one in 10 pensioners receive a pension lower than the requirement of the social charter, and this proportion is increasing. Furthermore, Estonia does not meet the average pension goal, as the combined pillar I and II pension of the median wage earner is less than 60% of the median wage.

The risk of inadequate old-age pensions for people in nonstandard employment is mitigated by the points system of pay-as-you-go calculations, which does not discriminate between different contract types. Still, this system cannot address infrequent contributions to social insurance or the career precariousness associated with nonstandard employment. Therefore, the inadequacy and inequality of pensions are expected to increase. This will lead to a growing need for future policy changes to raise public awareness of the pension system, improve the contribution of voluntary tiers and enhance the sustainability of pension system funding.

Citation:
EV Sotsiaalministeerium (Ministry of Social Affairs). 2022. Eesti pensionisüsteemi jätkusuutlikkuse analüüs 2022. (The sustainability Analysis of Estonian Pension System)
OECD. 2023. Pensions at a Glance. Country Profiles – Estonia.

Italy

Score 5

According to the latest INPS annual report (2023), the proportion of "poor pensioners" is high, even when considering multiple benefits (old-age, invalidity, survivors', and social allowances). Additionally, pension income heterogeneity is significant. In 2021, excluding those who retired before age 50, 20% of pensioners had a gross pension income of less than €10,000 per year. This proportion remains substantial at 7.3% even when considering former private employees with occupational pensions who retired from 2017 onward. One-third of pensioners (32.8%) receive a pension of no more than €1,000 gross per month.

The report also shows that inequality in pension income is increasing, similar to labor income. The Gini index of gross annual pension income has steadily risen from approximately 0.30 in 1995 to around 0.35 in 2021. The increase in pension income inequality reflects trends in the labor market, where evidence shows growing inequality and low mobility, perpetuating income disparities. Variable redistributive mechanisms implicit in the pension calculation formula exacerbate this issue, particularly for pensioners under the retributive formula. For instance, salary increases at the end of one's career and different parameters applied in various administrations can significantly affect the pension amount.

Citation:
INPS. 2023. XII Rapporto ANNUALE. https://www.inps.it/it/it/dati-e-bilanci/rapporti-annuali/xxii-rapporto-annuale.html

INPS. 2022. XXI Rapporto Annuale. https://www.inps.it/it/it/dati-e-bilanci/rapporti-annuali/xxi-rapporto-annuale.html

Japan

Score 5

Japan spends 9.3% of GDP on its public pension system, which is above the OECD average (7.7%). All Japanese between 20 and 59 years old are enrolled in the basic pension scheme, while all employees are additionally enrolled in the earnings-related plan. Self-employed workers pay a flat-rate contribution and employees pay 18.3% of their salaries, with half of it covered by employers. The retirement age is 65.

The basic pension benefit in 2022 amounted to only JPY 777,800 (€5,000) per year for workers who have contributed fully and without interruption. Workers are exempt from contributing to the basic pension during maternity periods and parental leaves. Unemployed persons remain in the basic pension scheme and may be fully or partly exempt from paying a flat-rate contribution depending on household income. Periods spent out of work due to childcare are taken into account in the earnings-related pension insurance scheme up to three years per child.

Net pension replacement rates from mandatory schemes in Japan are among the lowest, while the senior citizen poverty rate is among the highest in the OECD.

However, most regular workers receive large lump sum payments at the end of their careers and these payments constitute an important source of income in old age. Actual poverty rates are, therefore, lower than income figures suggest. Nonetheless, workers with non-standard work biographies and, in particular non-regular workers, rarely receive such payments and thus are particularly hard hit by the low replacement level of the public pension system. Alternative ways to save for old age, such as Nippon Individual Savings Accounts (NISA) and Individual Defined Contribution Accounts (iDeCo), have only been rolled out in recent years and may come too late for workers who will retire within the next decade. Moreover, they require that wages are high enough so that workers are able to make contributions, which is rarely the case in low-paying non-regular jobs.

Citation:
Horioka, Charles Yuji. 2009. "The (Dis)saving Behavior of the Aged in Japan." NBER Working Paper 15601. http://www.nber.org/papers/w15601

OECD. 2023. "Pensions at a Glance 2023: OECD and G20 Indicators." https://doi.org/10.1787/678055dd-en

OECD. 2023. "Pensions at a Glance 2023: Country Profiles – Japan." https://www.oecd.org/els/public-pensions/PAG2023-country-profile-Japan.pdf

Siripala, Thisanka. 2023. "Surviving Old Age Is Getting Harder in Japan." https://thediplomat.com/2023/01/surviving-old-age-is-getting-harder-in-japan/

Poland

Score 5

The current pension system is based on pension contributions paid to the Social Insurance Institution (ZUS), Poland's pension authority. There has been a year-on-year reduction in the ratio of benefits to the average salary, declining from 58.1% in 2013 to 50.4% in 2022. The average pension in 2022 was PLN 2,767.47, a 9% increase compared to the corresponding period in the previous year. However, this increase did not offset retirees' expenses, which rose due to a year-over-year inflation rate that exceeded 18% in March 2023 (Markowski 2024).

The system supports citizens with additional benefits paid alongside or with the main benefit. These include programs for mothers with four or more children, for individuals with disabilities and for those unable to live independently.

Citation:
Markowski, Radoslaw. 2024. "Polish Election of 2023: Mobilization in Defence of Liberal Democracy." West European Politics [forthcoming].

Slovakia

Score 5

The pension system partly ensures an old-age income for individuals in non-standard employment or with interrupted employment histories. Persons with less than 15 years of social pension insurance are not eligible for a pension, although insurance from other EU countries counts. Self-employed persons contribute to pension insurance, with a minimum level defined independently from the tax base. Disabled persons have a specific disability pension scheme. The state does not pay pension insurance for the unemployed, meaning that periods of unemployment do not count toward pension entitlement.

Women’s old-age poverty is a significant issue, driven by two core factors: a relatively low level of pension benefits in Slovakia and income gender inequality. Wage differences between men and women in Slovakia are higher than the European Union average, currently at 16.6%. This inequality in pay affects the entire society’s standard of living. Salary differences, despite women’s higher educational attainment, make women more at risk of poverty, especially seniors and widows. Gender inequality also extends to pension amounts, with Slovak women receiving, on average, 18% lower pensions than men.

The state pension benefit must provide an old-age income that enables citizens to meet their basic needs. The minimum pension of €376.50 in 2023 is guaranteed only to people with 30 or more years of pension insurance. The average pension was approximately €650 in 2023. Single persons with pensions below €500 may have significant problems covering their basic needs independently, even if they live in their own housing. Persons who have to pay for rental housing may need €700–€800 monthly to cover their basic needs (National Bank, 2023).

Citation:
Národná banka SR. 2023. Ekonomické životné minimum – nová metrika životných nákladov domácností. Bratislava: Národná banka.

Šoltés, E., Komara, S., and Šoltésová, T. 2023. “Exploration of Poverty and Social Exclusion of Slovak Population via Contrast Analysis Associated with Logit Models.” Qual Quant 57: 5079–5105. https://doi.org/10.1007/s11135-022-01573-9

Hungary

Score 4

Although international comparisons place Hungary relatively well regarding senior-citizen poverty rates, the reality is misleading. Even if the indicator assessing median equivalized disposable income with a cut-off point 50% ranks Hungary in the upper midfield at ninth place, the underlying conditions of low incomes, high prices and inflation indicate a high threat of poverty for pensioners. The average monthly pension is €539, which is insufficient given the economic conditions. Government policies have exacerbated the problem, necessitating reform.

Retirement entry ages in Hungary are currently 65 for men and 62 for women (OECD 2023). However, these ages are slated to increase to 65 for both genders. In 1997, Hungary introduced a three-pillar pension system following World Bank guidelines, featuring a mandatory, fully funded second pillar. Upon taking office, the second Orbán government abolished this second pillar and confiscated its assets. Additionally, it moved disability pensions to the social assistance scheme and eliminated certain early retirement options. While these measures have limited pension growth and undermined trust in pension policy reliability, they have improved the financial status of the public pension scheme. Public spending on pensions decreased from 11% of GDP in 2010 to 8% in 2020. The growing disparity between wage growth and pensions has left pensioners among the most disadvantaged groups. To mitigate electoral fallout, the government has introduced discretionary pension increases before elections. In 2020 – 2021, it gradually reintroduced the 13th-month pension, widely perceived as an election campaign strategy for the 2022 parliamentary elections (Gál 2020). In the election, Fidesz performed well among pensioners. In 2022, a somewhat larger-than-planned pension increase took place.

Citation:
OECD. 2023. "Pensions at a Glance." https://www.oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm

Israel

Score 4

Each elderly citizen in Israel is eligible for a monthly allowance of ILS 2,337. Elderly citizens without an additional pension receive a supplementary benefit, bringing their total monthly allowance to ILS 3,237. Unlike in many other OECD countries, most elderly people's income in Israel comes from private, not public, sources. Consequently, about 65% of elderly people continue to work past the official retirement age. Among those who do not work, 54% lack pension savings and thus depend on government support, with many falling below the poverty line (Macro 2021).

The average income of an elderly person is ILS 7,381 per year, while their average expenses amount to ILS 8,563 per year. One in five elderly citizens lives in poverty.
Following the large wave of immigration from Russia in the 1990s, a significant proportion of the population lacks any pension at all. Additionally, a sizable veteran population lacks pension savings. Mandatory pension coverage has only been in place since 2008 and applies exclusively to employed individuals. As a result, the pension savings of those in precarious jobs are low and their rights are sometimes compromised due to inconsistent payments (Lurie 2018).
Taken together, the existing pension system does not cover the basic needs of Israel's elderly population. While the mandatory pension improves the situation for workers entering the labor market, it is insufficient for older people who did not have enough time to save for a pension, including immigrants who do not receive pensions from their countries of origin.

Citation:
Lurie, L. 2018. "Pension Privatization in Israel." In A. Paz-Fuchs, R. Mandelkern, and I. Galnoor, eds., The Privatization of Israel: The Withdrawal of State Responsibility, 101–121. Palgrave Macmillan. https://www.palgrave.com/gp/book/9781137601568#otherversion=9781137582614

Macro-center for policy and economy – Elderly in Israel. 2021. https://www.macro.org.il/images/upload/items/33224296121214.pdf

Indicator

Policies Targeting Intergenerational Equity

Question

To what extent does the current pension policy approach hinder or promote intergenerational equity?

30 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 policies are fully aligned with the goal of achieving intergenerational equity.

8-6 = Pension policies are largely aligned with the goal of achieving intergenerational equity.

5-3 = Pension policies are only somewhat aligned with the goal of achieving intergenerational equity.

2-1 = Pension policies are not at all aligned with the goal of achieving intergenerational equity.

Denmark

Score 9

One challenge in the Danish system is that means testing of public pension protection leads to a lower level of income for all pensioners. This implies that the economic gain from postponing retirement may be low for groups affected by means testing. To address this problem, recent reforms of the tax system have strengthened incentives to save and postpone retirement. Retirement ages remain significantly influenced by the statutory retirement age, which has been increased incrementally and is now indexed to longevity developments.

There is an ongoing discussion about whether indexation based on an absolute target of 14.5 years in retirement (excluding early retirement) is too strict, and whether it should be replaced by a relative target (an extra expected life-year being split between a fraction of 0.8 in work and 0.2 in retirement). Indexation of retirement is a crucial reason why fiscal policy in Denmark is sustainable.

Recent initiatives have strengthened the incentive to postpone retirement through senior premiums for individuals working beyond the statutory retirement age, revisions to the means testing of pensions to make them less dependent on partner income and an earned-income tax credit for seniors.

The Danish pension system stands out by preventing poverty among pensioners while also ensuring high replacement rates for a large part of the population.

Citation:
Commission on Withdrawal from and Attrition in the Danish Labour Market. 2022. A Robust Pension System Denmark in the Future. https://bm.dk/media/20703/fremtidssikring-af-et-staerkt-pensionssystem.pdf

Finland

Score 9

The rapid aging of Finland’s population and a steep decline in birth rates in recent years have created challenges for maintaining the labor force and ensuring the financial sustainability of the pension system. Current strategies focus on encouraging later retirement in order to secure the financial stability of the public pension system in the future.

A major reform of the pension system in 2005 aimed to increase flexibility and create more incentives for workers to remain employed longer. In 2011, a national guarantee pension was introduced. While these reforms were successful, another significant reform came into effect in 2017, with the main goal again being to extend working lives and ensure the financial sustainability of the pension system. Major changes included a gradual rise in the lowest age of retirement eligibility, the harmonization of pension accrual, an increase in deferred retirement to incentivize longer working lives, the introduction of a flexible part-time retirement status, and amendments to the accumulation rate. A new pension reform is already under preparation. Orpo’s government program states that by January 2025, the government will work with the principal labor market organizations on a tripartite basis to assess the measures necessary to stabilize the level of pension insurance contributions over the long term, and significantly reinforce the public finances as a whole over a sustained period using a rule-based fiscal stabilization system.

A recent evaluation by Torben Andersen (2021) found the Finnish pension system to be robust and well-functioning. The key challenges identified 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-term 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

Melbourne Mercer Global Pension Index 2023. https://www.mercer.com/insights/investments/market-outlook-and-trends/mercer-cfa-global-pension-index/

“Topical development projects.” https://www.etk.fi/en/finnish-pension-system/pension-reforms/topical-development-projects/

Norway

Score 9

The universal, tax-financed old-age pension system was radically reformed in 2011. The previous defined-benefit system was transformed to install a mechanism for adjusting pension rights in relation to increased life expectancy. This average increase in longevity results in a reduction in the pension received by those choosing to retire early. Consequently, future cohorts will need to work longer to receive the same generous level of pension as earlier cohorts. The economic incentives to work longer are strong.

The system remains a pay-as-you-go structure, where the younger, working population funds the pensions of the elderly. However, there are guarantees that if the elderly do not extend their working careers in line with increased longevity, pension levels will fall to avoid placing an undue burden on the younger workforce. This combination of intergenerational solidarity and a significant element of individual choice among the elderly is widely considered a fair system. It is economically sustainable and robust against a likely future increase in longevity.

However, for individuals with health challenges who cannot realistically choose between retirement and work, the system may produce socially unfair consequences. As a result, a new and separate disability pension has been introduced, paying roughly two-thirds of former income regardless of the number of years in employment.

Citation:
https://www.nav.no/alderspensjon

Australia

Score 8

Australia’s superannuation system focuses on future sustainability, with around 17 million Australians collectively owning about AUD 3.5 trillion in assets, expected to grow significantly over the next 40 years, providing capital to fund an aging population (Commonwealth of Australia 2023). The retirement income system could better support unpaid care work, which has an important intergenerational dimension, as carers make occupational sacrifices to raise future generations.

The public pension (Age Pension) is available to all people aged 67 and over, subject to income and assets tests, while the private pension system (superannuation) is accessible from age 60. This can incentivize early retirement, with individuals drawing down their superannuation before moving to the Age Pension at 67. For individuals with limited work capability, this may be desirable. However, for higher-income individuals, the superannuation system, being mostly “defined contribution,” incentivizes later retirement as superannuation balances and retirement living standards increase with later retirement. The average retirement age has been increasing over the last 20 years.

The superannuation system combined with the Age Pension generally provides adequate or better living standards in retirement for most retirees (The Treasury 2023). The economic well-being of retirees has improved substantially since the mid-1990s, reflecting increases in the generosity of the Age Pension and maturation of the superannuation system. However, retirees renting in the private market with limited work histories depend on the Age Pension and Commonwealth Rent Assistance, which do not provide adequate income.

Citation:
Commonwealth of Australia. 2023. Intergenerational Report 2023: Australia’s Future to 2063. The Treasury, Australian Government. https://treasury.gov.au/sites/default/files/2023-08/p2023-435150.pdf

The Treasury. 2020. “Retirement Income Review.” The Treasury, Australian Government. https://treasury.gov.au/publication/p2020-100554

Canada

Score 8

Intergenerational equity can be influenced by the sustainability of pension programs. Canada, like many other developed nations, faces demographic challenges, including an aging population and a relatively low birth rate. This can impact the financial sustainability of pension programs, raising questions about the burden on future generations to fund pensions for the growing elderly population.

Canada has a multi-tiered pension system that includes both public and private components, as well as federal and provincial plans. The two major public pension programs in most of the country are the Canada Pension Plan (CPP) and Old Age Security (OAS). Quebec opted out of CPP when it was created in the mid-1960s and has since operated its own Quebec Pension Plan, which is very similar to CPP in terms of social benefits (Simeon 1972; Banting 1982).

The CPP and QPP are contributory, earnings-related social insurance programs that provide retirement, disability, and survivor benefits. They are designed to replace a limited portion of individuals’ earnings upon retirement. The CPP and QPP operate on a contributory basis, meaning that individuals contribute a portion of their earnings throughout their working years. The benefits received in retirement are tied to those contributions and matched by employers.

Recently, both CPP and QPP contributions have been increased to grant higher pensions to people who will retire several decades from now. The CPP and QPP are also fiscally sound for the predictable future, with stable anticipated contribution rates for decades to come (Béland and Weaver, 2019).

Old Age Security (OAS): OAS is a universal, non-contributory pension available to Canadians aged 65 and older. It provides a basic level of income support and, since it is inflation-adjusted, has taken on an increasingly significant role in the system.

Governments commonly implement reforms or adjustments to pension programs to address changing demographics and economic conditions.

Citation:
Banting, K. G. 1982. The Welfare State and Canadian Federalism. Kingston: Queen’s University Institute of Intergovernmental Relations.

Béland, D., and R. K. Weaver. "Federalism and the Politics of the"
Richez, Emmanuelle. 2019. "Canada and Quebec Pension Plans." Journal of International and Comparative Social Policy 35 (1): 25-40.

Simeon, Richard. 1972. Federal-Provincial Diplomacy: The Making of Recent Policy in Canada. Toronto: University of Toronto Press, Scholarly Publishing Division.

Sweden

Score 8

The pension system is designed to encourage people to work longer. As with most national pension schemes, the longer a person waits to draw their pension, the higher their monthly benefits. However, people with low enough incomes to qualify for the minimum Guarantee Pension might not benefit from postponing their pension benefits (Pensionsmyndigheten, 2024).

Further incentives to keep working have been implemented in recent years, such as a tax rate reduction for the elderly population's disposable income in 2021. In 2022, a tax allowance for people over 66 years of age was expanded (OECD, 2023). If a person has to exit the labor market before age 62 due to health reasons, they can apply for disability benefits at the Swedish Social Insurance Agency. If the person has been part of the labor market, these benefits are at 64.7% of their mean income from their last year in the workforce, with a ceiling of 23,171 SEK before tax monthly (approximately €2,070). Those with low or no previous income receive minimum compensation. Although the amount fluctuates with age, those over 30 years old receive 13,275 SEK before tax monthly (approximately €1,185) (Försäkringskassan, 2023).

To address the challenges posed by rising life expectancy in Sweden, the retirement age is continuously being adjusted. In 2023, the minimum age to draw a pension was raised from 62 to 63. The age for the Guarantee Pension increased from 65 to 66, and the right to remain employed was extended from 68 to 69. The official retirement age for the years 2026 – 2029 is set at 67 (Regeringskansliet, 2023).

Citation:
Försäkringskassan. 2023. "Sjukersättning." https://www.forsakringskassan.se/privatperson/sjuk/funktionsnedsattning-eller-langvarig-sjukdom/sjukersattning

OECD. 2023. Pensions at a Glance 2023: OECD and G20 Indicators. Paris: OECD Publishing. https://doi.org/10.1787/678055dd-en

Pensionsmyndigheten. 2024. "Jobba längre ger högre pension." https://www.pensionsmyndigheten.se/ga-i-pension/planera-din-pension/pensionalderns-betydelse

Regeringskansliet. 2023. "Riktålder för pension för år 2029 beslutad." https://www.regeringen.se/pressmeddelanden/2023/05/riktalder-for-pension-for-ar-2029-beslutad/

Switzerland

Score 8

The Swiss pension system is composed of three pillars (see also P14.1). The first pillar is highly redistributive since the spread between minimum and maximum pensions is low (i.e., maximum pensions are twice minimum pensions) while contributions to the first pillar are basically linear to income. This corresponds to a social democratic model of redistributive social policy.

The second pillar is conservative, since its benefits are linear to income during working life. While the first pillar is a pay-as-you-go system, the second pillar is a capital accumulation fund in the name of the contributor.

The third pillar is liberal and regressive, since only well-to-do citizens can afford to contribute to these tax-deductible funds; the higher the income, the greater the beneficial effects of this pillar (Armingeon 2001; Bonoli and Fossati 2022; 2023).

The pension system offers few incentives to work longer. In the first pillar, pensions can be deferred if individuals work beyond age 65. This leads to slightly higher pension payments afterward. There is also the possibility of early retirement with reduced pensions in both the first and second pillars. However, this is mainly a feasible option for high-income groups who will receive sufficiently high pensions from the second and perhaps also the third pillar.

Given demographic developments, the first pillar is particularly vulnerable. In the second pillar, there are also some opportunities to redistribute from younger generations to older ones. Notwithstanding the likely unsustainability of the first pillar due to demographic aging, the political left supports the extension of the first pillar because of its redistributive logic and its aim to minimize old-age poverty. This implies either a shrinking of the size of the second pillar or higher taxes or social contributions. Hence, the values of intergenerational and intragenerational equity are in conflict, and it depends on political views which solution is preferred.

A recent study finds that there is no majority for substantial retrenchment of pension systems, particularly regarding an increase in the retirement age. Likewise, there is no majority for increasing the generosity of the system if this endangers its financial sustainability (Häusermann et al. 2019). Hence, major reforms in the coming years do not seem very likely.
In sum, while there are certainly some demographic challenges for the Swiss pension system, given its three-pillar construction it is more robust than national systems that rely only on pay-as-you-go pension systems.

Citation:
Armingeon, Klaus. 2001. “Institutionalising the Swiss Welfare State.” West European Politics 24 (2): 145-168.

Bonoli, Giuliano, and Fossati, Flavia. 2023. “Social Policy.” In Emmenegger, Patrick, Fossati, Flavia, Häusermann, Silja, Papadopoulos, Yannis, Sciarini, Pascal, and Adrian Vatter, eds., The Oxford Handbook of Swiss Politics.

Oxford: Oxford University Press, 695–713. https://doi.org/10.1093/oxfordhb/9780192871787.013.36

Bonoli, Giuliano, and Flavia Fossati. 2022. “Les politiques sociales.” In Handbuch der Schweizer Politik, eds. Yannis Papadopoulos, Pascal Sciarini, Adrian Vatter, Silja Häusermann, Patrick Emmenegger, and Flavia Fossati. 7th ed. 883-902.

Häusermann, Silja, Thomas Kurer, and Denise Traber. 2019. “The Politics of Trade-Offs: Studying the Dynamics of Welfare State Reform With Conjoint Experiments.” Comparative Political Studies 52: 1059-1095.

Czechia

Score 7

To fulfill the right to material security in retirement guaranteed by the constitution, the pension system must combine both solidarity and merit functions. While it provides reasonable protection against poverty, the replacement ratios for high-income groups are significantly lower. The additional costs imposed by an aging population – increasing the number of people above the pension age – have been offset by lower pensions relative to earnings and a slightly higher burden on the incomes of the working generation.

Increasing the working population can further ensure balance. Citizens can continue to be employed without restriction while receiving a retirement pension. If social insurance is paid on this income, one can apply to the ČSSZ to recalculate the pension at regular intervals, but any increase is minimal. The employment rate of people aged 55 – 64 (72.9%) is higher than the OECD average, and the trend is upward due to gradual adjustments to the retirement age. In the Czech Republic, it is possible to receive a retirement pension and work simultaneously without restrictions. In 2021, the share of working pensioners was 10.7% of all employed people.

France

Score 7

Before the 2023 pension reform, the elderly were provided for rather generously. Rather liberal early retirement schemes used to allow firms to get rid of high-salary employees and replace them with early-career workers who might work at higher levels of productivity. This policy has changed as a result of successive reforms, culminating in the 2023 reform. As a result, early retirement schemes have been gradually abolished, the legal age of retirement has increased, and the number of years of contribution necessary to receive a full-term pension has gone up. The long-term effects of this reform are difficult to predict, but one of the crucial goals is to increase the employment rate among older people. In terms of intergenerational equity, the generations born after 1980 will have to pay more for their pensions than older generations. Their replacement rate (the percentage of their pension compared to their past working incomes) will be lower, but the duration of their employment will also be shorter, and they will on average receive their pensions for a longer time (COR 2023: 209 – 219).

Pension policies do not account for intergenerational differences in wealth. It is true that wealth distribution appears to cluster among older generations that are living longer and transfer their wealth later than previous generations.

Citation:
COR. 2023. "Comité d'orientation des retraites, Évolutions et perspectives des retraites en France. Rapport annuel, Juin 2023." https://www.cor-retraites.fr/sites/default/files/2023-06/RA_2023.pdf

Netherlands

Score 7

The recent pension reform (see "Policies Aimed at Old-Age Poverty Prevention") explicitly aims to improve intergenerational equity. In the current system, both young and old workers are promised the same amount of future benefits for every euro they contribute. However, a young person's contribution is worth more because it can accrue interest over a longer period. This effectively creates an implicit subsidy from younger to older workers. This subsidy isn't problematic as long as most employees remain with the same employer throughout their careers; during the first half of their career, they receive less pension accrual, which is rectified in the second half. Problems arise if employees leave the pension fund halfway through, such as when they become self-employed. In such cases, they are not compensated for the years when they received less pension entitlement.

Predicting whether the new system will incentivize people to work longer, exit the workforce as they see fit, or if it will accommodate those with diminishing work capacity is challenging. It seems reasonable to expect that individuals may choose to work longer if their individualized pension benefits are insufficient, and to retire early if their benefits are adequate to allow for early retirement.

The more individualized nature of the new system does not guarantee adequate future pension income. Pension benefits will become more dependent on international and macroeconomic fluctuations. While nudging theory offers some hope, it does not guarantee that younger people will start behaving more responsibly about pension planning.

Citation:
Rijksoverheid. 2023. "Wet toekomst pensioenen aangenomen. Overgang naar nieuw pensioenstelsel start op 1 juli 2023." rijksoverheid.nl

New Zealand

Score 7

The New Zealand Superannuation (NZ Super) has features that may influence individuals' decisions about retirement and continued work. NZ Super is typically available from age 65, encouraging people to consider retirement around that age. However, there is no official requirement to retire upon reaching this age, providing flexibility for those who wish to continue working. NZ Super also allows individuals to receive a partial pension while continuing to work. This option encourages phased retirement, enabling individuals to gradually reduce their work hours while supplementing their income with pension benefits.

The NZ Super operates on a “pay-as-you-go” model – that is, current contributions from working individuals fund the pensions for current retirees. This means an aging population with a decreasing ratio of working-age individuals to retirees poses challenges. With fewer workers contributing to the NZ Super for each retiree, sustainability might become a concern in the long term.

To address this concern, the OECD has recommended that New Zealand raise its superannuation age. The newly elected National government agrees with the OECD’s recommendation and plans to increase the age of eligibility to 67 (Shepherd and Ensor 2023). However, a report by the Retirement Commission concludes that raising the age will likely disadvantage manual workers and groups with lower life expectancies – including Māori and Pasifika – and further entrench social inequality (Walton 2022).

Citation:
Shepherd, S., and Ensor, J. 2023. “Superannuation age: Debate flares over future of pension, call for it to be raised to 70, not given to rich.” Newshub, April 1. https://www.newshub.co.nz/home/politics/2023/04/superannuation-age-debate-flares-over-future-of-pension-call-for-it-to-be-raised-to-70-not-given-to-rich.html

Walton, F. 2022. “Retirement Commission review suggests more people set to retire without a nest egg.” RNZ, November 29. https://www.rnz.co.nz/news/business/479687/retirement-commission-review-suggests-more-people-set-to-retire-without-a-nest-egg

Slovenia

Score 7

Since 2012, the full retirement age in Slovenia has been 65, or 60 for employees with at least 40 years of pensionable service. Incentives are provided for people who continue to work after the official retirement age. Despite having one of the highest labor force participation rates in the 20–64 age group, Slovenia still has one of the lowest participation rates among older individuals (60–64). In the second quarter of 2022, the labor force participation rate for the 60–64 age group was 36.5% (EU: 72.1%). Activity in this age group is increasing due to the high demand for labor and later retirement prompted by pension legislation, which has enhanced incentives to remain in the workforce longer. In Slovenia, income-related pensions are calculated based on earnings from only 24 years of employment.

At the end of 2023, the Minister of Labour, Family, Social Affairs, and Equal Opportunities emphasized that pension reform will be a key project for the ministry in 2024. The initial plans have already been prepared, and the social partners and key departments are familiar with them. The reform aims to ensure the sustainability of the pension system. The government seeks to address the issue of providing adequate pensions and maintaining a sustainable system in an aging society.

Citation:
N1. 2023. "Pokojninska reforma prva prioriteta ministra Mesca v novem letu." N1, December 20. https://n1info.si/novice/slovenija/pokojninska-reforma-prva-prioriteta-ministra-mesca-v-novem-letu/

Spain

Score 7

In Spain, fewer than one in ten individuals aged 65-69 are employed. The 2023 pension reform aims to incentivize longer working lives. For the first time, the average retirement age surpassed 65 years in 2023. According to the reform, individuals who postpone retirement receive a 4% bonus for each full year worked beyond the retirement age. This bonus can be received as a lump sum, which depends on the initial pension amount and the period of contributions, or as a combination of both. The new regulation reduces the early retirement period from 24 to 21 months for those previously taking early retirement, mitigating the higher penalty for the additional three months.

To address the anticipated rapid growth in pension expenditures until 2049, the reform includes an increase in the contribution base and a restrained increase in the maximum pension. It also introduces an Intergenerational Equity Mechanism. Beginning in January 2023, the contribution rate will increase by 0.6% (0.1% for workers and 0.5% for employers) from 2023 to 2032 to fund this mechanism. Contributions have been raised for high earners through a new solidarity contribution on earnings exceeding the maximum contribution base, which does not contribute to pension entitlements (AIReF 2023).

Withdrawals from the Intergenerational Equity Mechanism will be permitted starting in 2032 to support pension spending. The annual drawdown is capped at 0.2% of GDP, and until approximately 2040, inflows into the fund must surpass outflows.

Collectively, these measures, coupled with a reform in contributions by the self-employed, are projected to ensure intergenerational equity.

Citation:
AIReF. 2023. "El impacto de las reformas del sistema de pensiones entre 2021 y 2023." https://www.airef.es/wp-content/uploads/2023/03/OPINIÓN-SOSTENIBILIDAD/230324.-DT.2.23_-Evaluación-impacto-reformas-sistema-de-pensiones-2021-y-2023.pdf

United Kingdom

Score 7

There is no obligatory retirement age in the UK, and the public pension system offers incentives to remain in employment by providing higher pensions for those who defer retirement. According to the Mercer index, the UK ranks just below the Nordic countries and is among the better-performing systems globally.

The state pension is pay-as-you-go and is not directly linked to the level of national insurance payments made by individuals, though it does reflect years of contributions. The relatively low level of the state pension means the burden on the working-age population is contained, although there are complementary benefits for poorer pensioners. For the majority of retirees, occupational pensions are a more substantial source of income. Despite the increasing number of pension-age individuals and the rising pension age, the pension burden is higher than in the 2000s but remains well below the OECD average.

Provisions already in place should ensure that the pension system remains adequately funded and intergenerationally fair. According to the Institute for Fiscal Studies, some pensioners "are close to or above the relative poverty line, even if they have no other income," and it asserts that "the state pension is not in need of wholesale change." The key debate in the UK is about the "triple lock," credited with raising the relative value of the state pension. However, it could increase the burden on younger generations in the long term and is likely to be a policy question in the next general election.

Wealth distribution, especially mortgage-free property, presents a challenge for younger generations, as does the likelihood of increased health and social care spending for the elderly.

Citation:
https://ifs.org.uk/publications/future-state-pension

Belgium

Score 6

The Belgian pension system is organized around three pillars. The first pillar is the legal, publicly funded, pay-as-you-go pension that offers basic coverage, between €1500 and €2380 per month. The second pillar is fully funded and financed by the employer, who invests in private funds. The third pillar is fully funded and financed by the individual, with a tax exemption up to €1270 of savings per year. The universality of the first pillar and the large share of early retirements make it costly: according to Eurostat data, it accounted for 12.6% of GDP in 2021, compared with Germany's 12.2%, Norway's 10.3%, and France's 14.9%
As detailed under the previous indicator, several reforms have been introduced to increase the legal and effective retirement age, cap legal pensions, and tighten accessibility conditions. However, the Belgian pension system is still considered financially fragile and on the verge of being unsustainable by most observers.

Citation:
https://www.sfpd.fgov.be/fr/montant-de-la-pension/calcul/pension-maximale

Japan

Score 6

Japanese governments have increasingly set incentives for elderly workers to continue working after reaching the retirement age of 65. Between the age of 65 and 70 benefits can increase by 8.7% for every year retirement is postponed. It is permitted to combine the receipt of a pension with work, though after exceeding a certain base amount, the earnings-related pension payment is reduced. Employees above 70 years old are exempt from paying pension contributions.

The labor market participation rates of elderly workers have always been high in Japan but were declining until 2012. Since 2012, they have increased, which may also reflect that public pension benefits, payments from corporate pension schemes and severance pay have declined. Since a large part of financial security stems from assets accrued during working life, continuing work can be a way of compensating for reductions in wages, pension payments and lower returns on investments due to low interest rates.

The adjustment of benefit and contribution levels is partially technocratic and provides the government with tools to curb benefit increases. Since 2004, the government can use the so-called macroeconomic slide to keep pension raises below wage increases and inflation, which in 2024 will be used for the second time in a row. A key structural problem is that the ratio of pensioners and working-age population is continuously worsening. In the 2004 pension reform, the practice of raising contributions to maintain a stable level of benefits was replaced with contributions capped at 18.3% of salaries and a demographically modified indexation program.

The financial integrity and generational equity of the pension system is supported further by the Government Pension Investment Fund (GPIF), one of the largest public pension funds in the world. It manages the reserves of the public pension system and GPIF investments have successfully increased the return on investment over the years. The reserves are meant to stabilize the ratio between benefits and contributions over a period of 100 years.

Younger cohorts in Japan will still receive lower benefits in the future and must compensate for these decreases by saving through other means. To encourage this, Nippon Individual Savings Accounts (NISA) and Individual Defined Contribution Accounts (iDeCo) have been introduced and expanded over the last decade. However, for these accounts to work as desired, workers need to earn enough to save for old age in addition to traditional pension schemes. Non-regular and low-wage workers, whose wages hardly increase over the life cycle and who rarely receive bonus payments, thus face a particularly high risk of poverty in old age.

Citation:
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Latvia

Score 6

As of June 17, 2023, individuals residing in third countries are eligible for old-age pensions in Latvia. The retirement age in Latvia is gradually increasing and is set to reach 65 years by January 1, 2025. To qualify for a pension, one must have an insurance period of 15 years, which will increase to 20 years starting January 1, 2025. Early retirement is available two years before the legal retirement age for those with a minimum insurance period of 30 years. Early retirees receive the same pension amount throughout their lives, but the conditions for its disbursement change upon reaching the official retirement age.

Additional early retirement rights are granted to parents or guardians with a minimum of 25 years of insurance who have cared for five or more children or a disabled child for at least eight years until the child turns 18. Other categories eligible for early retirement include those working in harmful and heavy work conditions, Chernobyl disaster liquidators, dwarfs, blind individuals, and politically repressed persons with specific insurance periods (Valsts Sociālās Apdrošināšanas aģentūra, 2022).

Currently, around 37% of pension recipients continue working at 65, while about one in four, or 25%, are still employed at 68. Starting January 1, 2023, when an old-age pension is granted, if a participant of the second pension level purchases a life insurance (annuity) policy with their accumulated capital in the second level pension, the amount of the lifetime annuity will reduce the corresponding minimum pension amount, preserved disability or service pension amount, or the state social security benefit due to the person.

Working recipients of old-age pensions are entitled to recalculate their retirement once a year based on their accumulated pension capital after the pension has been granted or recalculated. This calculation can be requested by the pension recipient at any time, either upon ending employment or during any other period. However, the subsequent recalculation can only be requested precisely 12 months after the last recalibration, regardless of the number of months worked since then (Valsts Sociālās Apdrošināšanas aģentūra, 2024).

Citation:
Valsts sociālās apdrošināšanas aģentūra. 2022. "Izmaiņas VSAA pakalpojumos no 2023. gada." https://lvportals.lv/skaidrojumi/347718-izmainas-vsaa-pakalpojumos-no-2023-gada-2022#a4
2. Valsts sociālās apdrošināšanas aģentūra. 2024. "Vecuma pensija." https://www.vsaa.gov.lv/lv/pakalpojumi/vecuma-pensija

Lithuania

Score 6

Pension policies aim to achieve intergenerational equity. Lithuania's three-pillar pension system, which combines public and private pension programs, seeks to ensure equity among old-age pensioners, the active labor force and the younger generation. Since 2004, there have been two privately funded pillars: a statutory pillar that receives a portion of mandatory state social insurance contributions, and a voluntary pillar funded through private contributions. These complement the pay-as-you-go (PAYG) state insurance fund.

However, this system as a whole suffered from instability and uncertainty, particularly during the global financial crisis in 2009, when most budgetary expenditures were cut in an attempt to manage public finances. In recent years, governments have avoided cutting pensions during the COVID-19 pandemic and the cost-of-living crisis, instead indexing benefit amounts to compensate for inflation. However, the governments have continued introducing modifications to the three-pillar pension system that might negatively affect participants' confidence in the sustainability of the privately funded pension system.

In terms of fiscal stability, Lithuania's pension system faces unfavorable demographic changes ahead (Bank of Lithuania, 2023). 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 by 2026 and changed the pension system's second pillar to allow for a possible gradual increase in the share of social contributions received by private funds. According to the Bank of Lithuania, in the first half of 2023, 1.4 million people had savings in the second pillar worth a total of €6.5 billion. Additionally, 105,000 had savings in the third pillar worth a total of €256 million. However, due to demographic changes, the PAYG pillar continues to pose a risk to the sustainability of public finances overall.

Citation:
Lithuanian Ministry of Social Security and Labor. "System of savings for pensions" (in Lithuanian). https://socmin.lrv.lt/lt/veiklos-sritys/socialinis-draudimas/pensiju-kaupimo-sistema?lang=lt
Bank of Lithuania. 2023. "The Results of the Pension Funds in the First Half of 2023 (in Lithuanian)." https://www.lb.lt/lt/naujienos/pensiju-fondu-pusmecio-rezultatai-gera-zinia-kaupiantiesiems-senatvei

Poland

Score 6

In 2019, an additional benefit called the "13th pension" was introduced to the system, equal to the minimum pension amount. Starting in 2023, another additional benefit called the "14th pension" was paid, with its amount determined annually by the government. The payment of these additional benefits burdens the state budget, although the Solidarity Fund is formally responsible for the disbursement. This fund does not have its own independent source of revenue; rather, it borrows resources from the state.

The reduction in the official retirement age in Poland – one of the PiS' priorities – has resulted in lower pensions, prompting the government to encourage people to work longer. According to average calculations, delaying retirement by one year translates into an 8% increase in the recipient's pension benefits. Various assessments of the stability of the Polish Social Insurance Fund have been made. The fund may face financial problems in the future as the post-World War II baby boom generations reach retirement age, and as the demographic situation becomes unfavorable. However, the situation may improve due to immigration from Ukraine. On the other hand, according to the OECD (2023), the share of public pension and retirement expenditures in Poland's GDP will remain stable, staying at around 10% in 2060.

Citation:
OECD. 2023. "Pensions at a Glance 2023: OECD and G20 Indicators." Paris: OECD Publishing. https://doi.org/10.1787/678055dd-en

Portugal

Score 6

Portugal's pension policy aims to balance intergenerational equity, encourage continued employment, and maintain financial sustainability. However, it faces significant challenges regarding the long-term viability of the pension system. These challenges potentially compromise its goals and leave it vulnerable to future demographic and economic shifts.

In Portugal, workers who continue their professional activities at or beyond the legal retirement age are rewarded with a pension bonus, the value of which is contingent on their years of contributions. This creates a clear incentive for prolonged workforce participation. Conversely, early retirement is possible before reaching the legal age, but it usually comes with a penalty, resulting in a reduced pension.

Since 2016, the legal retirement age has been dynamically linked to changes in life expectancy at 65. This system, known as the sustainability factor, automatically adjusts the value of pensions based on demographic trends. It factors in the positive trajectory of average life expectancy, recalculating pension benefits downward to account for an extended retirement period. However, this penalty for increased life expectancy is designed to affect only those who do not proportionally delay their retirement. In 2023, the official retirement age was set at 66 years and four months, and this remains unchanged in 2024.

Despite implementing the sustainability factor, Portugal's pension system faces medium- and long-term financial challenges, impacting its intergenerational equity. Between 1995 and 2021, pension expenditures as a percentage of GDP rose from

9.2% to 14.3% – one of the most significant increases in the European Union. The Mercer Global Pension Index Report (2022) reflects this complexity, assigning Portugal an index value of 62.8 out of 100. This value indicates a system with commendable features but also considerable risks that threaten its long-term effectiveness and sustainability.

Looking ahead, the Bank of Portugal's Economic Bulletin (2023) suggests that pension expenditures might start to decline post-2035, despite an aging population. This anticipated decrease is attributed to a reduction in both the average pension amount and the pension replacement rate. Currently, Portugal's replacement rate, one of the highest in the Euro Zone, is projected to drop significantly by 2070, potentially aligning with the EU average. However, projections from the Portuguese Government's 2024 State Budget Proposal indicate these adjustments may not be enough to prevent an imminent financial imbalance in the social security system, where expenses are expected to exceed revenues in the coming decade. This scenario underscores the need for continual reassessment and adaptation of the pension system to ensure its long-term viability and fairness across generations (Ministry of Finance, 2023).

Citation:
PORDATA. 2023. "Pensões: despesa total em % do PIB."
https://www.pordata.pt/Europa/Pens%C3%B5es+despesa+total+em+percentagem+do+PIB-1579

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https://www.portugal.gov.pt/download-ficheiros/ficheiro.aspx?v=%3D%3DBQAAAB%2BLCAAAAAAABAAzNLY0NAQA8%2BjEBAUAAAA%3D

Austria

Score 5

Regarding public expenditure on old-age and survivors' benefits as a percentage of GDP, Austria has consistently ranked in the top five among OECD countries. Recent initiatives by the Austrian government include the creation of a new system allowing citizens to work beyond the standard retirement age in exchange for special pension benefits.

Still, as noted above, the de facto pension age is below 61 years and is projected to rise only in very small steps until 2030. At the same time, public expenditures to support the pension system are expected to increase. Given rising life expectancy, a gradual increase in the actual retirement age is necessary. The last government avoided discussing pension reform, and the current chancellor's election manifesto does not mention it either.

While specific projections, such as those by the Chamber of Labor, suggest that the key challenge of “intergenerational equity” is being addressed comparatively well in Austria, others point to the system’s unsustainability in the medium run (see above).

In a report commissioned by the European Commission, the average elderly-to-non-elderly spending ratio in Austria increased from 1.71 to 2.10 between 2002 and 2017.

Citation:
https://www.arbeiterkammer.at/interessenvertretung/arbeitundsoziales/pensionen/AK_OEGB_Handout_GerechtigkeitfuerPensionen.pdf

https://www.kleinezeitung.at/wirtschaft/17810395/laenger-arbeiten-so-rechnet-es-sich

Raitano, M., Karagiannaki, E., Premrov, T., Geyer, L., Fuchs, M., Bloise, F., and De Micheli, B. 2021. Study on Intergenerational Fairness, Report for the EC.

Estonia

Score 5

The low share of public investment in old-age pensions and the low levels of pensions relative to work incomes have resulted in one of the highest shares of employment among older people. Recent policy initiatives have sought to incentivize the reconciliation of working and retirement or deferring retirement. During the deferral period, the worker continues to contribute and earn extra entitlement. In the case of combining work and pension, contributions are paid, and the pension is recalculated annually.

However, funding scarcities, the country’s deteriorating dependency ratio, the diminished share of private contributions related to policy changes in 2021, and the relatively high share of special pensions and early retirements continue to challenge the sustainability of the Estonian pension system. These issues create a need for governments to continue making changes to cope with new social risks posed by broader demographic and labor market changes.

Germany

Score 5

The statutory retirement age in Germany is 67, but individuals have the option to retire earlier or later. Most people can retire as early as age 63, although this results in reduced pensions for the rest of their lives (Deutsche Rentenversicherung, n.d.A). Conversely, it is possible to work beyond the usual retirement age, with each additional month of work increasing the monthly pension payments by 0.5%. Seniors can draw their pension while still working (Deutsche Rentenversicherung, n.d.B). Continuing to work after early retirement is also an option, with job income not limiting or reducing pension payments (Deutsche Rentenversicherung, 2023: 4).

Additionally, the statutory pension insurance covers individuals who are not old enough to retire but are unable to work due to health reasons or can only work a limited number of hours. If the insured person is determined to be able to work a few hours per week, they are required to do so and receive reduced pension payments while also earning job income. Eligibility requires that the person has been insured for at least five years, with contributions paid for at least three of those years (Deutsche Rentenversicherung, n.d.C).

The German statutory pension insurance is financed by contributions from employers and employees, along with government grants. In 2020, receipts consisted of approximately €250 billion in contributions and about €75 billion in grants. The underlying principle is a pay-as-you-go system, meaning that each year’s revenue covers that same year’s expenditures. Without the government grants, the insurance would incur losses annually (Bundeszentrale für politische Bildung, 2022). The imbalance between contributions and payments is expected to grow in the coming decades due to the retirement of the baby boomer generation and increased life expectancies (Deutschlandfunk, 2022).

The statutory pension insurance can be supplemented with private or company plans. The use of private insurance has been subsidized by the government since 2002 under the “Riester-Rente” scheme, which was made more generous in 2018. The goal is to reduce Germany’s reliance on the pay-as-you-go pension system. Slightly fewer than 10.5 million people participated in the program in 2020, costing the government around €4 billion (BMF, 2023).

The German Council of Economic Experts (Sachverständigenrat, SVR) calls for a reform of the German pension system to stabilize funding and address demographic changes. Without reform, there is a risk of lower pensions, leading to a higher risk of poverty among seniors, combined with higher future contributions (Sachverständigenrat, 2023). Proposed solutions to address the demographic challenge include raising the retirement age, increasing contributions, reducing pension payments, or providing additional government grants (Deutschlandfunk, 2022).

Furthermore, a public pension fund is planned, with financial resources to be invested in assets, generating revenue to address the pension insurance’s future financing problems. However, it is still unclear where the money for the fund will come from and how much relief the fund and its revenue can provide (Deutschlandfunk, 2023).

Citation:
BMF (Federal Ministry of Finance). 2023. “Statistische Auswertungen zur Riester-Förderung.” https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Steuern/Steuerliche_Themengebiete/Altersvorsorge/2023-11-15-Statistische-Auswertungen-Riester-Foerderung-bis-2022.html
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Hungary

Score 5

Hungary has an aging population, and older people are active supporters of the Fidesz party of Prime Minister Orbán. It is no surprise, therefore, that pensions play an essential role in the government’s social policy. The Hungarian pension system, primarily state-funded and operating on a pay-as-you-go (PAYG) basis, has faced several challenges and criticisms, particularly regarding its long-term sustainability and impact on intergenerational equity. One key aspect of the Hungarian pension system is its reliance on state funding, with private pension schemes playing a lesser role. The Hungarian government has committed to aligning pension increases with inflation rates. In 2023, pensions were raised by 15% to offset inflation, with the potential for additional supplementation if inflation exceeds expectations. This approach is part of the government’s broader strategy to maintain the purchasing power of pensions amidst economic fluctuations.

Despite these measures, there are critical predictions about the sustainability of the Hungarian pension system. Hungary needs more flexible retirement options, such as partial retirement for employees aged 62 – 66. This flexibility is required to address the growing strain on the pension system due to the aging population and a decreasing ratio of workers to pensioners. The aging demographic trend suggests that by 2070, the number of pensioners per employee could double from current levels.
Moreover, a noted decline in the average pension-to-income ratio indicates a potential decrease in the relative pension value over time. It is expected that the retirement age limit may increase in the coming years, aligning with rising life expectancy and efforts to address the gender gap in retirement age, which currently strongly favors women. Although working beyond the pension age is not specifically incentivized by the government, many healthcare and education professionals continue working to offset labor shortages after reaching the pension age. The average age of general practitioners in medical practice is well above 50 years (Papp et al. 2019).

Citation:
Papp, M., Kőrösi, L., Sándor, J., Nagy, C., Juhász, A., and Ádány, R. 2019. "Workforce Crisis in Primary Healthcare Worldwide: Hungarian Example in a Longitudinal Follow-up Study." BMJ Open 9(7): e024957.

Ireland

Score 5

As of 2024, the public pension system in Ireland has incentivized individuals to work longer, with limited provisions for exiting before the formal pension age of 66 if work capability is low. There is no specific pre-retirement allowance; individuals must exit to state non-age-specific disability or invalidity schemes, creating gaps between private retirement at 65 and the state pension at 66. The pension system is not realistically funded to guarantee an adequate old-age income in the future. Despite recent policy shifts to fund future pensions, there are serious concerns relating to generational inequity. On average across the OECD, a worker entering the labor market in 2022 will receive a net pension at 61% of net wages, but Ireland is among a group of countries where this figure is 40% or below (OECD 2023). The pension system comprises three pillars: the state old-age pension, occupational pensions and individual pension plans. Changes in the old-age contributory scheme include new qualification criteria and higher state pensions for those who delay accessing pensions between ages 66 and 70 (starting in 2024). Policy will ensure greater access to private pensions through auto-enrollment (commencing in 2024) to encourage earlier entry to private pensions, aiming to increase coverage from 55% of the private workforce.

Generous tax subsidization of private pensions, although costly, un-progressive and a drain on tax revenues, remains a central mechanism to encourage individual investment in private pensions (Collins 2020). Largely contributory rather than defined benefit, private pensions do not necessarily provide full financial security. Public sector employees enjoy relatively generous occupational defined benefit pension entitlements. State and public sector pensions are paid for largely on a pay-as-you-go system, with some recent provisions for a pension fund, creating significant intergenerational inequity in pensions policy. Additionally, there are demographic pressures associated with aging populations and increased dependency ratios.

Citation:
Collins, M. 2020. "Private Pensions and the Gender Distribution of Fiscal Welfare." Social Policy and Society 19 (3): 500-516.
Kearns, D. 2019. "Oireachtas Committee: 'Discretionary' tax relief is costing Ireland 21.4 billion." February 7.
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OECD. 2023. Pensions at a Glance 2023: OECD and G20 Indicators. Paris: OECD Publishing.
https://doi.org/10.1787/678055dd-en

Israel

Score 5

Current policies encourage people to continue working after the retirement age of 67. For each additional year of work, the old-age benefit provided through the National Insurance Institute increases. Since 2019, people receive an additional 2% to the old-age benefit for every year they pay into the insurance scheme, up to a maximum of 50%. Additionally, if a senior citizen decides to postpone eligibility for an old-age benefit, they will receive an additional 5% for each year.
The retirement age is currently 65 for women and 67 for men. Only after this age can people receive their pension and old-age benefits.

The pension system does not guarantee elderly people sufficient income following retirement, because pension payments are based on defined contributions not defined benefits. As a result, people who did not start saving early enough for their pensions or who did not save enough will not have sufficient income following retirement.

National Insurance Institute funding is insufficient and, unless this situation changes (e.g., an increase in payments or a curtailment of rights), the institute will run out of resources in the next 10–20 years (Koreh 2019).

Citation:
Koreh, Michal. 2019. "The Deficit Crisis in the National Insurance Budget Towards the Year 2027 - Description of the Causes, Analysis of the Consequences and Proposed Solutions" (Hebrew). Social Security 108.

Italy

Score 5

The 2011 Fornero reform of Italian pension policy raised the retirement age to 67, reduced benefit levels for higher-income groups, and linked retirement age to rising life expectancies, achieving a satisfactory level of sustainability. Thanks to this reform, no major changes to the retirement system would have been needed for the next few years, despite the demographic imbalance between the aged and the young.
The current situation is less positive in terms of intergenerational fairness, as younger generations will receive significantly smaller amounts upon retirement. Furthermore, the real average retirement age in 2022 was still 63.8 years due to various regulations allowing early retirement. The problem is exacerbated by the delayed or uncertain entry of younger cohorts into the labor market, a structural issue in the Italian labor market. Additionally, many unemployed individuals, especially women, face the challenge of receiving little or no pension. The issue of poverty prevention, already significant for a considerable portion of the population, will become even more relevant for today's younger cohorts when they reach retirement age.

Supplementary pension schemes have been growing, with more than 9 million workers enrolled in a collective or individual supplementary pension scheme in 2022. However, this solution does not help younger workers in unstable and precarious jobs, as most enrollees have stable employment. An early retirement incentive scheme approved during the first Conte government, under pressure from the Northern League, added a burden on general taxation. The Draghi government limited this law's impact, while the Meloni government has approved many small regulations in the 2023 and 2024 budget laws, which do not seem appropriate to strengthen the pension system's coherence.

Structural conditions affecting the future performance of the Italian pension system include a decreasing birth rate, lack of planning for immigration, and low economic system productivity. These challenges are still not adequately addressed on the political agenda. Without policy intervention, those with interrupted careers and periods of precariousness risk receiving very low pensions. Although establishing a guaranteed pension system for younger generations has been a frequent topic of discussion, no decision has been made.

Citation:
Centro Studi e Ricerche Itinerari Previdenziali. 2023. Il Bilancio del Sistema Previdenziale italiano. https://www.uilpa.it/wordpress/wp-content/uploads/2023/02/itinerari-prev.-decimo-rapporto.pdf

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Padula, M. 2023. "Pensioni senza un'idea di futuro." https://lavoce.info/archives/103043/pensioni-senza-unidea-di-futuro/

United States

Score 5

Social Security, the U.S. federal pension program, acts as a basic social safety net for American retirees. Although many Americans believe Social Security is a personal benefit accrued through workplace contributions during their working lives, this is a misconception. Instead, current workers pay for the current generation of retirees. Demographic shifts, therefore, could pose challenges to the system. The U.S. retiree population is growing, as is the overall U.S. population. However, the ratio of workers to retirees has shrunk. If this trend continues, there are concerns about the continued viability of Social Security in its current form.

Changes to the Social Security system impact intergenerational inequality because they deny younger generations the benefits they have paid for the current generation of retirees. Consequently, maintaining Social Security in its current form is seen as politically important. Since George W. Bush's politically disastrous attempt to change the system, few major politicians have sought to alter it. This reluctance spans both the left and the right. Indeed, one of Donald Trump's major social policy pledges was to protect Social Security from cuts.

Greece

Score 4

Current pension arrangements in Greece primarily serve the interests of middle-aged and older groups, often at the expense of younger workers. Research by the IMF (Kangur et al. 2021) suggests that Greece's pension system fails to incentivize individuals to build long contribution histories, leading to widespread evasion of social security contributions. This pattern has negatively affected Greece's fiscal policy mix, and burden-sharing across generations is not as equitable as it should be.

The pension system also fails to provide sufficient incentives for individuals to either extend their working lives or retire early if their capacity is diminished. Meanwhile, the government faces challenges in funding a pension system that guarantees adequate old-age income in the future. In short, current pension policies do not adequately address intergenerational equity.

Citation:
Kangur, A., N. Kalavrezou, and D. Kim. 2021. "Reforming the Greek Pension System." IMF Working Paper, WP/21/188. https://www.imf.org/en/Publications/WP/Issues/2021/07/16/Reforming-the-Greek-Pension-System-461838

Slovakia

Score 4

The pension system encourages individuals to work longer because the level of the individual pension increases with each additional year of employment. Receiving both wages and pensions simultaneously is allowed without restriction.

The state pension system (first pillar) is funded on the pay-as-you-go principle, with current workers funding pensioners. It does not guarantee an adequate old-age income for lower-income groups and some other social groups, like the long-term unemployed. According to the European Semester (European Union, 2023: 4): "The aging population poses challenges to the long-term sustainability of public finances. Pension expenses are estimated to increase from 8.3% of GDP in 2019 to 13.4% in 2050, one of the largest increases in the EU."

The minimum pension, available only for those with 30 years of pension insurance, was set at 145% of the subsistence minimum. Since October 2023, it has increased from €365.70 to €389.90 per month. Pensioners unable to secure basic living conditions can also apply for the "Assistance in Material Need" benefit.

Citation:
Europan Union. 2023. 2023 Country Report – Slovakia. Brussels: European Union.

Address | Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Straße 256
33311 Gütersloh
Germany
Phone +49 5241 81-0

Dr. Christof Schiller
Phone +49 30 275788-138
christof.schiller@bertelsmann-stiftung.de

Dr. Thorsten Hellmann
Phone +49 5241 81-81236
thorsten.hellmann@bertelsmann-stiftung.de

www.bertelsmann-stiftung.de
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